


Report Number 95-04

Date: April 24, 1995

CORPORATION

FOR NATIONAL

 SERVICE

OFFICE OF THE INSPECTOR GENERAL

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Audit of the

Commission on National and Community Service
Cooperative Agreement CA-001

The American Institute for Public Service
for the President's Youth Service Awards

New Castle, Delaware

This report is issued to the Corporation's responsible Management Official. The reported findings do not necessarily represent the final resolution of the issues presented. As required by OMB Circular A-50, *Audit Followup*, the Corporation must make a final management decision within 180 days of the report.

The Office of the Inspector General must approve any request for public release of the report.

**Audit of the
Commission on National and Community Service
Cooperative Agreement CA-001**

**The American Institute for Public Service
For the President's Youth Service Awards**

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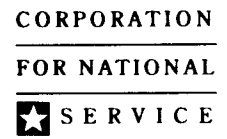
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MEMORANDUM

DATE: April 24, 1995

TO: Gary Kowalczyk
Acting Chief Financial Officer

FROM: Luise Jordan *Luise Jordan*
Inspector General



SUBJECT: Audit of Commission on National and Community Service's Cooperative Agreement CA-001 with the American Institute for Public Service for the President's Youth Service Awards

The Office of Inspector General engaged the services of Haag & Company to audit the American Institute for Public Service (AIPS) incurred costs for the President's Youth Service Award (PYSA) Cooperative Agreement. As described below, the report is the third related to costs incurred on the cooperative agreement.

The report "questions" \$219,854 of the \$556,902 costs incurred. That balance is composed primarily of in-kind services from AIPS' director valued in excess of \$77 per hour. The remainder includes costs such as fund raising and entertainment which are unallowable or costs in excess of government allowable limits for travel. In addition, the report classifies another \$244,920 as "not properly supported" because of material deficiencies in management controls - primarily those over AIPS record-keeping, accounting and reporting for Federal funds. These management control weaknesses were brought to AIPS' attention in a prior report and in discussions with AIPS director and other management officials during a prior review as well as an OIG investigation.

OIG views costs in both categories similarly and recommends that CNS disallow or adjust downward the majority of costs incurred and reported by AIPS.

Background

In November 1992, the Commission on National and Community Service¹ (the Commission), the Points of Light Foundation and the American Institute for Public Service (AIPS) signed a joint agreement to sponsor a Presidential youth service awards program to recognize community service by young people. The cooperative agreement designated AIPS, a non-profit organization, to plan and implement the program, called the President's Youth Service Awards (PYSA). Under the cooperative agreement, on an annual basis, each of the parties was to fund one-third of the costs of PYSA. Each would contribute no more than \$100,000 annually and AIPS was responsible for any costs exceeding \$300,000. The agreement was signed in November 1992.

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¹ As a result of the National and Community Service Trust Act of 1993, the Commission on National and Community Service merged with the Corporation for National and Community Service.

In 1993, Haag & Company was engaged by the Commission to review AIPS' accounting systems and their ability to report costs under the cooperative agreement. Their first report, issued in October 1993, described a "rudimentary" accounting system, material control weaknesses and costs that are not allowed by Federal regulations.

A second report resulted from an Office of Inspector General (OIG) investigation of AIPS. The investigation, conducted in October and November 1993, was requested by the Commission which had received confidential complaints concerning costs under the agreement. The investigation was unable to corroborate the allegations and did not result in criminal charges. Nonetheless, OIG reiterated findings similar to those documented by Haag & Company to AIPS's director and in the OIG report to the Commission.

In December 1993 CNS exercised its options under the agreement by notifying AIPS that CNS wanted "to handle the strategy and implementation of any such awards within our group" and establishing March 31, 1994 as the date for the turn-over of the PYSA to CNS. AIPS was to fulfill orders for the awards through March 31, 1994.

OIG, because of its continued concerns about AIPS' lack of management controls and the reliability and accuracy of costs charged to the government under the cooperative agreement, began a final audit of costs incurred under the agreement in February 1994. OIG was delayed in performing the audit, due to AIPS' inability to furnish certain information, the state of AIPS' accounting records, and, finally, due to retirement of auditors assigned to the engagement.

