

# Office of Inspector General Corporation for National and Community Service

**AUDIT OF CORPORATION FOR NATIONAL AND  
COMMUNITY SERVICE GRANTS AWARDED TO  
PUBLIC ALLIES, INC.**

**OIG REPORT NUMBER 07-08**



Corporation for  
**NATIONAL &  
COMMUNITY  
SERVICE** 

Prepared by:

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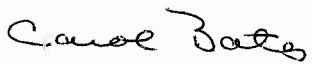
**This report was issued to Corporation management on January 19, 2007. Under the laws and regulations governing audit follow-up, the Corporation is to make final management decisions on the report's findings and recommendations no later than July 19, 2007, and complete its corrective actions by January 19, 2008. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.**

**OFFICE OF INSPECTOR GENERAL**

January 19, 2007

TO: Kristin McSwain  
Director, AmeriCorps\*State & National

Margaret Rosenberry  
Director, Office of Grants Management

FROM: Carol Bates   
Assistant Inspector General for Audit

SUBJECT: OIG Audit Report 07-08, *Audit of the Corporation for National and Community Service Grants Awarded to Public Allies, Inc.*

We contracted with the independent certified public accounting firm of Cotton & Company LLP (Cotton) to perform an audit of incurred grant costs claimed by Public Allies, Inc., a National Direct Program grantee. The contract required that Cotton conduct the audit in accordance with generally accepted government auditing standards.

In its audit of Public Allies, Cotton found:

- Questioned costs of \$72,518 related primarily to member eligibility and compliance issues, such as proof of citizenship and completion of performance evaluations.
- Questioned costs of \$73,325 for non-grant costs related to education awards to AmeriCorps members because eligibility documentation was missing, and excessive service hours were recorded by members on their time sheets.
- Four findings on internal controls and compliance with grant terms.

Cotton is responsible for the attached auditor's report, dated September 22, 2006, and the conclusions expressed therein. We do not express opinions on Public Allies' Consolidated Schedule of Award Costs, conclusions on the effectiveness of its internal controls, or compliance with laws, regulations, and grant provisions.

Under the Corporation's audit resolution policy, a final management decision on the findings in this report is due by July 19, 2007. Notice of final action is due by January 19, 2008.



If you have questions pertaining to this report, please call me at 202-606-9356.

Attachment

cc: Paul Schmitz, President and CEO, Public Allies  
Elizabeth Seale, Chief Operating Officer  
Jerry Bridges, Chief Financial Officer  
Bill Anderson, Deputy Chief Financial Officer  
Andrew Kleine, Deputy Chief Financial Officer  
Lois Nembhard, Deputy Director, AmeriCorps\*State & National  
Sherry Wright, Audit Resolution Coordinator  
Sam Hadley, Partner, Cotton & Company LLP

**OFFICE OF INSPECTOR GENERAL  
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE**

**AUDIT OF GRANTS AWARDED TO  
PUBLIC ALLIES, INC.**

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## REPORT SUMMARY AND HIGHLIGHTS

### EXECUTIVE SUMMARY

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), contracted with Cotton & Company LLP to perform an audit of incurred grant costs claimed by Public Allies, Inc, a National Direct Program grantee. Our audit covered financial transactions, compliance issues, and internal control testing of grantee activities.

Public Allies claimed \$4,546,121 of Federal grant costs during the audit period, October 1, 2003, to March 31, 2006. Of this amount, we questioned \$72,518. We also questioned \$73,325 of education awards.

### BACKGROUND

The Corporation supports national and community service programs that provide full- and part-time opportunities for Americans to engage in service that fosters civic responsibility, strengthens communities, and provides educational opportunities for those who make a commitment to service.

Public Allies, with its national office in Milwaukee, Wisconsin, has received AmeriCorps grant funds from the Corporation since program year 1994-1995. It is a non-profit organization that receives approximately half of its funding from the Corporation and other funding from private foundations, partners, and individuals.

Our audit included funds awarded by the Corporation to Public Allies under its National Direct grant. Public Allies receives multiple subgrants from many State commissions and has also been awarded Training and Technical Assistance grants.

Public Allies' national office and corporate sites were initially organized as one legal entity. Beginning in 2003, corporate sites were encouraged by the national office to break away from the parent entity and form separate legal entities, either as non-profit organizations or affiliates of another non-profit organization or university. These entities thus became subgrantees. During our audit period, Public Allies was comprised of corporate sites and subgrantees, as follows:

<b>Program Year</b>	<b>Corporate Sites</b>	<b>Subgrantees</b>
2003-2004	9	1
2004-2005	8	2
2005-2006	5	5

During the 3 program years, Public Allies had 457 AmeriCorps members at its corporate sites and subgrantees who volunteered through numerous partner organizations throughout the United States. These partners paid the majority of member living allowances, which is Public Allies' primary source of match.

The national office records costs incurred by its corporate sites and maintains all supporting documentation. Subgrantees record and report their own costs to the national office on Periodic Expense Reports (PERs). Each subgrantee maintains documentation to support costs incurred.

The following table summarizes the Public Allies organizational structure for the three program years included in our audit:

<b>Location</b>	<b>PY 2003-2004</b>	<b>PY 2004-2005</b>	<b>PY 2005-2006</b>	<b>Subgrantee Name</b>
<b>North Carolina</b>	Corporate site (State Commission subgrant and National Direct program)	Corporate site (National Direct program)	Subgrantee (National Direct program as of 12/01/05)	North Carolina Central University
<b>Washington, DC</b>	Corporate site (National Direct program)	Closed	Closed	N/A
<b>Los Angeles, CA</b>	Corporate site (National Direct program)	Corporate site (National Direct program)	Subgrantee (National Direct program as of 01/01/06)	Community Development Technologies, Inc.
<b>Delaware</b>	Subgrantee (National Direct program as of 09/01/03)	Subgrantee (National Direct program)	Subgrantee (National Direct program)	University of Delaware
<b>New York, NY</b>	Corporate site (National Direct program)	Corporate site (National Direct program)	Corporate site (National Direct program)	N/A
<b>Silicon Valley, CA</b>	Corporate site (National Direct program)	Corporate site (National Direct program)	Subgrantee (National Direct program as of 09/01/05)	Bay Area Community Resources, Inc.
<b>Eagle Rock, CO</b>	Corporate site (National Direct program)	Corporate site (National Direct program)	Corporate site (National Direct program)	N/A
<b>Connecticut</b>	Not Open	Subgrantee (National Direct program as of 09/01/04)	Subgrantee (National Direct program)	Regional Youth/Adult Substance Abuse Program, Inc. (RYASAP)
<b>Chicago, IL</b>	Corporate site (State Commission subgrant and National Direct program)	Corporate site (State Commission subgrant)	Corporate site (State Commission subgrant)	N/A

<b>Location</b>	<b>PY 2003-2004</b>	<b>PY 2004-2005</b>	<b>PY 2005-2006</b>	<b>Subgrantee Name</b>
<b>Cincinnati, OH</b>	Corporate site (State Commission subgrant)	Corporate site (State Commission subgrant)	Corporate site (State Commission subgrant)	N/A
<b>Milwaukee, WI</b>	Corporate site (State Commission subgrant and National Direct program)	Corporate site (State Commission subgrant and National Direct program)	Corporate site (State Commission subgrant and National Direct program)	N/A

The North Carolina and Los Angeles sites became subgrantees as of December 2005 and January 2006, respectively. Public Allies charged its incurred costs for these two sites from the inception of the program year back to the subgrantees to enable them to report and be accountable for the entire program year. Because of the complexity of the re-structuring, these subgrantees had not reported costs to Public Allies as of March 31, 2006, and, therefore, have no claimed subgrantee costs included in our audit scope.

