

Office of Inspector General
Corporation for National and
Community Service

**AGREED-UPON PROCEDURES OF
CORPORATION FOR NATIONAL
AND COMMUNITY SERVICE GRANTS
AWARDED TO THE
ARKANSAS SERVICE COMMISSION**

OIG REPORT NUMBER 07-20



Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

Prepared by:

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This report was issued to Corporation management on July 18, 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 January 18 2008, and complete its corrective actions by July 17, 2008. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.




OFFICE OF INSPECTOR GENERAL

July 18, 2007

TO: Kristin McSwain
Director, AmeriCorps State*National

Margaret Rosenberry
Director, Office of Grants Management

FROM: Carol Bates 
Assistant Inspector General for Audit

SUBJECT: Report 07-20, *Office of Inspector General (OIG) Agreed-Upon Procedures of Corporation for National and Community Service Grants Awarded to the Arkansas Service Commission*

We contracted with the independent certified public accounting firm of Mayer Hoffman McCann P.C. (MHM) to perform agreed-upon procedures in its review of Corporation for National and Community Service grants awarded to the Arkansas Service Commission (Commission). The contract required that MHM conduct its review in accordance with generally accepted government auditing standards.

In its review of the Commission, MHM questioned Federal share costs of \$18,458 and non-grant costs of \$4,725 related to AmeriCorps education awards. It also presented six findings on internal controls and compliance with grant terms.

In connection with the contract, we reviewed MHM's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express opinions on the conclusions expressed in the report. MHM is responsible for the attached report, dated July 9, 2007, and the conclusions expressed therein. However, our review disclosed no instances where MHM did not comply, in all material respects, with generally accepted government auditing standards.

Under the Corporation's audit resolution policy, a final management decision on the findings in this report is due by January 18, 2008. Notice of final action is due by July 17, 2008.

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

Attachment



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cc: Albert Schneider, Executive Director, Arkansas Service Commission
Ronald Conrad, Administrative Partner, Mayer Hoffman McCann, P.C.
Jerry Bridges, Chief Financial Officer
William Anderson, Deputy Chief Financial Officer
Sherry Blue, Audit Resolution Coordinator

**OFFICE OF INSPECTOR GENERAL
AGREED-UPON PROCEDURES FOR
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
GRANTS AWARDED TO THE
ARKANSAS SERVICE COMMISSION**

Table of Contents

	<u>Page</u>
Agreed-Upon Procedures Scope	1
Background	2
Summary of Results	3
Independent Accountants' Report on Applying Agreed-Upon Procedures	5
Results	6
Notes to Consolidated Schedule of Award Costs	7
Exhibit: Schedule of Award and Claimed Costs for Award Numbers 03AFHAR002 and 03ACHAR001 – AmeriCorps Grants	8
Schedule A-1 – Mid Delta Community Consortium	9
Schedule A-2 – Arkansas Literacy Councils, Inc.	10
Compliance and Internal Control Report	11
Appendix A – Arkansas Service Commission's Response to Draft Report	25
Appendix B – Corporation for National and Community Service's Response to Draft Report	30

AGREED-UPON PROCEDURES SCOPE

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), contracted with Mayer Hoffman McCann P.C. (MHM) to perform agreed-upon procedures of grant cost and compliance for Corporation-funded Federal assistance provided to the Arkansas Service Commission (Commission). The agreed-upon procedures covered the allowability, allocability and reasonableness of financial transactions claimed under funding provided by the Corporation for the following awards, as well as grant match costs. The procedures also include grant compliance testing. We performed our agreed-upon procedures during the period February 7 through April 3, 2007.

<u>Program</u>	<u>Award Number</u>	<u>Award Period</u>	<u>Testing Period</u>
AmeriCorps – Formula	03AFHAR002	09/01/03 to 06/20/07	10/01/04 to 09/30/06
AmeriCorps – Competitive	03ACHAR001	09/01/03 to 12/31/06	10/01/04 to 09/30/06
Administrative	04CAHAR001	01/01/04 to 12/31/06	01/01/05 to 12/31/06
PDAT	05PTHAR001	01/01/05 to 12/31/07	01/01/05 to 12/31/06
Disability	04CDHAR001	01/01/04 to 12/31/06	01/01/05 to 12/31/06

The OIG’s agreed-upon procedures program, dated November 2006, specifically includes:

- Obtaining an understanding of the Commission and its subgrantee monitoring process.
- Reconciling grant costs claimed and match costs of the Commission and a sample of subgrantees to their accounting systems.
- Testing subgrantee member files to verify that the records support the eligibility to serve and allowability of living allowances and education awards.
- Testing compliance of the Commission and a sample of subgrantees on certain areas in the AmeriCorps Provisions, and award terms and conditions.
- Testing claimed grant costs and match costs of the Commission and a sample of subgrantees to ensure:
 - i. Proper recording of the AmeriCorps grants, Administrative grant, Program Development and Training (PDAT) grant, and Disability Placement grant;
 - ii. Costs were properly matched; and
 - iii. Costs were allowable and supported in accordance with applicable OMB circulars, grant provisions, award terms and conditions.

BACKGROUND

The Corporation, pursuant to the authority of the National Community Service Trust Act of 1993, as amended, awards grants and cooperative agreements to State commissions, such as Arkansas State Commission, and other entities to assist in the creation of full-time and part-time national and community service programs.

The Commission is located in Little Rock, Arkansas. The Commission is part of the Arkansas Department of Health and Human Services (DHHS) Division of Volunteerism. The DHHS Office of Finance and Administration (OFA) performs all fiduciary roles for the Commission. It maintains the accounting system, performs the draws and retains the documentation for costs incurred. It is also responsible for determining which costs are allowable, allocable and in accordance with Federal cost principles. Match costs are also accounted for by the OFA, but in-kind costs are maintained in a separate hard copy file folder by the Commission's Executive Director.

As illustrated in the following table, the Commission has received about of \$5.7 million in funding for various Corporation programs, and has claimed costs of about \$3.9 million. Of the amount of funding received, the Commission awarded in excess of \$4.8 million to subgrantees, including local school districts and nonprofit entities.