In July 1994, OIG engaged the services of Haag & Company to perform the audit. We have reviewed and discussed the report, supporting workpapers, and AIPS response with Haag & Company.

We provided a draft of the audit report draft to AIPS for their response. AIPS responded with twenty-six page response, accompanied by additional documentation for disallowed travel expenses, and another financial status report (FSR)². In summary, AIPS does not agree with the report. We have included the twenty-six page response as part of this report reducing it to add commentary to state OIG's views on certain of the issues AIPS raises in its response.

Summary

In summary, the major issues to be dealt by CNS are

- a. AIPS claims Corporation owes it a balance of \$86,622. We do not agree. Based on the Haag & Company report, and illustrated in attachment 1, at a minimum considering only the questioned costs, AIPS should refund \$87,274 to the Corporation. As further shown in Attachment 1, even using AIPS's most recent figures, with no audit adjustments, AIPS still owes the Corporation \$14,916³.

² We have sent the response in its entirety to CNS grants management for their use in the audit resolution process.

³ Even if the CNS decided to fund the PYSA through its second full year (which would be through August 31, 1994, and *which we are not recommending*) with no audit adjustments, the Corporation would be in debt to AIPS for no more than \$14,543; \$14,543 is the balance of the second year's funding of \$100,000 that has not been paid to AIPS.

- b. AIPS states in its rebuttal letter that the auditor only questioned \$22,791. This is incorrect. Haag & Company's report questions \$219,854 of PYSA costs as reported in the AIPS financial statements⁴. The AIPS number does not address the totality of costs that are addressed in the audit report, including \$121,545 of Mr. Beard's "In-Kind" contributions that were questioned, or questioned fringe benefits and other indirect expenses incorrectly charged to the PYSA Cooperative Agreement by AIPS. Furthermore, as mentioned above the report classifies an additional \$244,920 as unsupported due to material weaknesses in AIPS' management controls including but not limited to record keeping and accounting deficiencies.
- c. AIPS claimed an in-kind contribution for Mr. Beard's involvement in the PYSA program of \$121,545. Haag & Company disallowed the cost in its entirety for a variety of reasons, as detailed in Attachment 2 of this transmittal letter. All of the reasons cited are specific violations of OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, or OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreement with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, which are cited in the Agreement as governing. In its rebuttal, the AIPS states "Somehow disallowing any value of Mr. Beard's "in-kind" labor contribution defies common sense". OIG acknowledges that the Commission's grants manager told AIPS that Mr. Beard's time could be charged against the grant when AIPS found that it could not raise funds through donations equal to its one-third share of the costs. Nonetheless, we wonder to what extent "common sense" should persuade CNS to permit Mr. Beard to charge his time to the Agreement at \$77.40 an hour⁵ when the agreed to PYSA budget was based on labor effort at an hourly rate of \$16,83. Attachment 3 presents an alternative valuation to the costs although OIG has serious concerns as to the reliability of the number of hours charged by Mr. Beard. As the report discussed in detail, AIPS did not maintain contemporaneously maintain timesheets for Mr. Beard, the diaries used as a basis for the charge (and later to create timesheets) lack the detail required by Federal regulations, and one diary is missing.
- d. Haag & Company did not "disallow" payroll costs charged directly to the grant. Instead, the report includes those costs in the "unsupported" category - again because of the material weaknesses mentioned above and discussed in detail in the report. Personnel costs that were disallowed are related to uncompensated overtime.
- e. However, the auditor took exception to the method used by AIPS to allocate fringe benefits and other indirect expenses to the PYSA Cooperative Agreement, resulting in questioned costs. In its rebuttal, AIPS defends its method by stating that the method it used was the same method the auditor told it to use during a previous review conducted by the same auditor. The auditor disagrees with this statement. Furthermore, we consider it to be irrelevant, gratuitous, and a distraction from the issue at hand; namely, was the AIPS method in compliance with OMB Circular A-122. For reasons stated in the report

⁴ It was necessary to base the audit on costs reported in the available audited financial statements and interim financial reports because AIPS had not submitted FSRs to cover the period of performance. Although AIPS submitted another FSR with its response to the audit report, that FSR is not marked "final".