#### **AUDIT SCOPE AND RESULTS**

We performed an incurred-cost audit including financial transactions, internal controls, and compliance issues for the following grant:

<b>Program</b>	<b>Award No.</b>	<b>Award Period</b>	<b>Audit Period</b>
AmeriCorps National Direct	03NDHWI001	09/01/03-08/31/06	10/01/03-03/31/06

The audit objectives were to determine if:

- Public Allies' financial reports to the Corporation presented financial results fairly, and costs were allowable in accordance with award terms and conditions;
- Public Allies' internal controls were adequate to safeguard Federal funds; and
- Public Allies had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations, and award conditions.

We conducted our fieldwork between July 31, and September 22, 2006, at both the national office and selected subgrantees.

## **Cost Findings**

Public Allies claimed \$4,546,121 in Federal grant costs during our audit period, as shown in Exhibit A, Consolidated Schedule of Claimed and Questioned Costs. Of this amount, we questioned \$72,518 and related education awards of \$73,325. Except for questioned costs, costs claimed by Public Allies appear fairly stated and allowable in accordance with award terms and conditions.

Costs questioned primarily relate to member eligibility and compliance issues, such as proof of citizenship or completion of performance evaluations. We also identified claimed match costs that were unallowable or unsupported. These questioned costs are not identified in the schedules because they did not result in unmet matching requirements, which would have affected the allowability of the Federal costs.

## **Compliance and Internal Control Findings**

We have also issued a report, Independent Auditors' Report on Compliance and Internal Control, on our consideration of Public Allies' internal control and compliance with laws and regulations. In that report, we identified four issues of noncompliance (Finding Nos. 1 through 4) that are required to be reported under Generally Accepted Government Auditing Standards. We also identified two noncompliance issues that affect Public Allies' internal control over financial reporting and its operation (Finding Nos. 1 and 2). We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. The findings are summarized below:

1. *Public Allies did not have adequate internal controls to ensure member eligibility.*
2. *Public Allies did not have adequate procedures to ensure that corporate sites and subgrantees documented member activities and that member support payments were proper.*
3. *Public Allies' financial management systems did not account for and support all costs claimed.*
4. *Public Allies did not comply with all grant provisions.*

## **EXIT CONFERENCE AND RESOLUTION**

We conducted an exit conference with Public Allies and Corporation representatives on October 30, 2006. We provided a copy of the draft report to Public Allies and the Corporation for comment on November 21, 2006. Their responses are included as appendices to this report. In addition, we have included a brief summary of Public Allies' comments in the Independent Auditors' Report on Compliance and Internal Control.





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September 22, 2006

Office of Inspector General  
Corporation for National and Community Service

### INDEPENDENT AUDITORS' REPORT

We have audited costs claimed by Public Allies, Inc., for program years 2003-2004, 2004-2005, and 2005-2006 (through March 31, 2006) for the grant listed below. These costs are presented in Exhibit A, Consolidated Schedule of Claimed and Questioned Costs, and are the responsibility of Public Allies management. Our responsibility is to express an opinion on these costs based on our audit.

Program	Award No.	Award Period	Audit Period
AmeriCorps National Direct	03NDHWI001	09/01/03-08/31/06	10/01/03-03/31/06

Except as described below, we conducted our audit in accordance with audit standards generally accepted in the United States of America and generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in Exhibit A. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating overall financial presentation. We believe that our audit provides a reasonable basis for our opinion on incurred costs.

As noted above, our audit included examining transactions and member records on a test basis. During our testing, we identified a number of questioned costs resulting from a member eligibility issue. Codification of Statements on Auditing Standards, AU § 326, requires auditors to gain sufficient competent evidential matter to identify and properly value all questioned costs. At the OIG's request, we did not expand testing of remaining members to identify all questioned costs and related education awards.

Exhibit A is intended to present allowable costs incurred under the award in accordance with applicable Office of Management and Budget (OMB) circulars and award terms and conditions. Exhibit A is not intended to be a complete presentation of Public Allies' financial position, in conformity with accounting principles generally accepted in the United

States of America. This exhibit also identifies questioned education awards. These awards are not funded by Corporation grants and thus are not included as claimed costs. As part of our audit, however, we determined the effect of all member compliance issues on these awards.

In our opinion, except for questioned costs noted in Exhibit A, and the effect on questioned costs had we expanded testing as discussed above, the financial exhibit presents fairly, in all material respects, costs claimed for the grant in conformity with applicable OMB circulars and award terms and conditions.

In accordance with Generally Accepted Government Auditing Standards, we have also issued a report dated September 22, 2006, on our consideration of Public Allies' internal control and compliance with laws and regulations. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering audit results.

This report is intended solely for the information and use of the Corporation, OIG, Public Allies, and U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP



Sam Hadley, CPA  
Partner

EXHIBIT A

PUBLIC ALLIES, INC.  
 CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS  
 CONSOLIDATED SCHEDULE OF CLAIMED AND QUESTIONED COSTS  
 AWARD NO. 03NDHWI001

Award	Federal Costs			Questioned Education Awards	Reference
	Awarded	Claimed	Questioned		
Public Allies National Office and Corporate Sites	\$4,130,905	\$3,241,021	\$28,464	\$35,525	Schedule A
Bay Area Community Resources, Inc.	308,219	212,019	353		Schedule B
University of Delaware Regional Youth/Adult Substance Abuse Program, Inc.	724,927	702,451	30,218	33,075	Schedule C
	<u>513,589</u>	<u>390,630</u>	<u>13,483</u>	<u>4,725</u>	Schedule D
<b>Total</b>	<b><u>\$5,677,640</u></b>	<b><u>\$4,546,121</u></b>	<b><u>\$72,518</u></b>	<b><u>\$73,325</u></b>	

SCHEDULE A

**PUBLIC ALLIES, INC.**  
**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS**  
**SCHEDULE OF CLAIMED AND QUESTIONED COSTS**

**PUBLIC ALLIES NATIONAL OFFICE AND CORPORATE SITES**

	<b>Amount</b>	<b>Notes</b>
Claimed Federal Costs	<u>\$3,241,021</u>	
Questioned Federal Costs:		
Member eligibility, no proof of citizenship	\$23,250	1
Member performance evaluations	5,400	2
Unallocable labor costs	(186)	3
Total Questioned Federal Costs	<u>\$28,464</u>	
Questioned Education Awards:		
Inadequate support of member eligibility	\$9,450	1
Unsupported compelling personal circumstances	2,450	4
Inadequate rules regarding member activities	<u>23,625</u>	5
Total Questioned Education Awards	<u>\$35,525</u>	

1. Public Allies did not provide complete supporting documentation of member eligibility. We sampled 75 member files from all corporate sites. We were unable to establish proof of citizenship for three members at three corporate sites. According to 45 CFR § 2522.200, *What are the eligibility requirements for an AmeriCorps participant?*, every AmeriCorps participant must be a citizen, national, or lawful permanent resident alien of the United States. We questioned \$23,250 of claimed living allowances and \$9,450 of ineligible education awards.
  