<u>Award/Program</u>	<u>Funding Authorized</u>	<u>Testing Period Claimed</u>	<u>Drawdowns During Testing Period*</u>
03AFHAR002 – AmeriCorps – Formula	\$ 2,118,374	\$ 1,271,609	\$ 1,262,846
03ACHAR001 – AmeriCorps – Competitive	<u>2,700,716</u>	<u>2,066,635</u>	<u>1,951,234</u>
Total AmeriCorps Funds	<u>4,819,090</u>	<u>3,338,244</u>	<u>3,214,080</u>
04CAHAR001 – Administrative	<u>551,901</u>	<u>351,919</u>	<u>455,877</u>
05PTHAR001 – PDAT	<u>211,599</u>	<u>177,245</u>	<u>174,487</u>
04CDHAR001 – Disability Placement	<u>71,206</u>	<u>45,499</u>	<u>55,379</u>
Total	<u>\$ 5,653,796</u>	<u>\$ 3,912,907</u>	<u>\$ 3,899,823</u>

* The differences between the amount claimed and the amount drawn down are generally due to timing issues.

SUMMARY OF RESULTS

Costs Claimed

We questioned costs claimed for the following reasons as shown in the tables below.

<u>Questioned for Allowability</u>	<u>Grant Number</u>	<u>Federal Share</u>	<u>Grant Match</u>	<u>Education Award</u>
Living Allowance for Third-Term	03ACHAR001	\$ 15,642	-	-
Total		\$ 15,642	-	-

<u>Questioned for Lack of Support</u>	<u>Grant Number</u>	<u>Federal Share</u>	<u>Grant Match</u>	<u>Education Award</u>
FSR and Accounting Variance	03ACHAR001	\$ 1,966	\$ 20,825	-
Missing Member Timesheets	03AFHAR002	850	-	4,725
Missing Support for Match Costs	03AFHAR002	-	2,660	-
Total		\$ 2,816	\$ 23,485	\$ 4,725

The procedures we performed did not result in questioned costs for the Administrative Grant (04CAHAR001), PDAT Grant (05PTHAR001) and the Disability Placement Grant (04CDHAR001).

AmeriCorps members who successfully complete terms of service are eligible for education awards funded by the National Service Trust. These award amounts are not funded by Corporation grants and thus are not costs claimed by the Commission. As part of our agreed-upon procedures, however, we determined the effect of audit findings on education award allowability. Using the same criteria described above, we questioned one member's education award of \$4,725 due to non-compliance with the program requirements.

Compliance Issues

The detailed results of our agreed-upon procedures revealed instances of non-compliance with grant provisions, regulations, or Office of Management and Budget (OMB) requirements. Issues identified included:

- Fiscal Requirements not Fully Addressed During Subgrantee Monitoring Process;
- Unallowable Member Support Costs Claimed;
- Member Timesheet Weaknesses;
- Late Member Program Forms, Progress Reports and Financial Status Reports;
- Missing Member Program Documentation; and
- Inadequate Controls Over Recording and Reporting of Match Costs.

Details related to these questioned costs and awards appear in the *Independent Accountants' Report on Applying Agreed-Upon Procedures* starting on Page 5.

Exit Conference

The contents of this report were disclosed to and discussed with, the Commission at an exit conference held in Little Rock, Arkansas, on May 15, 2007. In addition, we provided a draft of this report to the Commission and to the Corporation for comment on June 1, 2007. Their responses to the draft report are included as Appendices A and B, respectively, to this report.



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Inspector General
Corporation for National and Community Service

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES**

We have performed the procedures described below, which were agreed to by the OIG solely to assist it in grant-cost and compliance testing of Corporation-funded Federal assistance provided to the Commission for the awards and periods listed below. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards. The sufficiency of these procedures is solely the responsibility of the OIG. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or any other purpose.

<u>Program</u>	<u>Award Number</u>	<u>Award Period</u>	<u>Testing Period</u>
AmeriCorps – Formula	03AFHAR002	09/01/03 to 06/20/07	10/01/04 to 09/30/06
AmeriCorps – Competitive	03ACHAR001	09/01/03 to 12/31/06	10/01/04 to 09/30/06
Administrative	04CAHAR001	01/01/04 to 12/31/06	01/01/05 to 12/31/06
PDAT	05PTHAR001	01/01/05 to 12/31/07	01/01/05 to 12/31/06
Disability	04CDHAR001	01/01/04 to 12/31/06	01/01/05 to 12/31/06

We were not engaged to, and did not perform an examination, the objective of which would be the expression of an opinion on management's assertions. Accordingly, we do not express such an opinion. Had we performed other procedures, other matters might have come to our attention that would have been reported to you.

The procedures that we performed included:

- Obtaining an understanding of the Commission and its subgrantee monitoring process.
- Reconciling grant costs claimed and match costs of the Commission and a sample of subgrantees to their accounting systems.
- Testing subgrantee member files to verify that the records supported member eligibility to serve and allowability of living allowances and education awards.

- Testing compliance of the Commission and a sample of subgrantees on certain grant provisions and award terms and conditions.
- Testing grant claimed costs and match costs of the Commission and a sample of subgrantees to ensure:
 - i. Proper recording of the AmeriCorps grants, Administrative grant, PDAT grant, and Disability Placement grant;
 - ii. Costs were properly matched; and
 - iii. Costs were allowable and supported in accordance with applicable OMB circulars, grant provisions, and award terms and conditions.

Results

The testing results are summarized below and in the Consolidated Schedule of Award Costs and the exhibit and schedules that follow. The schedules also identify certain questioned education awards. These awards were not funded by Corporation grants, and accordingly are not included in claimed costs. As part of our agreed-upon procedures, however, we determined the effect of all member timesheet and eligibility exceptions on these awards.