⁵ based on Mr. Beard's corporate annual salary of \$161,000 per year divided by 2,080 hours

it to be irrelevant, gratuitous, and a distraction from the issue at hand; namely, was the AIPS method in compliance with OMB Circular A-122. For reasons stated in the report (Exhibit B-1, Note 6), we believe that (1) the unacceptable method of time recording used by the AIPS estopped it from using its method as a basis for allocating indirect expenses, and (2) the method used by AIPS does not result in an equitable allocation of these expenses to the PYSA Cooperative Agreement.

- f. The auditor questioned \$17,202 of direct travel costs; \$11,161 was questioned because AIPS did not have signed employee travel reports to support the charges. In its response, AIPS states that each travel expense is recorded on signed travel reports. If AIPS has these reports, they should be provided to the Corporation for appropriate review, in view of the fact that the \$11,161 was questioned specifically because the reports could not be found. Further, although we have not included copies of the additional information submitted to support travel costs by AIPS along with their response, OIG quickly reviewed certain of the copies of American Express statements. Those statements include single meal charges in excess of Federal per diem rates for an entire day. The statements and the annotations added to them fail to meet the requirements established in the Commission's requirements and the cooperative agreement as set forth in the OMB Circulars; in fact, the copies provided fail to even meet basic travel record-keeping requirements of the Internal Revenue Service. Without appropriate travel records to assess whether travel charges are accurate, appropriate, and within Federal travel limits, we cannot allow the costs to be charged to the agreement.

- g. Finally, AIPS claims that it failed to include \$29,382.51 of PYSA printing costs in either its 1992 or its 1993 certified financial statements. Since the certified financial statements served as the basis for our incurred cost audit, the unreported costs were not considered by the auditor. Since our audit has been completed, we cannot, at this time, comment on the validity of this alleged error may by AIPS in its financial statement presentation, other than if true, it appears to evidence another example of a weakness in financial management control that existed at the AIPS during the period in which they had the PYSA cooperative agreement.

These issues and others are detailed in the Haag & Company report and AIPS response. Please, contact us with any questions or comments you may have during the audit resolution process.

attachments

**President's Youth Service Award Grant
Computation Of Amount Due From
The American Institute For Public Service**

<u>BASED ON RESULTS OF AUDIT:</u>	<u>FY93</u>	<u>FY94</u>	<u>Total</u>
Cost Incurred Per Financial Statements	\$310,327	\$246,575	\$556,902
Costs Questioned Per Audit	<u>122,977</u>	<u>96,877</u>	<u>219,854</u>
Balance	187,350	149,698	337,048
Outside Contributions	<u>30,000</u>	<u>12,500</u>	<u>42,500 (*)</u>
Total Costs To Be Shared	<u>\$157,350</u>	<u>\$137,198</u>	<u>\$294,548</u>
Corp. For Nat'l. & Comm. Service's (CNS) Share	\$52,450	\$45,733	\$98,183 (**)
Amounts Provisionally Paid To AIPS By CNS	<u>100,000</u>	<u>85,457</u>	<u>185,457</u>
Total Due From AIPS	<u>\$47,550</u>	<u>\$39,724</u>	<u>\$87,274</u>
<u>BASED ON AIPS'S CLAIMED COSTS:</u>	<u>FY93</u>	<u>FY94</u>	<u>Total</u>
Cost Incurred Per AIPS			\$422,579
Beard "In-Kind" Contribution			<u>121,545 (***)</u>
Total			544,124
Outside Contributions	20,000	12,500	<u>32,500 (*)</u>
Total Costs To Be Shared			<u>\$511,624</u>
CNCS's Share			\$170,541 (**)
Amounts Provisionally Paid To AIPS By CNCS	100,000	85,457	<u>185,457</u>
Total Due From AIPS			<u>\$14,916</u>

(*) Both parties agree that outside contributions totaling \$52,000 were made to the AIPS for the PYSA Program. AIPS is now claiming that they have applied \$20,000 of this money to other activities, with the contributor's permission. It appears to us that no more than \$10,000 should be applied to other activities.