2. Public Allies did not have documentation to support mid-term and/or final evaluations for 61 of the 75 members. The file for 1 of the 61 members did not include a final evaluation; however, the individual was re-enrolled as a member in the following year. According to 45 CFR § 2522.220(d), *Participant performance review*, a participant is not eligible for a second or additional term of service and/or for an AmeriCorps education award without mid-term and final evaluations. We questioned \$5,400 of claimed living allowances.
  
3. Public Allies initially allocated staff labor costs to various Corporation grants, and state commission subgrants using predetermined effort percentages (budget estimates). Time sheet information is accumulated quarterly and reconciled to

redistribute labor costs based on actual effort expended. Errors made during the redistributions performed within our audit period resulted in claimed costs being understated by \$186.

4. One member in our sample exited the program for financial hardship reasons but received a prorated education award. Financial hardship is not an acceptable compelling reason to exit the program and still earn an award.

According to 45 CFR § 2522.230, *Under what circumstances may AmeriCorps participants be released from completing a term of service, and what are the consequences?*, a participant released for compelling personal circumstances who completes at least 15 percent of the required term of service is eligible for a prorated education award. Financial hardship, or a need to obtain employment, are not recognized by the regulation as compelling personal circumstances such as to justify eligibility for a prorated education award. The regulation states in subsection 2522.230(b)(3) that a participant released for cause other than compelling personal circumstances may not receive any portion of the AmeriCorps education award. We questioned this member's partial education award of \$2,450.

5. Public Allies did not have supervisory approval of time sheets for one member on two occasions totaling 185 hours. AmeriCorps Provisions, Section B.22.c.ii, *AmeriCorps Members*, states that the grantee must keep time and attendance records on all AmeriCorps members to document eligibility for in-service and post-service benefits. Time and attendance records must be signed and dated by both the member and an individual with oversight responsibilities for the member. Without supervisory approval, hours reported on those time sheets cannot be used toward meeting the minimum 1700-hour service requirement needed to earn a full education award. The member did not have the required minimum service hours, therefore, we questioned this member's education award of \$4,725.

Public Allies allowed excessive hours to be recorded on 19 member time sheets. There were several instances where members recorded 24 hours of service for one day. The auditors reduced hours for those members who recorded more than ten hours on a daily basis. Per guidance we received from the Corporation's Office of Grants Management, daily service hours greater than ten are considered excessive. After recalculating each member's hours, 4 of the 19 members did not meet the minimum 1,700-hour service requirement for the program year. We questioned these members' education awards of \$18,900.

**SCHEDULE B**

**PUBLIC ALLIES, INC.  
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS  
SCHEDULE OF CLAIMED AND QUESTIONED COSTS**

**BAY AREA COMMUNITY RESOURCES, INC. (BACR)**

	<b>Amount</b>	
Claimed Federal Costs	<u>\$212,019</u>	
Questioned Federal Costs:		
Unsupported costs	<u>\$353</u>	<b>Note</b>

**Note**

BACR did not provide documentation to adequately support claimed costs for 3 of 24 expenditure transactions totaling \$353. AmeriCorps Provisions, Section C.22.b., *Source Documentation*, states that the grantee must maintain adequate supporting documents for its expenditures and in-kind contributions made under the grant, such as a receipt, travel voucher, invoice, in-kind voucher, or similar document. We questioned \$353.

**PUBLIC ALLIES, INC.**  
**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS**  
**SCHEDULE OF CLAIMED AND QUESTIONED COSTS**

**UNIVERSITY OF DELAWARE**

	<b>Amount</b>	<b>Notes</b>
Claimed Federal Costs	<u>\$702,451</u>	
Questioned Federal Costs:		
Member eligibility, no proof of citizenship	\$29,689	1
Unsupported costs	<u>529</u>	2
Total Questioned Federal Costs	<u>\$30,218</u>	
Questioned Education Awards:		
Member eligibility, no proof of citizenship	\$28,350	1
Minimum service hours not met	<u>4,725</u>	3
Total Questioned Education Awards	<u>\$33,075</u>	

1. The University of Delaware did not provide supporting documentation to verify United States citizenship or national status for 9 of 19 sampled members. According to 45 CFR § 2522.200, *What are the eligibility requirements for an AmeriCorps participant?*, every AmeriCorps participant must be a citizen, national, or lawful permanent resident alien of the United States. The University of Delaware staff was not aware that a driver's license and a Social Security card were unacceptable documentation for proof of citizenship. We questioned \$29,689 of living allowances and related member benefits claimed for the nine members. We also questioned education awards totaling \$28,350 for these members.
2. The University of Delaware claimed \$529 for training materials for its members. However, we were unable to verify from available documentation that the materials were specifically provided for AmeriCorps training. AmeriCorps Provisions, C.22.b, *Financial Management Provisions, Source Documentation*, requires that adequate supporting documentation be maintained to support grant expenditures. We questioned \$529 of claimed costs.
3. Time sheets for University of Delaware members did not support member service hours reported in WBRS for 1 of the 19 sampled members in program years 2004-2005 and 2005-2006. AmeriCorps Provisions, Section C.22.c.ii., *Financial*

*Management Provisions, Time and Attendance Records*, requires that grantees maintain time and attendance records on all AmeriCorps members to document their eligibility for in-service and post-service benefits.

Hours reported in WBRS for one member exceeded hours reported on time sheets. As a result of overclaimed hours in WBRS, the member did not meet the required service hours to receive an education award. We questioned the \$4,725 education award.



SCHEDULE D

**PUBLIC ALLIES, INC.  
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS  
SCHEDULE OF CLAIMED AND QUESTIONED COSTS**

**REGIONAL YOUTH/ADULT SUBSTANCE ABUSE PROGRAM, INC. (RYASAP)**

	<b>Amount</b>	<b>Notes</b>
Claimed Federal Costs	<u>\$390,630</u>	
Questioned Federal Costs:		
Member eligibility, no proof of citizenship	\$6,499	1
No final evaluation	<u>6,984</u>	2
Total Questioned Federal Costs	<u>\$13,483</u>	
Questioned Education Award:		
Minimum service hours not met	<u>\$4,725</u>	3

1. RYASAP did not provide supporting documentation to verify United States citizenship or national status for 2 of 10 sampled members. According to 45 CFR § 2522.200, *What are the eligibility requirements for an AmeriCorps participant?*, every AmeriCorps participant must be a citizen, national, or lawful permanent resident alien of the United States. The RYASAP staff was not aware that a driver's license and a Social Security card were unacceptable documentation for proof of citizenship. We questioned \$6,499 of living allowances and related member benefits claimed for the two members.
  
2. RYASAP did not perform a final evaluation for 1 of 10 members sampled, and this member served a second term in program year 2005-2006. According to 45 CFR § 2522.220(d), *Participant performance review*, a participant is not eligible for a second or additional term of service and/or for an AmeriCorps education award without mid-term and final evaluations. RYASAP performed evaluations periodically throughout the program year but was unaware that final evaluations were required to be completed after the end-of-service date. We questioned \$6,984 of living allowance and benefits paid to the member in the second term (program year 2005-2006).