**Corporation for National and Community Service Awards
Arkansas Service Commission
Consolidated Schedule of Award Costs
October 1, 2004, to December 31, 2006**

<u>Award Number</u>	<u>Program</u>	<u>Approved Budget</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>	<u>Questioned Education Awards</u>	<u>Reference</u>
03AFHAR002	AmeriCorps	\$ 2,118,374	\$ 1,271,609	\$ 850	\$ 4,725	
03ACHAR001	AmeriCorps	<u>2,700,716</u>	<u>2,066,635</u>	<u>17,608</u>	<u>-</u>	
	Total AmeriCorps	<u>4,819,090</u>	<u>3,338,244</u>	<u>18,458</u>	<u>4,725</u>	Exhibit
04CAHAR001	Administrative	<u>551,901</u>	<u>351,919</u>	-	-	
05PTHAR001	PDAT	<u>211,599</u>	<u>177,245</u>	-	-	
04CDHAR001	Disability	<u>71,206</u>	<u>45,499</u>	-	-	
	Totals	<u>\$5,653,796</u>	<u>\$ 3,912,907</u>	<u>\$ 18,458</u>	<u>\$ 4,725</u>	

Notes to Consolidated Schedule of Award Costs

Basis of Accounting

The accompanying schedules have been prepared to comply with provisions of the grant agreements between the Corporation and the Commission. The information presented in the schedules has been prepared from reports submitted by the Commission to the Corporation and accounting records of the Commission and its subgrantees. The basis of accounting used in the preparation of these reports differs from accounting principles generally accepted in the United States of America as discussed below.

Equipment

No equipment was purchased and claimed under federal or match share of cost for the period within our audit scope.

Inventory

Minor materials and supplies are charged to expense during the period of purchase.

EXHIBIT

**ARKANSAS SERVICE COMMISSION
Schedule of Award and Claimed Costs
03AFHAR002 and 03ACHAR001 – AmeriCorps Grants
October 1, 2004, to September 30, 2006**

<u>Subgrantees</u>	<u>Claimed Costs</u>	<u>Questioned Costs</u>	<u>Questioned Education Awards</u>	<u>Reference</u>
<u>03AFHAR002 – Formula</u>				
Kiwanis Activities, Inc.	\$ 187,387	\$ -	\$ -	
Lonoke School District*	245,103	-	-	
Mid Delta Community Consortium*	192,081	850	4,725	Schedule A-1
Mid-South Community College	230,923	-	-	
University of Arkansas	242,277	-	-	
Arkansas Service Commission	<u>173,838</u>	<u>-</u>	<u>-</u>	
Sub-total	<u>\$1,271,609</u>	<u>\$ 850</u>	<u>\$ 4,725</u>	
<u>03ACHAR001 – Competitive</u>				
Arkansas Children's Hospital	\$ 292,004	\$ -	-	
Arkansas Literacy Councils, Inc.*	716,779	17,608	-	Schedule A-2
Rogers Public School District*	565,552	-	-	
Southeast Arkansas Education Service Cooperative	<u>492,300</u>	<u>-</u>	<u>-</u>	
Sub-total	<u>\$2,066,635</u>	<u>\$ 17,608</u>	<u>\$ -</u>	
Subgrantee Total	<u>\$3,338,244</u>	<u>\$ 18,458</u>	<u>\$ 4,725</u>	

***Selected for Testing**

**ARKANSAS SERVICE COMMISSION
 Schedule of Award and Claimed Costs
 Award Number 03AFHAR0020006
 October 1, 2004, to September 30, 2006**

Mid Delta Community Consortium

		<u>Reference</u>
Approved Budget (Federal Funds)	<u>\$264,780</u>	Note 1
Federal Costs	<u>\$192,081</u>	Note 2
Questioned Costs:		
Unsupported Service Hours	\$ <u>850</u>	Note 3
Total Questioned Costs	<u>\$ 850</u>	
Questioned Education Awards:		
Minimum Service Hour Not Met	\$ <u>4,725</u>	Note 3
Total Questioned Education Awards	<u>\$ 4,725</u>	

Notes

1. The amount shown above as Approved Budget represents the total funding to Mid Delta Community Consortium according to budget schedules.
2. Federal costs represent Mid Delta Community Consortium's reported expenditures for the period October 1, 2004, through September 30, 2006.
3. A member's timesheets for the month of October 2005 were missing and, as a result, total supported number of service hours did not meet the minimum requirement for an Education Award. Therefore, we have questioned the living allowance totaling \$850, and the education award of \$4,725. For any amount of the living allowance and fringe benefit costs determined unallowable, the associated administrative costs should also be recovered. (See Finding No. 3)

**ARKANSAS SERVICE COMMISSION
 Schedule of Award and Claimed Costs
 Award Number 03ACHAR0010003
 October 1, 2004, to September 30, 2006**

Arkansas Literacy Councils, Inc.

		<u>Reference</u>
Approved Budget (Federal Funds)	<u>\$986,377</u>	Note 1
Federal Costs	<u>\$716,779</u>	Note 2
Questioned Costs:		
Unsupported Costs	\$ 1,966	Note 3
Third Term Member Living Allowance	<u>15,642</u>	Note 4
Total Questioned Costs	<u>\$ 17,608</u>	
Total Questioned Education Awards	<u>\$ -</u>	

Notes

1. The amount shown above as Approved Budget represents the total funding to Arkansas Literacy Councils, Inc. according to budget schedules.
2. Federal costs represent Arkansas Literacy Councils, Inc.'s reported expenditures for the period October 1, 2004, through September 30, 2006.
3. Supply costs claimed to the grant were not properly supported by an allocation schedule. As a result, we have questioned those costs totaling \$1,966. For any amount of the unsupported costs determined unallowable, the associated administrative costs should also be recovered. (See Finding No. 1)
4. The Commission claimed living allowances for two members serving three consecutive terms. Grant funds may not be used to provide member support costs for a third or subsequent term of service. As a result, we have questioned living allowances and fringe benefits for the members' third terms of service. For any amount of the living allowance and fringe benefit costs determined unallowable, the associated administrative costs should also be recovered. (See Finding No. 2)

Compliance and Internal Control

In addition to the questioned grant costs and the questioned education award, the results of our tests disclosed instances of noncompliance and deficiencies in internal controls.