(**) CNCS's share is computed as 1/3 of total allowable costs per co-operative agreement.

(***) OIG strongly disagrees with the valuation of the "in-kind" contribution; furthermore, record keeping and other management control deficiencies render the number of hours claimed unreliable (see attachments 2 and 3).

**President's Youth Service Award Grant
Analysis of Questioned In-Kind
Contribution Of Sam Beard**

<u>Period</u>	<u>Amount</u>	<u>Reason For Questioning</u>
1/1/92 - 8/31/92	\$17,889	-- Effort incurred before the Grant effective date. Per analysis AIPS's CPA's workpapers. (A122, Att. B, Para. 34) -- Timesheets prepared after the fact. (A122, Att. B, Para. 6.1) -- Not provided for in budget. (A110, Att. E, Para. 3.(b).(6))
9/1/92 - 12/31/92	8,586	-- Timesheets prepared after the fact. (A122, Att. B, Para. 6.1) -- Not provided for in budget. (A110, Att. E, Para. 3.(b).(6))
1/1/93 - 12/31/93	72,756	-- Timesheets for January through August prepared after the fact. (A122, Att. B, Para. 6.1.(4)) -- Not provided for in budget. (A110, Att. E, Para. 3.(b).(6))
1/1/94 - 3/31/94	<u>6,424</u>	-- Not provided for in budget. (A110, Att. E, Para. 3.(b).(6))
Total	<u>\$105,655</u>	

Fringe

1/1/92 - 8/31/92	\$3,300	-- Effort incurred before the Grant effective date. Per analysis AIPS's CPA's workpapers. (A122, Att. B, Para. 34) -- Value of vol. services of another company's employee s/b without fringe and O/H. (A-122, Para. 10.a.(6)(b)) -- Not provided for in budget. (A110, Att. E, Para.3.(b).(6))
9/1/92 - 12/31/92	1,769	-- Value of vol. services of another company's employee s/b without fringe and O/H. (A-122, Para. 10.a.(6)(b))
1/1/93 - 12/31/93	7,724	-- Value of vol. services of another company's employee s/b without fringe and O/H. (A-122, Para. 10.a.(6)(b))
Payroll Taxes	<u>3,097</u>	-- Not provided for in budget. (A110, Att. E, Para.3.(b).(6))
Total	<u>\$15,890</u>	

**President's Youth Service Award Grant
Comparison Of Sam Beard's Hourly Rate To
A GS/15-1 Rate And The Current Executive Director's Rate**

Period	Amt. @ 77.40	@ GS 15 Salary		@ Exec. Director Salary	
		Rate	Amount	Rate	Amount
1/1/92 - 8/31/92	\$17,889	\$34.59	\$7,995	\$30.53	\$7,056 (*)
9/1/92 - 12/31/92	8,586		3,837		3,387
1/1/93 - 12/31/93	72,756		32,515		28,697
1/1/94 - 3/31/94	<u>6,424</u>		<u>2,871</u>		<u>2,534</u>
Total	<u>\$105,655</u>		<u>\$47,217</u>		<u>\$41,673</u>
Difference (Questioned Amount)			<u>\$58,438</u>		<u>\$63,982</u>

If CNS were to decide to allow Mr. Beard's "in-kind" contribution, OIG recommends a more appropriate valuation. For example, if a GS/15-1 rate was used, it would reduce the questioned "in-kind" labor from \$105,655 to \$58,438. If the current AIPS executive director's salary is used, it would reduce the questioned amount to \$63,982.

(*) It is noted, however, that even if some salary was to be recognized, the salary incurred prior to the period of performance, (ie. 1/1/92 through 8/31/92) should not be allowed.

Haag & Company, CPAs, P.C.