3. RYASAP time sheets did not support member service hours reported in WBRS for 3 of 10 sampled members from program years 2004-2005 and 2005-2006. AmeriCorps Provisions, Section C.22.c.ii, *Financial Management Provisions, Time and Attendance Records*, requires that grantees maintain time and attendance records on all AmeriCorps members to document their eligibility for in-service and post-service benefits.

Hours in WBRS were greater than hours in PISD for two members. Using PISD hours as actual hours served, one member was ineligible for an education award, and we questioned \$4,725 awarded to this individual. Hours in WBRS were less than hours in PISD for a third member. While a reporting issue, this did not affect the member's education award eligibility.



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September 22, 2006

Office of Inspector General  
Corporation for National and Community Service

**INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE AND INTERNAL CONTROL**

We have audited costs claimed by Public Allies to the Corporation for National and Community Service for the following award and have issued our report thereon dated September 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and generally accepted government auditing standards.

<b>Program</b>	<b>Award No.</b>	<b>Award Period</b>	<b>Audit Period</b>
AmeriCorps National Direct	03NDHWI001	09/01/03-08/31/06	10/01/03-03/31/06

**COMPLIANCE WITH LAWS AND REGULATIONS**

As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatements, we performed tests of compliance with certain provision of laws, regulations, and awards, noncompliance with which could have a direct and material effect on determination of financial schedule amounts. Providing an overall opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. Test results disclosed instances of noncompliance that are required to be reported under generally accepted government auditing standards and are discussed below (Finding Nos. 1 through 4).

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we obtained an understanding of Public Allies' internal control over financial reporting to determine audit procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on internal control over financial reporting. We noted matters involving internal control over financial reporting and its operation, however, that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation

of internal control over financial reporting that, in our judgment, could adversely affect Public Allies' ability to initiate, record, process, and report financial data consistent with assertions of management in the financial schedules (Finding Nos. 1 and 2 below).

A material weakness is a condition in which the design or operation of one or more of the internal control elements does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control structure that might be reportable conditions and that are also considered material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We sampled 75 AmeriCorps members from Public Allies' corporate sites and 35 members from three selected subgrantees. (We excluded North Carolina and Los Angeles, which did not incur costs as subgrantees during the audit period.) Our findings are discussed below.

## **FINDINGS**

### **1. Public Allies did not have adequate internal controls to ensure member eligibility.**

Public Allies did not adequately ensure that proper internal controls were in place to determine member eligibility. We discuss this finding in two categories: citizenship and criminal background checks.

#### **Citizenship**

Public Allies did not ensure that corporate sites and subgrantees obtained adequate proof of member citizenship or legal U.S. residency. Three corporate sites and two subgrantees did not document United States citizenship for 14 members. Also, one site did not verify citizenship for five members until after the members had started the program.

According to 45 CFR § 2522.200, *What are the eligibility requirements for an AmeriCorps participant?*, every AmeriCorps participant is required to be a citizen, national, or lawful permanent resident alien of the United States. Several of the corporate sites did not have proof of citizenship because they were using the certification process outlined in the Immigration and Naturalization I-9 form, which allows for copies of a driver's license and Social Security (or green card) to be used in the absence of a birth certificate or passport.

## **Criminal Background Checks**

Five corporate sites and three subgrantees did not provide proper documentation to show that criminal background checks were properly completed or reviewed at locations where children were served. Specifically:

- One corporate site and one subgrantee did not obtain criminal background checks for five members.
- One subgrantee obtained a criminal background check for two members that indicated previous criminal convictions. The subgrantee did not, however, maintain documentation to indicate whether the prior criminal convictions were considered in its service placement decisions for the members.
- 5 corporate sites and 2 subgrantees did not initiate criminal background checks for 22 members prior to the members' start dates.
- One subgrantee did not obtain criminal background checks for two members until after the program year was completed.

AmeriCorps Provisions, Section B.6.h, *Criminal Record Checks*, requires programs to conduct criminal background checks as part of the screening process for members or employees who have substantial direct contact with children.

***Recommendations:*** We recommend that the Corporation ensure that Public Allies:

- Requires corporate sites and subgrantees to maintain adequate documentation to verify citizenship for all members prior to member start dates; and
- Requires corporate sites and subgrantees to revise policies and procedures to assure that supporting documentation for criminal background checks is maintained to verify that checks were initiated during the screening process, and that results were considered in service placement decisions.

***Public Allies' Response:*** Public Allies disagrees with the costs questioned in association with member eligibility documentation because eligibility was verified, although documentation was not maintained. Public Allies will work with the Corporation to present any documentation of citizenship that has been lost or misfiled. However, Public Allies is implementing a more rigorous member file review to ensure that documentation is not misplaced. Additionally, Public Allies will strengthen its criminal background check policy to note that background checks should be considered in making placement decisions.

***Auditors' Comments:*** We believe that actions already taken and still planned by Public Allies will effectively address the recommendations. However, the costs questioned for lack of eligibility documentation must be resolved. We continue to recommend that the

Corporation ensure that Public Allies does require its corporate sites and subgrantees to maintain adequate documentation, that the background checks are initiated in a timely manner and that results are considered in service placement.

**2. Public Allies did not have adequate procedures to ensure that corporate sites and subgrantees documented member activities.**

Public Allies did not adequately ensure that corporate sites and subgrantees documented member activities in accordance with AmeriCorps Provisions. Specifically:

- Mid-term or final evaluations were not available for all members sampled, and some evaluations did not have either member or supervisory signatures;
- Member hours reported in WBRS were not supported by member time sheets;
- Enrollment forms, exit forms, and change of status forms were not submitted or were not submitted in a timely manner;
- Documentation of member contracts, orientation attendance, compelling personal circumstances, and W-2 and/or W-4 forms was not maintained;
- Member contracts were not completed prior to member service start dates, and some member contracts were signed after completion of the program year.

**Evaluations**

We sampled 110 members. The corporate sites and subgrantees did not provide documentation of evaluations in all cases, and some evaluations did not have either member or supervisory signatures. Specifically:

- All corporate sites and subgrantees did not provide documentation of mid-term or final evaluations. Of 110 members sampled, evaluations were not documented for 87 members. Additionally, 2 of these 87 served in the following program year (2005-2006). We did not question education awards for these two members because the program year 2005-2006 education awards were to be awarded outside of the audit period.
- Members or supervisors of one subgrantee discussed above did not sign mid-term and final evaluations for six members because they were unaware that member evaluations needed to be signed.

Signed evaluations are needed to document that evaluations were completed and communicated to members in a timely manner. Evaluations are also necessary to ensure that members are eligible for additional service terms. According to 45 CFR § 2522.220(d), *Participant performance review*, and the Corporation's Program Director's Handbook, a participant is not eligible for a second or additional term of service and/or for an AmeriCorps

education award without mid-term and final evaluations. Corporate sites and subgrantees also are required by 45 CFR § 2522.220(d) to conduct at least mid-term and final evaluations of each member's performance and document that the member has:

- Completed the required number of service hours;
- Satisfactorily completed their assignments; and
- Met other performance criteria that were clearly communicated at the beginning of the service term.