1. Fiscal Requirements not Fully Addressed During Subgrantee Monitoring Process

Although the Commission has been diligent in its subgrantee monitoring, there are several fiscal areas it did not adequately consider. This was based on our review of the Commission's subgrantee monitoring files, policies currently in place at the Commission and results from our subgrantee fieldwork. These areas of weakness include:

- Review of staff timesheets for regulatory compliance and compliance with established internal policies;
- Review of reconciliations between subgrantee FSRs and accounting records;
- Determination as to compliance with administrative cost ceiling requirements; and
- Determination as to match compliance.

As a result, the following conditions existed at subgrantee locations.

Arkansas Literacy Councils, Inc. (ALC)

- Staff timesheets were not prepared. Costs claimed for staff effort were based on budget data rather than actual effort. Alternative procedures allowed us to conclude that the costs claimed were equitable and therefore resulted in no questioned costs. However, current timekeeping practice is not in accordance with the requirements of the grant provisions or OMB Circular A-122.
- Portions of the subgrantee's AmeriCorps program expenses were recorded as general supplies. ALC, however, was unable to determine which portion of the expenses claimed were allocable to the AmeriCorps program, and as a result, only claimed supply expenses up to the budgeted amount. As such, we questioned the unsupported variance, which included costs claimed to the grant and costs claimed to grant match.

Questioned Costs	
<u>Federal Share</u>	<u>Match Costs</u>
\$ 1,966	\$ 20,825

Lonoke School District

- Timesheets separating effort by program were not prepared. Costs claimed for staff salaries are based on budget data rather than actual effort. Alternative procedures allowed us to conclude that the costs claimed were equitable and therefore resulted in no questioned costs. However, current timekeeping practice is not in accordance with the grant provisions or OMB Circular A-87.

- Match requirements per the agreement between the Commission and the school district were not achieved as of September 30, 2005 as shown below.

<u>Required Match % for Program Operating Costs Per Grant Agreement</u>	<u>Actual Match % for Program Operating Costs</u>	<u>Unfavorable Variance</u>
38.11%	33.57%	4.54%

Mid Delta Community Consortium

- Timesheets separating effort by program were not prepared. Costs claimed for staff effort were based on budget data rather than actual effort. Alternative procedures allowed us to conclude that the costs claimed to the Corporation were equitable and therefore resulted in no questioned costs. However, current timekeeping practice is not in accordance with the grant provisions or OMB Circular A-122.
- Match costs were not properly supported, resulting in \$2,660 questioned grant match. The grant is ongoing so there is an opportunity to obtain match that is adequately supported.

Rogers Public School District

- There were no procedures in place requiring the subgrantee to reconcile expenditures reported to the Commission with its own accounting records.

Criteria

Timekeeping

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment B, Section 8.m. *Compensation for Personal Services, Support of salaries and wages*, states:

(1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph (2), except when a substitute system has been approved in writing by the cognizant agency.

(2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:

- (a) The reports must reflect an *after-the-fact* determination of the actual activity of each employee. Budget estimates (i.e., estimates

determined before the services are performed) do not qualify as support for charges to awards.

OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*
Attachment B. Section 8, *Compensation for Personnel Services*, subsection h(5)
states:

Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods,
- (d) They must be signed by the employee, and
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
 - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
 - (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Expense Reconciliation and Support

AmeriCorps Provisions, Section C.21., Responsibility Under Grant Administration, states in part:

- a. **Accountability of Grantee.** The Grantee has full fiscal and programmatic responsibility for managing all aspects of the grant and grant-supported activities, subject to the oversight of the Corporation. The Grantee is accountable to the Corporation for its operation of the AmeriCorps Program and the use of Corporation grant funds.

AmeriCorps Provisions, Section C.22., Financial Management Provisions, states in part:

a. **General.** The Grantee must maintain financial management systems that include standard accounting practices, sufficient internal controls, a clear audit trail and written cost allocation procedures as necessary. Financial management systems must be capable of distinguishing expenditures attributable to this Grant from expenditures not attributable to this Grant. This system must be able to identify costs by programmatic year and by budget category and to differentiate between direct and indirect costs or administrative costs. For further details about the Grantee's financial management responsibilities, refer to OMB Circular A-102 and its implementing regulations (45 C.F.R. 2543) or A-110 and its implementing regulations (45 C.F.R. 2541), as applicable.

Recommendations

We recommend that the Corporation instruct the Commission to enhance its monitoring process by adding the following procedures to its monitoring. We also recommend that the Corporation verify implementation of these enhancements.

1. Examine timesheets of staff charging time to the AmeriCorps program so compliance with OMB A-122 and OMB A-87 can be achieved by all subgrantees;
2. Analyze grant match throughout the grant period to minimize the risk of not meeting the match requirement at the end of the grant period;
3. Examine established policies and procedures to determine if weaknesses exist, including procedures for reconciling the FSR amounts to the accounting system and compliance with the administrative cost ceiling requirements.

Commission's Response

The Commission concurred with the recommendations. The Commission will review the OMB circulars and will stress the importance of the site visit tool module that pertains to staff time and attendance records. The Commission determined that its guidance on grant match had not been clearly communicated to the finance officer and to its subgrantees and a revision of policy will be forthcoming to clarify the point. Lastly, the Commission has examined its policies and procedures and taken steps with the state's accounting and finance division to ensure FSR amounts are properly reconciled.

Auditors' Comment

We agree that the actions to be taken by the Commission are appropriate.

2. Unallowable Member Support Costs Claimed

Arkansas Literary Councils, Inc. (ALC)

The Commission claimed \$15,642 of member living allowances and fringe benefits for two AmeriCorps members that served three consecutive terms under grant 03ACHAR001. The error was discovered after the September 30, 2006, FSR had been filed. The subgrantee has since reimbursed the Commission for the error. The reimbursement has not been credited to the grant because the subsequent FSR has yet to be submitted. The Commission has drawn down these costs and the costs of the third terms were included in the FSR for the period ending September 30, 2006.