=====
COST MANAGEMENT CONSULTANTS
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P.O. BOX 299, GARWOOD, N.J. 07027-0299 (908) 654-1110

REPORT ON COST INCURRED BY
THE AMERICAN INSTITUTE FOR PUBLIC SERVICE
NEW CASTLE, DELAWARE
ON THE PRESIDENT'S YOUTH SERVICE AWARDS
COOPERATIVE AGREEMENT NO. CA-001
DURING THE PERIOD SEPTEMBER 1, 1992 THROUGH MARCH 31, 1994

November 30, 1994

REPORT ON COST INCURRED BY
THE AMERICAN INSTITUTE FOR PUBLIC SERVICE
NEW CASTLE, DELAWARE
ON THE PRESIDENT'S YOUTH SERVICE AWARDS
COOPERATIVE AGREEMENT NO. CA-001
DURING THE PERIOD SEPTEMBER 1, 1992 THROUGH MARCH 31, 1994

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REPORT ON COST INCURRED BY
THE AMERICAN INSTITUTE FOR PUBLIC SERVICE
NEW CASTLE, DELAWARE
ON THE PRESIDENT'S YOUTH SERVICE AWARDS
COOPERATIVE AGREEMENT NO. CA-001
DURING THE PERIOD SEPTEMBER 1, 1992 THROUGH MARCH 31, 1994

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Haag & Company, CPAs, P.C.

COST MANAGEMENT CONSULTANTS

P.O. BOX 299. GARWOOD, N.J. 07027-0299 (908) 654-1110

SUBJECT: Report On Cost Incurred BY
The American Institute For Public Service
New Castle, Delaware
On The President's Youth Service Awards
Cooperative Agreement No. CA-001,
During The Period September 1, 1992
Through March 31, 1994

TO: Inspector General
Office Of Inspector General
Corporation For National and Community Service
1201 New York Avenue NW, 8th Floor
Washington, D.C. 20525

1. Purpose and Scope of Audit

a. In accordance with Task Order 202, dated July 27, 1994, under DOL Contract J9G20018, we have audited the costs incurred by the American Institute For Public Service (AIPS), under Cooperative Agreement CA-001, entitled "The President's Youth Service Awards" (PYSA), issued by the Commission For National And Community Service (CNCS). The purpose of our audit was to determine the allowable cost under the cooperative agreement.

b. This cost-sharing cooperative agreement provides for the establishment of a recognition system for young people involved in voluntary service activities. Two different recognition awards were contemplated; "The National Award" at local and State levels, and "The President's Award" at the National level. The program was to run for three years, from September 22, 1992 through August 30, 1995. According to the agreement, the program was to be funded at \$300,000 per year, for three years, with three entities each contributing \$100,000 per year. The three funding entities included: the CNCS, The Points Of Light Foundation, and the AIPS. All funding was to be associated with actual costs incurred by the AIPS.

c. Except as noted below, we have audited the grantee's accounting records and financial operating procedures for the purpose of determining whether the amounts designated as incurred, as presented in its certified financial statements for calendar years 1992 and 1993, and in internally prepared financial statements for the quarter ended March 31, 1994, constitute allowable costs under the terms of the Grant. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material

misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by the grantee, as well as evaluating the overall data and records presentation. We believe that our audit provides a reasonable basis for our opinion.

2. Circumstances Affecting The Audit

a. OMB Circular A-110 requires grantees to submit a final Financial Status Report (FSR) within 90 days after the closing date of the grant. This document serves as the basis for the final determination of amounts due or payable under the grant, and generally serves as a basis for the final audit of costs claimed under the grant. As of November 30, 1994, the date of the completion of our field work, the grantee had not submitted a final FSR, as required by OMB Circular A-110, Attachment G. In the absence of this document, our audit was based on costs incurred, as reported on the grantee's financial statements.

b. As discussed in notes to exhibits and schedules of this report, from an audit perspective, we do not consider the grantee's control procedures related to time recording, and employee travel expenses, that were in place during the period of performance of the subject grant, to be adequate enough to be relied on as a basis to support labor and employee travel costs charged to the grant. Accordingly, all labor and employee travel costs that were not questioned have been classified as "unsupported". For purposes of resolution of these costs, we refer them to management within the CNCS, to technically evaluate the reasonableness of the effort in light of program goals and accomplishments.