Public Allies was unaware that maintaining documentation of mid-term and final evaluations was a requirement.

### **Member Service Hours**

Member time sheets did not always properly support member service hours recorded in WBRs. AmeriCorps Provisions, Section C.22.c.ii, *Financial Management Provisions, Time and Attendance Records*, requires that grantees keep time and attendance records for all AmeriCorps members to document their eligibility for in-service and post-service benefits. The Corporation uses time and attendance information in WBRs to track member status. These data provide the basis for calculating education awards.

Member hours supported by time sheets varied from hours recorded in WBRs for 19 members at 2 subgrantee and 6 corporate sites. Specifically:

- Time sheet hours exceeded WBRs hours (11 members);
- WBRs hours exceeded time sheet hours (eight members); and
- Member time sheets did not support the required number of service hours to qualify for education awards (two members).

Public Allies stated that these differences resulted when members adjusted their hours in WBRs in response to program manager or supervisor feedback. When members resubmitted their time logs in WBRs, hours were not adjusted in the grantee's PISD system.

### **Reporting**

All corporate sites and subgrantees reported member enrollment forms late in WBRs. AmeriCorps Provisions, Section B.16.b.i, *Enrollment Forms*, states that member enrollment forms must be submitted no later than 30 days after a member is enrolled. Enrollment forms were submitted more than 30 days after member enrollment dates in 65 instances. Also, two corporate sites did not enter enrollment forms for two members, and two corporate sites and one subgrantee did not obtain completed and signed enrollment forms for seven members prior to their service start dates.

We noted the following with respect to exit forms:

- 4 corporate sites and 3 subgrantees reported member exit forms late in WBRS in 34 instances.
- Two corporate sites and one subgrantee did not input exit forms into WBRS for four members.
- 42 members at 6 corporate sites and 2 subgrantees signed exit forms before they completed their service terms.

AmeriCorps Provisions, Section B.16.b.iii, *Exit/End-of-Term-of-Service Forms*, states that member exit forms must be submitted no later than 30 days after a member exits the program or finishes his/her term of service.

One corporate site and one subgrantee submitted member change-of-status forms late in WBRS for two members whose status changed during the program. AmeriCorps Provisions, Section B.16.b.ii, *Change of Status Forms*, states that member change-of-status forms must be submitted no later than 30 days after a member's status is changed.

### **Document Retention**

Two corporate sites and two subgrantees did not maintain signed member contracts on file for six members. AmeriCorps Provisions, Section B.7.b, *Member Contracts*, states that the grantee must require members to sign service contracts.

Three corporate sites and two subgrantees did not document attendance at orientation for nine members. AmeriCorps Provisions, Section B.7.c, *Training*, states that the grantee must conduct an orientation for members and comply with any pre-service orientation or training required by the Corporation.

Six corporate sites and one subgrantee could not provide documentation of member W-2 or W-4 forms. AmeriCorps Provisions, Section B.11.d.iii, *Income Taxes*, states that the grantee must withhold Federal personal income taxes from member living allowances, requiring each member to complete a W-4 form at the beginning of the term of service, and must provide a W-2 form at the close of the tax year. Documentation of member W-2 or W-4 forms was not provided for 31 members.

### **Member Contracts**

Member contracts were not signed prior to member start dates at three corporate sites and at two subgrantees. Also, member contracts for one subgrantee were signed after the program year was completed. AmeriCorps Provisions, Section B.7.b, *Member Contracts*, requires members to sign contracts that stipulate their responsibilities and rights. Member contracts were not signed prior to the members' start dates in 18 instances and were signed after program year completion in 1 instance.



**Recommendations:** We recommend that the Corporation ensure that Public Allies strengthens its program monitoring procedures to comply with grant requirements regarding member activities, including:

- Conducting member evaluations and retaining documentation;
- Recording member service hours accurately and in accordance with program provisions; and
- Documenting member reporting promptly and submitting this information to the Corporation in a timely manner.

We also recommend that the Corporation work with Public Allies during audit resolution to calculate any questioned living allowances, related fringe benefits, applicable administrative costs and education award for the member whose evaluation was not provided for program year 2004-2005, but who was permitted to serve in the following program year.

**Public Allies' Response:** Public Allies believes that it does have adequate procedures to document member activities. Specifically,

- Public Allies believes that while the documentation of the evaluations may not have been included in member files, members were provided extensive feedback on their performance throughout the course of their terms of service.
- Public Allies believes that most variances in member service hours between the member time sheet and WBRS could be attributed to data entry errors or technical errors with the PISD system. Public Allies is currently addressing technical issues with the PISD system. The system is being redeveloped, and the new system, which Public Allies believes will address any current time reporting errors, will be ready for use by July 2007.

Public Allies also has implemented a unified member file documentation list and monitoring processes, and believes this will ensure proper documentation of service in member files.

**Auditors' Comments:** We believe that actions already taken and still planned by Public Allies will effectively address the recommendations regarding member activities. The Corporation did not provide a response to address recovery of questioned costs. We continue to recommend that the Corporation ensure that Public Allies strengthens its program monitoring procedures to comply with grant requirements regarding member evaluations, retaining documentation, recording member service hours, and promptly submitting reports.

**3. Public Allies' financial management systems did not account for and support all costs claimed.**

Public Allies and its subgrantees did not have an adequate financial management system to support all claimed costs and ensure that they met grant requirements. Specifically, Public Allies and its subgrantees did not have:

- An adequate labor distribution system;
- A written records retention policy;
- Capabilities to compare grant budgets to actual costs;
- A proper allocation methodology for operating costs.

**Labor Distribution System**

Public Allies initially distributed labor to grants using a predetermined effort percentage and quarterly redistributed labor costs to grants based on staff-prepared time sheets. OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B, Section 8. *Compensation for personal services*, requires that claimed labor costs be based on an after-the-fact determination of the actual activity of each employee at least monthly. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards. Although Public Allies eventually distributed costs based on after-the-fact reports, the circular does not allow for the interim allocation based on estimates.

Additionally, Public Allies made several mathematical errors in the redistributions that were performed during our audit period, which caused claimed costs to be under- and over-stated (depending on the grant, subaward, or the allocation between reimbursed costs and claimed match). Finally, we noted that many of the time sheets used for this redistribution did not have supervisory approval, one was identified as "in progress," and one employee did not complete all required time sheets.

**Record Retention**

Public Allies did not retain supporting documentation for the minimum amount of time required by grant provisions. AmeriCorps Provisions, Section C.27, *Retention of Records*, requires that grantees retain all program and financial records for three years from the date of submission of the final Financial Status Report. Public Allies stated that its policy is to retain supporting documentation for seven years, but this policy is not written.

**Cost Comparisons**

Public Allies did not have an accounting system capable of comparing budgeted grant amounts to actual expenses. It also did not use monthly Periodic Expense Reports (PERs) for all corporate sites and the national office, which are capable of comparing budgeted amounts

to actual expenses. OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart C.21.b.4, *Standards for financial management systems*, states that the financial management system must provide a comparison of outlays with budget amounts for each award. When appropriate, financial information must be related to performance and unit cost data.