Notification of members who are serving three terms is the responsibility of the Corporation's National Service Trust office. This notification was not provided to the Commission, and therefore went unnoticed, but was subsequently discovered by the Commission. Notification was not provided to the Commission from the Corporation due to a transition of the Corporation Trust officer assigned to Arkansas. In addition, we determined that subgrantee personnel did not fully understand the requirements of the AmeriCorps grant.

Criteria

AmeriCorps Provisions, Section B.8., Terms of Service, states:

b. Service in a Second or Subsequent Term. i. General. A grantee is under no obligation to enroll a member for a second or subsequent term of service. In addition, there may be limitations on an individual's eligibility for federally-funded member benefits for any term beyond a second term.

AmeriCorps Provisions, Section B.12., Post-Service Education Award, states in part:

No Corporation or other Federal funds may be used to provide member support costs for a third or subsequent term of service in an AmeriCorps State or National Program.

45 CFR § 2522.220, states in part:

(b) Restriction on multiple terms. An AmeriCorps participant may only receive the benefits described in §§2522.240 through 2522.250 for the first two successfully-completed terms of service, regardless of whether those terms were served on a full-, part-, or reduced part-time basis.

Recommendations

We recommend that the Corporation:

4. Review the next filed FSR to ensure that the amount in question and the related administrative costs have been properly excluded.

5. Instruct the Commission to further train its subgrantees that the living allowances for members after the second term of service cannot be paid with Corporation funds;
6. Instruct the Trust officers to explore options in the new member portal for alerting grantees when members apply for a third term of service.

Commission's Response

The Commission agreed with recommendations four and five. Recommendation six was directed toward the Corporation. The Commission agreed to adjust its final FSR to exclude the questioned member costs and agreed to review records that are available to it from the Corporation's Trust office. The Commission, however, stated it relied on the Trust office to provide notice of members serving more than two terms and stated this approach was the only avenue available to them to identify three-term members.

Auditors' Comment

We agree that the actions to be taken by the Commission are appropriate for recommendation number four.

As a result of the Commission's response we modified recommendation numbers 5 and 6 above. The Commission stated that it relies solely on the Trust Department to notify it of three-term members. The exceptions noted in the finding, however, pertained to two members who were entering a third term at the same subgrantee program. Program officials should have known (regardless of procedures performed by the Trust office) these members were three-term members. We believe the program did not fully understand the grant provisions and therefore altered the recommendation. We also acknowledge the Trust office is responsible for providing this information.

3. Member Timesheet Weaknesses

We noted weaknesses at two subgrantee locations when testing member timesheets.

Lonoke School District

Lonoke School District lacked formal timekeeping procedures guiding its members and teachers on properly completing and submitting timesheets until the current program year. As a result, we found that all fourteen timesheets tested were not signed by both the member and the teachers who supervised them.

Mid Delta Community Consortium

We found that timesheets for the month of October 2005 were missing for one member. The subgrantee indicated that the timesheets were missing because the program site had moved locations and the timesheet was misplaced. Due to the missing timesheet, we were unable to validate that the member completed the hours required to earn an education award. As a result, we questioned the education award of \$4,725 and the living allowance of \$850 received for the month of October 2005.

<u>Total Hours Served per WBRs</u>	<u>Total Hours Served per Timesheets</u>	<u>Hours Missing</u>	<u>Living Allowances and Fringe Benefits</u>	<u>Education Award Questioned</u>
1,700	1,582	118	\$ 850	\$ 4,725

Criteria

AmeriCorps Provisions, Section C.22., Financial Management Provisions, states:

- c. Time and Attendance Records ...ii. AmeriCorps Members. The Grantee must keep time and attendance records on all AmeriCorps members in order to document their eligibility for in-service and post-service benefits. Time and attendance records must be signed and dated both by the member and by an individual with oversight responsibilities for the member.

Recommendations

We recommend that the Corporation:

- 7. Instruct the Commission to review timesheets for member and supervisor signatures during its monitoring process;
- 8. Determine the allowability of the questioned living allowance, fringe benefits and education award.

Commission's Response

The Commission concurred with the recommendations. It will continue to review timesheets during its monitoring process and also on a quarterly basis. It will reiterate the importance of timesheet accuracy with programs during regularly scheduled meetings and orientations for new program staff.

Auditors' Comment

We agree that the actions to be taken by the Commission are appropriate.

4. Late Submission of Member Program Forms, Progress Reports and Financial Status Reports

Although the Commission has established and implemented procedures to remind and follow up with subgrantees on the submission of program forms and reports, as well as FSRs, we found numerous instances where subgrantees did not submit these documents within established time frames. Among the late reports were Financial Status Reports, Program Progress Reports, Member Enrollment Forms, Member Change of Status Forms, and Member Exit Forms. The following summarizes the instances of noted late submissions:

<u>Subgrantees</u>	<u>Late FSR</u>	<u>Late Progress Reports</u>	<u>Late Enrollment Forms</u>	<u>Late Change of Status Forms</u>	<u>Late Exit Forms</u>
Arkansas Literacy Councils, Inc.	6 of 10	1 of 8	-	-	-
Lonoke School District	3 of 8	2 of 8	-	-	-
Rogers Public School District	3 of 10	-	-	-	2 of 21
Mid Delta Community Consortium	7 of 9	2 of 10	6 of 14	1 of 1	6 of 14

Our testing also revealed a member at the Mid Delta Community Consortium who had never been entered into WBRS. The member in question was enrolled and exited the program shortly thereafter. Citing the member’s short tenure, Mid Delta did not enter pertinent information into WBRS prior to the member’s departure and subsequently determined that it would not be necessary to enter the member into WBRS.