c. OMB Circular A-110, Attachment E indicates that costs that are paid by the Federal Government under an assistance agreement cannot be used for cost sharing or matching purposes under another Federal grant or contract. Mr. Beard's "in-kind" contribution is based on his salary which is paid by his employer the National Development Council (NDC), which receives Government contracts and grants. The grantee provided us with its own letter, and a letter from the president of the NDC, indicating that none of Mr. Beard's NDC salary was recovered under any other Federal grant or contract. However, as a result of the grantee objecting to our contacting Federal auditors who may be familiar with their method of cost recovery, we were unable to independently verify the validity of the representations made in the letters. We did not pursue this matter, due to the fact that ultimately it had no impact on the results of our review.

d. The results of our review, do not account for the cost of manufacturing, and delivering the award pins, or the related income realized as a result of selling the pins. Income and expenses related to the manufacture, delivery, and sale of PYSA pin awards are not considered part of the Grant closeout activity for two reasons, as follows: 1). At the time of our audit, the Grantee has not concluded its operations related to the sale and delivery of pins. Accordingly, the final figures related to this effort are not presently known. 2). In a letter to the CNCS, dated December 23, 1993, the AIPS indicated that expenses related to the manufacture and distribution of the pin awards should not be considered as part of the Grant operating budget; that these costs are recoverable through income from the sale of the pins.

e. The Grantee advised us that it incurred costs related to this Grant in April 1994. However, we did not review any costs incurred after March 31, 1994. In a letter dated December 13, 1993, the CNCS advised the AIPS that "March 31, 1994 is the best point to accomplish the turn-over of the President's Youth Service Awards... . We would like you solely to fulfill orders of the President's Youth Service Awards through March 31, 1994." Also, we limited our review of 1994 costs to those costs included on the financial statements prepared by the AIPS for the quarter ended March 31, 1994. Any costs incurred prior to March 31, 1994 that were not accrued in these statements, and the supporting general ledger, were not considered by us, as part of our audit.

3. Summary of Audit Results

a. The results of our review are summarized below, and detailed in the attached exhibits, schedules and appendixes of this report.

	9/1/92 - 8/31/93 ----- (Exh. A-1)	9/1/93 - 3/31/94 ----- (Exh. A-2)	Total -----
Cost Incurred Per Grantee	\$310,327	\$246,575	\$556,902
Results Of Audit Review:			
Costs Questioned	122,977 -----	96,877 -----	219,854 -----
Balance	\$187,350 =====	\$149,698 =====	\$337,048 =====
Amount Of "Balance" Not Considered Properly Supported	\$150,135 =====	\$ 94,785 =====	\$244,920 =====

b. The primary reasons for our questioning costs are as follows:

- Approximately \$18,000 of Mr. Beard's claimed "in-kind" contribution relates to labor effort performed between 1/1/92 and 8/31/92. Since the Grant did not begin until September 1992, we have questioned the \$18,000 as unallowable preaward costs, in accordance with A-122, Attach B, Para. 34.

- Approximately \$10,600 of Mr. Beard's claimed "in-kind" contribution relates to labor effort that was for "Fundraising". This effort is questioned per A-122, Attach. B, Para. 19.

- Approximately \$17,000 of Mr. Beard's claimed "in-kind" contribution represents the value of Mr. Beard's fringe benefits and FICA taxes paid by Mr. Beard's employer, the NDC. A-122, Attach B, Para. 10.a.(6)(b) indicates that the services of an employee of another organization should be valued at the employee's regular rate of pay exclusive of fringe benefits and indirect expenses. Accordingly, we have questioned Mr. Beard's fringe benefits and payroll taxes that have been allocated to the PYSA Grant.

- The balance of Mr. Beard's claimed "in-kind" labor contribution was questioned for the following reasons: 1). It was not provided for in the approved budget. In our opinion, the AIPS did not contemplate the allocation of the president's salary, to the PYSA program and did not include any portion of this salary, which was subsequently charged to the Grant at an hourly rate of \$77.40, in its proposed budget for the program. The proposal, as approved by all parties, included only the estimated salaries of three prospective "dedicated" employees, at an average hourly rate of \$16.83. OMB Circular No. A-110, Attachment E, indicated that contributed time, such as for the president, shall be accepted as part of the recipient's sharing only when such contributions are provided for in the approved budget. 2). Mr. Beard's timesheets were not prepared as required by OMB Circulars A-110 and A-122. To be accepted for cost sharing and/or matching purposes, A-110 Attach. E, Para. 6.a. indicates that volunteer services must be documented and supported by the same method used by employees to document their time. In this case, employees are required to submit monthly timesheets. A-122 Attach. B, Para. 6.1. indicates that support for distributed salaries and wages must be supported by timesheets that are prepared at least monthly. Mr. Beard prepared no timesheets for the period Sept. 1992 through August 1993, until September 1993, when he retroactively prepared all his timesheets for the previous 12 months.