### **Allocation Methodology**

Public Allies used an inequitable allocation methodology to charge supplies to the grant. The national office served in an administrative capacity for the National Direct grant as well as various state commission grants awarded to Public Allies sites. Public Allies allocated costs for supplies that supported the national office to the National Direct grant but did not equitably allocate these costs to other state commission subgrants. Because transactions are allocated to various grants individually, we could not calculate claimed costs that exceeded the equitable portion of supply costs.

OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment A., Section 4.a, *Allocable costs*, states that a cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances, and if it:

- Is incurred specifically for the award;
- Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received; or
- Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

**Recommendations:** We recommend that the Corporation ensure that Public Allies:

- Revises its labor distribution system to adequately support all claimed labor costs in accordance with applicable OMB circulars;
- Develops records retention policies that comply with grant provisions;
- Enhances its financial management system to enable actual expenses to be compared to grant budgets;
- Improves and documents the allocation methodology used to expense indirect costs to the grant to comply with OMB Circular requirements of allocating costs to grants that benefit; and
- Calculates and removes from claimed costs the amount of supply costs charged to the National Direct Grants in excess of its allocable share.

**Public Allies' Response:** Public Allies agrees with the understatement of labor costs. However, it believes that its labor distribution system is adequate. While initial payroll entries are made based upon budget estimates, the re-allocation process is done during the year to adjust these items to actual. Public Allies stated that this process was reviewed and accepted by the Corporation during a site review, and is consistent with other institutions that do not have the capability of distributing payroll costs on a real-time basis.

Public Allies stated that it maintains records for seven years, which exceeds the AmeriCorps Provisions requirement, and has written this policy into its Financial Desk Procedures Manual and Program Handbook.

Public Allies can compare costs to budget using site financial statements. While these reports do not represent a specific grant or subgrant, the site financial statements are 90 percent grant activity. Additionally, Public Allies switched from utilizing monthly Periodic Expense Reports to semi-annual Financial Status Reports as a financial reporting mechanism after receiving notification from the Corporation that PERs were no longer a required filing.

Public Allies believes that even though the allocation method used for supplies did not take into account the amount attributable to State AmeriCorps programs, the total amount invoiced to the National Direct grant was still a reasonable estimate of the related costs. Public Allies stated they "will modify its allocation method for fiscal year 2007 to clarify these expenses."

**Auditors' Comments:** We believe that actions taken by Public Allies regarding record retention effectively address that recommendation. Public Allies' response did not adequately address the need for improvements to its labor distribution system, its inability to compare actual costs to the grant budget or equitably allocate indirect costs. Therefore, the recommendations relative to these issues must be addressed during audit resolution.

#### **4. Public Allies did not comply with all grant provisions.**

Public Allies did not ensure that corporate sites and subgrantees complied with or adequately documented compliance with grant provisions for training-hour limitations and other grant requirements. Specifically:

- Members who exited programs early received prorated education awards without demonstrating compelling personal circumstances;
- Public Allies exceeded the aggregate 20-percent training limitation;
- One member did not fulfill the term-of-service period;
- Public Allies exceeded the consultant fee daily limit;
- Member living allowance payments were based on hours completed rather than paid in periodic increments; and

- Daily hours in excess of 10 (considered by the Corporation to be excessive) were recorded on time sheets.

### **Compelling Personal Circumstance**

Two corporate sites awarded a member a prorated education award, however, the reason for the member exiting the program early was not a compelling personal circumstance. In one instance, a member exited the program because of financial hardship. The second member was terminated for cause. We questioned the education award for one member. The second member was enrolled in program year 2005-2006 and was reported in WBRS as suspended at the start of our audit period, but later exited the program with a prorated education award. This was, however, performed after our audit report date.

According to 45 CFR § 2522.230, *Under what circumstances may AmeriCorps participants be released from completing a term of service, and what are the consequences?*, a participant released for compelling personal circumstances who completes at least 15 percent of the required term of service is eligible for a prorated education award. A participant released for a cause other than compelling personal circumstances may not, however, receive any portion of the AmeriCorps education award.

### **Training Limitation**

One corporate site exceeded the aggregate 20-percent training limitation. AmeriCorps Provisions, Section B.7.e, *Limit on Education and Training Activities*, states that no more than 20 percent of the aggregate of all AmeriCorps member service hours in a program may be spent in education and training activities. In most instances, site personnel stated that members erroneously recorded a full day of training for time spent in the offices on Fridays. Members have training for a half day on Fridays and perform service for the remaining half day. Most members claimed full days of training for those Fridays.

### **Term-of-Service**

One corporate site had one full-time member who finished the program in less than nine months. AmeriCorps Provisions, Section B.8.a.i, *Full-Time Members*, states that members must serve at least 1,700 hours during a period of not less than nine months and not more than one year. We questioned the education award for this member because of undocumented eligibility (see Page 8), therefore, there are no questioned costs in this report for this term-of-service issue.

### **Consultant Fee**

One subgrantee claimed daily consultant fees that exceeded the \$540 daily limit set for program year 2005-2006. Another subgrantee was unaware of the daily consultant fee limitation; we did not, however, identify any instances in which this subgrantee exceeded the limitation. AmeriCorps Provisions, Section B.22.e., *Consultant Services*, states that payments to individuals for consultant services under this grant will not exceed \$540 (\$443 prior to program year 2005-2006) per day (exclusive of any indirect expenses, travel, and

supplies). Both subgrantees were unaware of the daily consultant fee limit. Costs were not questioned in the Schedules because the expenditures were claimed as match, and the subgrantee had claimed excess match in that program year.

### **Member Living Allowance Payments**

One subgrantee made living allowance payments based on hours of service in a given time period rather than in periodic increments. AmeriCorps Provisions, Section B.11.b., *Living Allowances, other In-Service Benefits and Taxes, Living Allowance Distribution*, states that living allowances are designed to help members meet necessary living expenses incurred while participating in the program. Programs are not allowed to pay members on an hourly basis, and allowances must not be based on the number of hours a member serves.

### **Excessive Member Hours**

Nineteen members from 2 corporate sites charged excessive hours on time sheets. Based on discussions with the OIG and the Corporation's Office of Grants Management, we questioned any hours in excess of 10 per day. In some cases the members were "on call" or attending retreats. Various members were recording 16 to 24 hours of service per day. When we reduced daily hours to 10, 4 of the 19 members did not meet the minimum 1,700-hour service requirement for the program year, leading us to conclude that the corporate sites had awarded unearned education awards.

***Recommendations:*** We recommend that the Corporation ensure that Public Allies:

- Advises corporate sites on allowable circumstances for prorated education awards;
- Strengthens controls to ensure that corporate site and subgrantee programs adhere to the training-hour limitation;
- Strengthens controls to ensure that daily consultant fees are not exceeded;
- Strengthens monitoring procedures to determine that subgrantees calculate and pay living allowances in accordance with program provisions;
- Strengthens monitoring procedures to determine reasonableness of member hours reported; and provides documentation for those unique circumstances when members serve excessive hours.

***Public Allies' Response:*** Public Allies has reiterated to all staff the regulations regarding compelling personal circumstances, training hours, and terms of service through additional training and written policies. Also, Public Allies has informed all subgrantees about the daily fee limit for consultants.