Criteria

AmeriCorps Provisions, Section B.16., Reporting Requirements, states in part:

- a. Financial Status and Progress Reports...The Corporation expects each Grantee to set its own Sub-Grantee reporting requirements. Grantees are responsible for monitoring Sub-Grantee activities and training needs, tracking progress toward objectives, and identifying challenges. Sub-Grantees must adhere to the reporting requirements outlined and communicated by its Grantee for the program year.
- b. AmeriCorps Member-Related Forms. The Grantee is required to submit the following documents to the National Service Trust at the Corporation on forms provided by the Corporation. Grantees and Sub-Grantees may use WBRS to submit these forms electronically. Programs using WBRS must also maintain hard copies of the forms:
 - i. Enrollment Forms. Enrollment forms must be submitted no later than 30 days after a member is enrolled.

ii. Change of Status Forms. Member Change of Status Forms must be submitted no later than 30 days after a member’s status is changed. By forwarding Member Change of Status Forms to the Corporation, State Commissions and Parent Organizations signal their approval of the change.

iii. Exit/End-of-Term-of-Service Forms. Member Exit/End-of-Term-of-Service Forms must be submitted no later than 30 days after a member exits the program or finishes his/her term of service.”

Recommendations

- 9. We recommend that the Corporation instruct the Commission to follow-up on late reports for timely correction with the subgrantees.

Commission’s Response

The Commission concurred with the recommendation, but noted that most of the reports in question had been submitted only 1-3 days late. The Commission also indicated that the programs with later submissions had requested no-cost extensions. Lastly, the Commission stated its understanding, based on audit results, was that it was better to submit a timely report than an accurate report.

Auditors’ Comment

Although timely reporting is an important program requirement; accurate reporting is equally important. We believe the Corporation is best served if the Commission assists its subgrantees in determining the cause for the problems encountered during the reporting process and require the programs to request time extensions for financial reporting in the event the problems are not easily identified and resolved.

5. Missing Member Program Documentation

Member Performance Evaluation

We noted that end-of-term member performance evaluations were not properly performed at the following subgrantees.

<u>Subgrantees</u>	<u>Number of Member File Reviewed</u>	<u>No. of End-of-Term Evaluation Missing</u>	<u>Orientation Documentation</u>
Arkansas Literacy Council, Inc.	26	8	26
Lonoke School District	14	14	-

At Arkansas Literacy Councils, Inc. (ALC), the Councils serving under the subgrantee were given the responsibility for performing member evaluations. However, ALC did not monitor the Councils to verify that evaluations had actually been performed. Orientation attendance by AmeriCorps members was also not documented, thereby precluding us from determining whether all or any members had been properly trained.

At Lonoke School District, the end-of-term evaluations were not completed as of the date of the Commission's site visit because the members had not completed their service. Lonoke School District has since established procedures requiring end-of term evaluations are properly performed.

The lack of an end-of-term evaluation would prevent a member from being eligible for an additional term of service. A participant is not eligible for a second or additional term of service without a satisfactory mid-term and final performance evaluation, according to 45 CFR § 2522.220(c), *Participant performance review*.

Criteria

AmeriCorps Provisions, Section B.7., Training, Supervision and Support, states:

c. Training. ...The grantee must conduct an orientation for members and comply with any pre-service orientation or training required by the Corporation. This orientation should be designed to enhance member security and sensitivity to the community. Orientation should cover member rights and responsibilities, including the Program's code of conduct, prohibited activities (including those specified in the regulations), requirements under the Drug-Free Workplace Act (41 U.S.C. 701 *et seq.*), suspension and termination from service, grievance procedures, sexual harassment, other non-discrimination issues, and other topics as necessary.

* * * *

g. Performance Reviews. The Grantee must conduct and keep a record of at least a midterm and end-of-term written evaluation of each member's performance, focusing on such factors as: i. Whether the member has completed the required number of hours; ii. Whether the member has satisfactorily completed assignments; and iii. Whether the member has met other performance criteria that were clearly communicated at the beginning of the term of service.

Recommendations

10. We recommend that the Corporation instruct the Commission to provide a refresher course for its subgrantees reminding them of program compliance requirements and the important role training and evaluations play in member development and the success of the program.

Commission's Response

The Commission concurs with the recommendation and has already taken steps to include these types of program requirements in its 2007-2008 training.

Auditors' Comment

We agree that the actions taken by the Commission are appropriate.

6. Inadequate Controls Over Recording and Reporting of Match Costs

The Commission lacked controls to ensure that match costs claimed on the FSRs were accurate and adequately supported. Specifically, we identified the following exceptions:

Administrative Grant 04CAHAR001

- Hourly rates were not verifiable for the effort commissioners and grant reviewers donated as in-kind services.
- Documentation was not available to support the value of in-kind contributions for web page maintenance.
- A variance between match costs reported on the FSR and supporting schedules was identified, indicating that the FSR had been overstated. The error was not detected through the FSR review process.
- Time effort certifications used for grant match costs were performed quarterly by the Director of Division of Volunteerism. This was not in accordance with established state procedures or requirements of OMB circular A-87.

The exceptions identified above resulted in overstated match costs claimed on the FSR. However, the Commission had substantial overages pertaining to its match requirements to offset the errors identified above. As a result, we did not question the match and the Commission remains on pace to meet its match requirement.

AmeriCorps Grants

Spreadsheets used to accumulate subgrantee match costs were maintained at the Commission for assistance in preparing the FSR. One quarter of data was inadvertently omitted from the FSR understating the match costs recorded for both the formula and competitive grants.

We determined that the Commission was not fully familiar with the requirements of the applicable CFRs on match costs. In addition, subgrantee match costs were errantly omitted from the FSRs and the errors were never detected by personnel at the Commission because the review performed was not thorough enough to detect such errors.

The Commission is still on pace to meet its match requirements for the Administrative Grant even considering the costs questioned above. However, the errors noted preclude the Commission from complying with the requirements and accurately reporting supportable match costs.

Criteria

The Federal government's common rule for grant administration by state and local governments, 45 C.F.R. § 2541.200(b), requires the following for grantees' financial management systems:

(1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

(2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

(3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

* * * *

(6) Source documentation. Accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contract and sub-grant award documents, etc.

The Federal government's common rule for grant administration by state and local governments, 45 C.F.R. § 2541.240, requires the following for grantees' matching or cost sharing:

(a) Basic rule; costs and contributions acceptable. With the qualifications and exceptions listed in paragraph (b) of this section, a matching or cost sharing requirement may be satisfied by either or both of the following:

(1) Allowable costs incurred by the grantee, subgrantee or a cost-type contractor under the assistance agreement. This includes allowable costs borne by non-Federal grants or by other cash donations from non-Federal third parties.