- Approximately \$5,600 of staff salaries charged to the PYSA Grant represent the value of uncompensated overtime. Since the staff was not paid for this effort and AIPS did not incur

actual costs for this effort, costs cannot be claimed for reimbursement. Accordingly, they have been questioned.

- Approximately \$17,000 of employee travel was questioned for the following reasons: 1). No travel reports were available with respect to \$12,000 of employee travel expenses; 2). \$5,000 of employee expenses were found to be in excess of maximum daily allowances per the "Federal Travel Regulations".

- AIPS employees' expenses related to: fringe benefits, payroll taxes and vacation, holiday and sick leave were reclassified from direct to indirect expenses. We took no exception to these costs. Our exception was to the method used by the AIPS to allocate these costs to the PYSA Grant. (See Exhibit B-1, Note 6)

- Pin expenses of approximately \$39,684, identified in the financial statements as PYSA program costs, were questioned by us as not being recoverable as part of this Grant closeout. In a letter to the CNCS, dated Dec. 13, 1993, the AIPS indicated that expenses related to the manufacture and distribution of the pin awards should not be considered as part of the Grant budget; that these costs are recoverable through income from the sale of the pins. Furthermore, if it is decided that the pin expenses should be recovered through the grant closeout procedures, the expenses must be offset with the related pin income. Our review disclosed that through October 1994, pin income exceeded \$50,000. It is also noted that on November 30, 1994, we were advised by an AIPS representative that orders for PYSA pin awards are still being processed, resulting in additional revenue and expense. (See Appendix IV)

- As part of our review of indirect expenses, we questioned indirect costs of the following nature: 1). We questioned costs that are specifically unallowable per OMB Circular A-122, such as: tax penalties, interest, and finance and service charges. 2). We questioned the cost of an asset that was purchased and expensed in 1993, instead of being capitalized and depreciated. 3). We questioned the value of Mr. Beard's "in-kind" fringe benefits and payroll taxes that were part of indirect expenses. 4). We also took exception to the grantee's method of allocating indirect costs to the PYSA Grant (See Exhibit B-1, Note 6). The difference between costs allocated using the Grantee's method, and the allocation based on our audit determined indirect expense rates was questioned.

c. For the period of performance extending into 1994, ie., from January 1994 to March 31, 1994, we were unable to determine actual indirect expense rates. This was due to the fact that our audit was completed prior to the close of the contractor's operating year which ends on December 31. In accordance with

Federal Acquisition Regulation (FAR) 42.708, we have recommended use of our 1993 audit determined indirect expense rates, for purposes of allocating indirect costs to direct effort expended in 1994. (See notes to Exhibit B-3)

d. The information contained in this report is intended to assist in the closeout of the subject cooperative agreement. It should not be used for any other purpose, without first contacting us.

4. Disposition of Audit Results

a. Any questions concerning this report may be directed to Edward P. Haag, CPA, of our Firm, through the Office Of Inspector General, CNCS.

b. Please provide any comments or suggestions you may have on this report and on the related audit support.

Haag & Company, CPAs
Haag & Company, CPAs

Report:302-9402

American Institute For Public Service
 President's Youth Service Award Grant
 Schedule Of Costs Incurred And
 Results Of Audit Review
 For the 12 Month Grant Year Ending 8/31/93