Public Allies has informed all subgrantees that living allowances must be based upon months of service, and not the specific number of hours in a given time period. However, some subgrantees have to break down the pay into an hourly rate in order for their accounting departments to calculate checks or to allow for prorating when members start or terminate in mid-month. Public Allies stated that these hourly rates are for calculation purposes only and do not reflect that the member is being paid hourly.

While Public Allies does not agree with deducting hours from members that have served over 10 hours in a single day, it is working on developing an internal policy that will clarify how to record "on-call" hours and lengthy service days on their time sheets.

**Auditors' Comments:** We believe that actions already taken and still planned by Public Allies regarding all issues except living allowance payments may effectively address the recommendations. We continue to recommend that Public Allies strengthen its monitoring procedures to ensure that corrective actions are effective. As noted in our report, one subgrantee was paying members based on hours served, not in periodic increments. This was not done for calculation purposes only; members received pay checks that varied based on hours served. The Corporation has acknowledged that hours must be recorded in certain payroll systems in order to process living allowance payments for members. However, in that circumstance, "dummy" hours are recorded in the payroll system to ensure that members receive the same living allowance payment. Actual hours served are then properly recorded in WBRS. We also continue to recommend that the Corporation ensure that Public Allies does require its corporate sites and subgrantees to comply with grant provisions for compelling personal circumstances, training-hour limitations, term-of-service and daily consultant fees. It must also ensure member service hours are reasonable.

This report is intended for the information and use of the Corporation, OIG, Public Allies, and U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP



Sam Hadley, CPA  
Partner

**APPENDIX A**

**PUBLIC ALLIES' RESPONSE TO AUDIT REPORT**





Public Allies advances diverse young leaders to strengthen communities, nonprofits, and civic participation in  
Baton Rouge, LA • Chicago, IL • Cincinnati, OH • Durham, NC • Estes Park, CO • Connecticut • Delaware •  
Los Angeles, CA • Milwaukee, WI • New York, NY • Phoenix, AZ • Pittsburgh, PA • Silicon Valley, CA

December 21, 2006

Carol Bates  
Assistant Inspector General for Audit  
Office of the Inspector General  
Corporation for National & Community Service  
1201 New York Avenue, NW, Suite 830  
Washington, DC 20525

Dear Ms. Bates:

Thank you for the opportunity to respond to the findings noted in the in the audit report dated November 21, 2006. Over the past six months, Public Allies National Office and our subgrantee sites have worked in collaboration with Cotton & Company to complete the audit. We have found them to be thorough and responsive.

For the past fifteen years, Public Allies has partnered with the Corporation for National and Community Service to provide life-changing and community-changing service opportunities to some of our country's most talented young leaders. During our tenure as an AmeriCorps program we have been able to graduate over 2,000 leaders from thirteen communities across the country. In each of these communities, the impact of our AmeriCorps members has been a lasting one for the people, organizations, and neighborhoods served.

Our growth as an organization has been undertaken with great diligence and marked by particular attention to ensuring AmeriCorps compliance and overall program quality. This audit has provided us with an opportunity to evaluate the strength of those systems and set goals for improvement.

Below are Public Allies' responses to the findings and recommendations presented in the audit report. We look forward to working with the CNCS Audit Resolution Specialist over the coming months to address any issues or discrepancies noted in the audit and our response.

**Schedules of Questioned Costs**  
**Schedule A – Public Allies Inc.**

1. Public Allies disagrees with the costs questioned in association with Member eligibility documentation. Public Allies verified the citizenship and eligibility for all members, although some documentation was not in Members' files. We will work with the Corporation to present any documentation that has been lost or misfiled.

That said, Public Allies is implementing more rigorous Member file review processes to ensure that misplacement of Member documentation does not happen. Those processes are further described in the Compliance & Internal Control Report section.

2. Public Allies does not agree with the \$5,400 of costs being questioned with regard to Member performance evaluations.

The identified Member whose costs are being questioned was positively assessed by her partnering organization supervisor as having met and exceeded her service objectives in the PISD system. That performance assessment was electronically signed and date stamped by the partnering organization supervisor, however, a hard copy was not in the file. Copies of this final assessment will be provided to the Corporation.

3. Public Allies agrees with the \$186 understatement in labor costs. We are now having two staff work on the labor schedules, in order to minimize clerical errors such as this one.
4. Public Allies does not agree with the \$2,450 questioned education award. It was determined by staff that there were unforeseeable changes in the Members' life that occurred during the course of the program year, which ultimately resulted in the "financial hardship" noted. The education award was awarded for the compelling personal circumstances leading to the "financial hardship", rather than the hardship itself.
5. Public Allies does not agree with the \$4,725 of questioned costs for the member with the 185-hour discrepancy. The Members' timesheets went unapproved as a result of the placement supervisor being unavailable (on break from the school the Member was placed at) and turnover in the Public Allies program staff. This discrepancy has been rectified. The Member's timesheets have been approved by a staff person who worked with the site at the time and can verify the member's service hours.

Public Allies does not agree that the auditors should have limited AmeriCorps members to 10 hours in a day. There are some instances in which Members are required by their service projects to work over 10 hours in a single day. There are no prohibitions regarding "excessive hours" either in the AmeriCorps provisions or the Program Directors' Handbook. We will work with the Corporation to justify these costs.

#### Schedule B – BACR

1. Public Allies Silicon Valley agrees with the \$353 questioned costs for the missing transaction receipt. Bay Area Community Resources is emphasizing with staff

the importance of complete receipts, and has not had issue with this in prior audits from CNCS or their independent CPA firm.

Schedule C – University of Delaware

1. Public Allies Delaware does not agree with the costs being questioned in relation to Member eligibility documentation. Although the documentation was missing from the file, all Public Allies Delaware Members were eligible to participate in AmeriCorps. We will work with the Corporation to present any documentation that was missing or misplaced.
2. Public Allies Delaware disagrees with the \$529 disallowed costs for training materials. While receipts were obtained, the detail indicating this was an AmeriCorps training was available. The materials in question, however, were used towards AmeriCorps activities.
3. Public Allies Delaware disagrees with the \$4,725 questioned education award. The member did not overclaim hours in WBRs. The Member completed the required number of service hours to complete the program and receive an education award. We will present the appropriate documentation verifying the service hours completed to the Corporation.

Schedule D - RYASAP

1. Public Allies Connecticut does not agree with the costs being questioned in relation to Member eligibility documentation. Although the documentation was missing from the file, all Public Allies Connecticut Members were eligible to participate in AmeriCorps. We will work with the Corporation to present any documentation that was missing or misplaced.
2. Public Allies Connecticut disputes this finding. The proper FICA calculations were made and we will work with the Corporation to justify the costs.
3. Public Allies Connecticut disputes this finding. The Public Allies Member was evaluated by both her supervisor at Public Allies and the Partnering Organization. We will work with the Corporation to justify these costs.
4. Public Allies disputes the questioning of costs associated with one Member's reporting of hours. This Member underreported his hours in his timesheet reports. The hours that were underreported were documented by staff. We will work with the Corporation to justify these costs.