(2) The value of third party in-kind contributions applicable to the period to which the cost sharing or matching requirements applies.

(b) Qualifications and exceptions –

* * * *

(6) Records. Costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived. To the extent feasible, volunteer services will be supported by the same methods that the organization uses to support the allocability of regular personnel costs.

* * * *

(c) Valuation of donated services –

(1) Volunteer services. Unpaid services provided to a grantee or subgrantee by individuals will be valued at rates consistent with those ordinarily paid for similar work in the grantee's or subgrantees' organization. If the grantee or subgrantee does not have employees performing similar work, the rates will be consistent with those ordinarily paid by other employers for similar work in the same labor market. In either case, a reasonable amount for fringe benefit may be included in the valuation.

Recommendations

We recommend that the Corporation instruct the Commission to:

11. Review the applicable regulations and develop policies and procedures to ensure claimed match costs are allowable, adequately documented, and allocable in accordance with applicable cost principles and regulations.
12. Implement procedures requiring appropriate personnel to review the FSRs before they are submitted to the Corporation. The reviews should include tracing reported amounts on the FSRs to supporting documentation and verifying the accuracy of the data through appropriately designed analyses.
13. Adjust subsequent FSRs to reflect actual match costs that are verifiable, accurate and in accordance with the costs principles.

Commission's Response

The Commission concurred with the recommendations. Commission staff has met and discussed the applicable regulations and has changed its method of documenting donations of time, talent and space, as well as effort put forth by the Division of Volunteerism. The Commission has also changed its procedures for FSR preparation by reconciling FSRs prior to submission, printing hard copies from eGrants and obtaining review and approval signatures from the Executive Director as well as the Finance Officer. These procedures

were used for the April 2007 FSR submission. Lastly, the Commission submitted a corrected FSR to reflect corrected match costs for its Administrative grant.

Auditors' Comment

We agree that the actions taken by the Commission are appropriate.

This information in this report is intended for the use of the Office of Inspector General, Corporation management, Arkansas Service Commission, subgrantees and the U.S. Congress. However, this report is a matter of public record and its distribution is not limited.

Mayer Hoffman McCann P.C.

Mayer Hoffman McCann P.C.
Woodbridge, Virginia
July 9, 2007

APPENDIX A

Arkansas Service Commission's Response to Draft Report



Arkansas Service Commission
DHHS Division of Volunteerism
Donaghey Plaza South
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TDD: 501-682-1605

June 29, 2007

Ms. Carol Bates
Assistant Inspector General for Audit
Corporation for National and Community Service
1201 New York Avenue, NW, Suite 830
Washington, DC 20525

Dear Ms. Bates:

The Arkansas Service Commission has received and reviewed the draft report of the *Office of Inspector General (OIG) Agreed-upon Procedures, Corporation for National and Community Service Grants Awarded to the Arkansas Service Commission*.

On behalf of the Commission, its staff, subgrantees and partners I welcome the opportunity to submit the enclosed response to the report. The Arkansas Service Commission prides itself on strong systems and good customer service. We are pleased to note that overall the audit team found good policies and procedures in place with ample evidence of good monitoring of subgrantees. We are especially pleased that there were no questioned costs in the Commission's use of Administration, PDAT or Disability funds.

The Commission has already begun the process of resolving questioned costs and findings and implementing recommendations stated in the report. It will continue to work closely with the Corporation to complete the process during audit resolution. As a result of this process the Commission will be a better public servant and steward of taxpayer dollars.

We appreciate the open communication, professionalism and diligent efforts of the Office of Inspector General, auditors with Mayer Hoffman McCann and staff at the Corporation for National and Community Service who have helped us to this point.

Sincerely,

Albert Schneider,
Executive Director

“Getting Things Done”

Arkansas Service Commission
Response to Corporation for National and Community Service
Office of Inspector General: June 1 Draft Report
Agreed-Upon Procedures

Recommendation 1

Examine timesheets of staff charging time to the AmeriCorps program so compliance with OMB A-122 and OMB A-87 can be achieved by all subgrantees.

Commission's Response 1

The Arkansas Service Commission (ASC) agrees with the importance of this recommendation. For that reason the executive director and Commission staff will review OMB A-122 and OMB A-87 as explained by auditors before the next round of site visits. They will carefully document responses to Module C. Section 1. n. of the Commission's Site Visit Instrument: "(Does the Program) n. Have member and staff time and attendance records signed by individual and official? Adequately document staff time with time sheets and/or certifications?" The Commission will follow up by requiring subgrantees to correct any deficiencies detected.

Recommendation

Analyze grant match throughout the grant period to minimize the risk of not meeting the match requirement at the end of the grant period.

Commission's Response 2

The Commission has in place a policy for reviewing program match with each monthly invoice and withholding payment if the subgrantee falls more than 2% below budgeted member costs or 4% below budgeted operating costs. The executive director did not express clearly enough to the Commission's finance officer and subgrantees that the program must meet match at the end of the program year. Commission policies and procedures will be revised to clarify this point.

Recommendation 3

Examine established policies and procedures to determine if weaknesses exist, including procedures for reconciling the FSR amounts to the accounting system and compliance with the administrative cost ceiling requirements.

Commission's Response 3

The Commission has already examined its policies and procedures and taken steps to ensure that program invoices, WBRS program FSRs, state AASIS (statewide information system for personnel, purchasing and other records) and eGrants are reconciled on a quarterly basis and the programs comply with the administrative cost ceiling requirements. The Commission's finance officer and the Department of Health and Human Services Office of Finance and Administration person serving the Commission are responsible for carrying out these actions.

Recommendation 4

(We recommend that the Corporation:) Review the next filed FSR to ensure that the amount in question and the related administrative costs have been properly excluded.

Commission's Response 4

The Commission will exclude the questioned member support costs and related administrative costs in the final (closeout) FSR for the Competitive grant at the end of June 2007.