**Compliance & Internal Control Report**

1. Public Allies did not have adequate internal controls to ensure member eligibility.

Public Allies has adequate controls to ensure member eligibility. Each Public Allies site is provided with a list of required documentation to include in Member files. This list is assembled in accordance with AmeriCorps provisions, and clearly indicates what documentation is appropriate to verify citizenship. In addition, Public Allies National Office Regional Directors conduct semi-annual

monitoring site visits, during which member files are reviewed to ensure proper documentation has been assembled. Any instances of improper or insufficient documentation are noted and sites are required to address those issues within time frame specified by the Public Allies National Office.

Public Allies has a policy in outlined in its Program Handbook that required all sites to conduct criminal background checks prior to Members being enrolled. In addition, Members are requested to self-disclose any prior convictions during the application process. Member conviction records are considered in making Member assignments to Partner Organizations. The language of the Public Allies criminal background check will be strengthened to note that background checks should be considered in making placement decisions.

2. Public Allies had inadequate procedures to ensure that corporate sites and subgrantees documented member activities.

Public Allies does have adequate procedures to ensure member activities are documented.

Evaluation and feedback is a hallmark of the Public Allies program and takes place in a variety of means. Members are assessed by Public Allies staff and their supervisors at Partnering Organization twice at the mid-year – once in person during a three-way meeting with the Member and a Public Allies staff person and again online using the 360° Feedback Assessment tool. At year end, Member performance is assessed three times – in person during a year-end three-way meeting, online using the 360° Feedback Assessment, and in our online Performance Impact and Service Documentation (PISD) system. While the documentation of the evaluations may not have been included in Member files, Members were provided extensive feedback on their performance throughout the course of their term of service.

Staff are required to document three-way meetings that take place at mid-year and year-end. Year-to-date reports of Member activities are signed at the time of three-way meetings by the Member, their Partner Organization supervisor and a Public Allies staff person. Public Allies National Office verifies this documentation is placed in Member files during the semi-annual monitoring visits. Notations of missing documentation are made and must be corrected prior to Members graduating from the program.

Public Allies closely monitors the hours reporting of Members. Most variances in Member service hours between the Member timesheet and WBRs could be attributed to human data entry error or technical errors with the online member service documentation system (PISD).

Public Allies provides face-to-face and online training to all Public Allies staff on properly recording Member hours in both WBRs and the PISD system. To

ensure that Members and staff are properly documenting Member hours and activities, Public Allies national staff conduct a full review of Member PISD entries and WBRs entries within the first 2 months of the program start. Any issues identified are noted for staff with a request that the issues be remedied within a specified timeframe. WBRs entries are reviewed again at year-end by the national office.

PISD technical issues are being addressed in the on-going system redesign. Currently the system is being redeveloped, and the new system (which addresses any current time reporting errors) will be ready for use by July, 2007.

As relayed above, Public Allies now has a unified Member file documentation list and monitoring processes to ensure proper documentation of service in member files.

3. Public Allies' financial management system did not account for and support all costs claimed.

**Labor Distribution System:** Public Allies feels its labor distribution system is adequate. While initial payroll entries are made based upon budget estimates, the re-allocation process is done during the year to adjust these items to actual. This process was reviewed and accepted by CNCS during a site review, and is consistent with other institutions which do not have the capability of distributing payroll costs on a real-time basis.

**Record Retention:** Public Allies maintains records for seven years, which exceeds the AmeriCorps Provisions requirement. Records requested during the audit were all available, and had not been discarded. Public Allies has now made this policy in writing in its Financial Desk Procedures Manual and Program Handbook.

**Cost Comparisons:** The monthly accounting reports compare budgeted expenses to actual on a site-by-site basis. OIG indicated these reports were inadequate because they could not be broken down to the actual grant level of detail. The site financials, however, are 90% grant activity and have provided Public Allies with sufficient detail for monthly monitoring of expenses. The 10% of accounts which appear in the site financials which are not grant funded do not interfere with our ability to monitor the grant accounts. In addition, when Public Allies switched from monthly PERs to semi-annual FSRs as a financial reporting mechanism it was after receiving notification from its CNCS Financial Officer that PER's were no longer a required filing.

**Allocation Methodology:** While the allocation method used on supplies did not take into account the amount attributable to State AmeriCorps programs, the total amount invoiced to the National Direct grant was still a reasonable estimate of the related costs. Alternative allocation methods such as percentage of grant funds would have yielded similar expenses. Public Allies will modify its allocation method for fiscal 2007 to clarify these expenses.

4. Public Allies did not comply with all grant provisions

Public Allies has reiterated for all staff the regulations regarding compelling personal circumstances, training hours, and terms of service – via training and written policies.

Consultant Fee: Public Allies has informed all subgrantees about the daily limit for consultants.

Member Living Allowance Payments: Public Allies has informed all subgrantees about the Living Allowance being based upon months of service, and not the specific number of hours in a given time period. Some subgrantees, however, have to break down the pay into an hourly rate in order for their accounting departments to calculate checks or to allow for pro-rating when members start or terminate in mid month. These hourly rates are for calculation purposes only, and do not reflect the member is being paid hourly.

Excessive Member Hours: While Public Allies does not agree with deducting hours from Members that have worked over 10 hours in a single day, we are working on developing an internal policy that will clarify, for member to whom it applies, how to record “on-call” hours and lengthy service days in their timesheets.

Again, we would like to thank Cotton & Company for their work with us, and we look forward to working with CNCS to further clarify and resolve the findings.

Sincerely

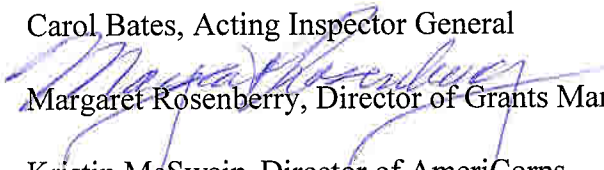


Paul Schmitz  
President & CEO

**APPENDIX B**

**CORPORATION'S RESPONSE TO AUDIT REPORT**

Corporation for  
**NATIONAL &  
COMMUNITY  
SERVICE** 

**To:** Carol Bates, Acting Inspector General  
**From:**  Margaret Rosenberry, Director of Grants Management  
**Cc:** Kristin McSwain, Director of AmeriCorps  
Sherry Wright, Audit Resolution Coordinator, Office of the CFO  
**Date:** December 20, 2006  
**Subject:** Response to OIG Draft Audit Report: Audit of Corporation for National and Community Service Grants Awarded to Publics Allies, Inc.

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Thank you for the opportunity to review the draft audit report of the Corporation's grants awarded to Public Allies, Inc.

We are responding to only one finding at this time. As the audit notes, several of the Public Allies operating sites relied on an individual's Social Security card and driver's license to confirm eligibility to participate in AmeriCorps related to citizenship. The Corporation's Regulations, published in 1999, list all documents that can be used to confirm eligibility. The Social Security card and driver's license are not sufficient. We will work with Public Allies to ensure all operating sites use the appropriate documentation in the future and to secure appropriate documentation for those members whose eligibility was questioned by the auditors.

We will respond to all findings and recommendations in our management decision when the final audit is issued; we have reviewed the findings in detail; and worked with Public Allies to resolve the audit.



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