Recommendation 5

(We recommend that the Corporation:) Instruct the Commission to further review members' eligibility to ensure that excessive terms and other errors do not occur.

Commission's Response 5

The Commission and programs count on the Corporation's Trust office to provide reconciliation records via WBRS and notify the Commission if records show that an enrolled member has served at least two terms in other programs. This is the only avenue the programs have to ensure that members have not served more than one term prior to their current enrollment. The Commission will review the records.

Recommendation 6

(We recommend that the Corporation:) determine why the Trust's controls in place flagging three term members failed.

Commission's Response 6

None required.

Recommendation 7

We recommend that the Corporation instruct the Commission to review timesheets for member and supervisor signatures during its monitoring process.

Commission's Response 7

The Commission agrees that monitoring AmeriCorps member time sheets for signatures, dates and accuracy of calculations is important. It will continue to review member time sheets during site visits, usually once a year, more often in some cases based on its risk-based monitoring policy, and give the program feedback. It will also continue to review randomly chosen time sheets from programs on a quarterly basis and give programs feedback. Finally, in regularly scheduled meeting with program staff and orientation for new program staff, it will stress the importance of having all time sheets properly signed, dated, calculated and entered in the Web-Based Reporting System (WBRS).

Recommendation 8

The Corporation will need to determine the allowability of the questioned living allowance, fringe benefits and education award.

Commission's Response 8

The Commission will provide further documentation on request and comply with the decision of the Corporation.

Recommendation 9

We recommend that the Corporation instruct the Commission to follow-up on late reports for timely correction with the subgrantees.

Commission's Response 9

The Commission agrees that timely reporting is essential for subgrantees. It also points out that the vast majority of the late reports were late by 1-3 days. The two egregious exceptions were for programs that had requested no-cost extensions. As a result they were operating and reporting on two separate program years simultaneously. Commission monitoring and controls did not track the extended program year adequately. The Commission's executive director and finance officer are now tracking extended program years more carefully and notifying programs of the need to submit two sets of reports during the overlapping time period(s). Finally, Commission and program staff did not understand before the audit that it is better to submit a report on time even if it is incomplete or inaccurate rather than to wait until the report can be completed with accurate details. That message has been received. The Commission will communicate it clearly and regularly to subgrantees.

Recommendation 10

We recommend that the Corporation instruct the Commission to provide a refresher course for its subgrantees reminding them of program compliance requirements and the important role training and evaluations play in member development and the success of the program.

Commission's Response 10

The Commission has already begun taking steps to address this recommendation. During its June 5 planning day to assess training and technical assistance needs for 2007-2008 the executive director asked directors of programs that had been audited to share lessons learned with other program directors. The program directors were very candid about the shortcomings cited in their audits and described steps they were taking to address the deficiencies, especially compliance with orientation, training and evaluation requirements for members. Notes from the session will be included in the report issued to program directors. Since peers usually learn best from peers, the Commission will continue to use program director testimonials along with its own meetings and training events with program directors to stress these points.

Recommendation 11

(We recommend that the Corporation instruct the Commission to:) Review the applicable regulations and develop policies and procedures to ensure claimed costs are allowable, adequately documented and allocable in accordance with applicable cost principles and regulations.

Commission's Response 11

Members of the Commission staff have already met to review the applicable regulations and develop policies and procedures as described. Most significantly, the Commission is no longer attempting to collect match of the types that were disallowed. Further, all donations of time, talent and space will require the donor's signature and valuation of the donation will be carefully documented. Finally, in March of 2007 the Commission begun documenting the contribution of Division of Volunteerism staff time with monthly, after the fact certifications signed by the employee.

Recommendation 12

(We recommend that the Corporation instruct the Commission to:) Implement procedures requiring appropriate personnel to review the FSRs before they are submitted to the Corporation. The reviews should include tracing reported amounts on the FSRs to supporting documentation and verifying the accuracy of the data through appropriately designed analyses.

Commission's Response 12

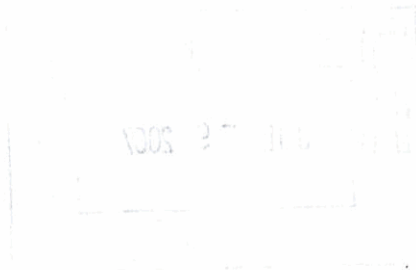
The executive director and finance officer for the Commission were physically present with OFA personnel to reconcile accounts before the FSRs due April 30 were submitted. OFA staff members have agreed that for future FSRs they will input the data in eGrants, print a hard copy for review by the executive director and finance officer of the Commission and await their corrections and signed approval before submitting the FSRs to the Corporation.

Recommendation 13

(We recommend that the Corporation instruct the Commission to:) Adjust subsequent FSRs to reflect actual match costs that are verifiable, accurate and in accordance with the costs principles.

Commission's Response 13

The Commission submitted a corrected FSR for the closeout of its Administrative grant in March of 2007.



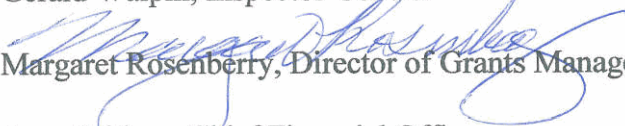
APPENDIX B

**Corporation for National and Community Service's Response to Draft
Report**

Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 



To: Gerald Walpin, Inspector General

From: 
Margaret Rosenberry, Director of Grants Management

Cc: Jerry Bridges, Chief Financial Officer
Kristin McSwain, Director of AmeriCorps
William Anderson, Deputy CFO for Finance
Andrew Kleine, Deputy CFO for Planning and Program Management
Sherry Blue, Audit Resolution Coordinator, Office of the CFO

Date: June 29, 2007

Subject: Response to OIG Draft Audit Report: Agreed-upon Procedures for Corporation Grants awarded to the Arkansas Service Commission

Thank you for the opportunity to review the draft audit report of the Corporation's grants awarded to the Arkansas Service Commission. We do not have specific comments at this time. 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 the Commission to resolve the audit.