Exhibit A-1

	Per F/S	Results Of Review		Balance
		Amount Questioned	Amount Unsupported	
DIRECT EXPENSES:				
Salaries	\$171,930.00	\$89,799.00	\$82,131.00	\$0.00
Employee Benefits	14,004.00	14,004.00	0.00	0.00
Payroll Taxes	10,071.00	10,071.00	0.00	0.00
Contract Services	0.00	0.00	0.00	0.00
Program Expenses	0.00	0.00	0.00	0.00
Travel & Entertainment	45,835.00	11,586.00	28,413.00	5,836.00
Printing & Publications	19,852.00	0.00	0.00	19,852.00
Postage	8,010.00	0.00	0.00	8,010.00
Interest	0.00	0.00	0.00	0.00
Financial Management	0.00	0.00	0.00	0.00
Honorary Awards Expense	0.00	0.00	0.00	0.00
Pin Expense	13,237.00	13,237.00	0.00	0.00
Computer House	0.00	0.00	0.00	0.00
Total Direct	\$282,939.00	\$138,697.00	\$110,544.00	\$33,698.00
INDIRECT EXPENSES:				
(And Gen. & Admin.)				
Rent	\$8,251.00	\$8,251.00	\$0.00	\$0.00
Telephone	8,896.00	8,896.00	0.00	0.00
Office Supplies	2,638.00	2,638.00	0.00	0.00
Repair & Maintenance	5,374.00	5,374.00	0.00	0.00
Legal & Accounting	0.00	0.00	0.00	0.00
Dues & Subscriptions	267.00	267.00	0.00	0.00
Insurance	0.00	0.00	0.00	0.00
Service Charges	148.00	148.00	0.00	0.00
Miscellaneous	379.00	379.00	0.00	0.00
Penalties	0.00	0.00	0.00	0.00
Depreciation	1,435.00	1,435.00	0.00	0.00
FRINGE BENEFITS		(27,977.89)	27,977.89	0.00
OTHER INDIRECT		(15,130.31)	11,612.94	3,517.37
Total Ind. & G&A	\$27,388.00	(\$15,720.20)	\$39,590.83	\$3,517.37
TOTAL EXPENSES	\$310,327.00	\$122,976.80	\$150,134.83	\$37,215.37

Note: These costs represent a summary of costs incurred in 1992, as detailed on Schedule B-1, and costs incurred between January 1, 1993 and August 31, 1993, as detailed on Schedule B-2, and our related results of review.

We performed our review on a calendar year basis, in view of the fact that the Grantee maintains its books on a calendar year basis. Also, it was necessary to properly compute indirect expense rates. These results were then re-configured, as shown above, to coincide with the Grant year.

American Institute For Public Service
 President's Youth Service Award Grant
 Schedule Of Costs Incurred And
 Results Of Audit Review
 For the 7 Month Grant Period 9/01/93 - 3/31/94

Exhibit A-2

	Per F/S	Results Of Review		Balance
		Amount Questioned	Amount Unsupported	
DIRECT EXPENSES:				
Salaries	\$101,258.00	\$47,052.00	\$54,200.00	\$0.00
Employee Benefits	9,772.00	9,772.00	0.00	0.00
Payroll Taxes	5,719.00	5,719.00	0.00	0.00
Contract Services	9,181.00	0.00	0.00	9,181.00
Program Expenses	0.00	0.00	0.00	0.00
Travel & Entertainment	20,568.00	5,616.00	14,699.00	253.00
Printing & Publications	31,456.00	0.00	0.00	31,456.00
Postage	8,836.00	0.00	0.00	8,836.00
Interest	919.00	919.00	0.00	0.00
Financial Management	0.00	0.00	0.00	0.00
Honoriar Awards Expense	0.00	0.00	0.00	0.00
Pins	24,753.00	24,753.00	0.00	0.00
Computer House	1,694.00	1,694.00	0.00	0.00
Total Direct	\$214,156.00	\$95,525.00	\$68,905.00	\$49,726.00
INDIRECT EXPENSES: (And Gen. & Admin.)				
Rent	\$7,541.00	\$7,541.00	\$0.00	\$0.00
Telephone	\$5,928.00	5,928.00	0.00	0.00
Office Supplies	\$2,245.00	2,245.00	0.00	0.00
Repair & Maintenance	\$2,818.00	2,818.00	0.00	0.00
Legal & Accounting	\$7,607.00	7,607.00	0.00	0.00
Dues & Subscriptions	\$38.00	38.00	0.00	0.00
Insurance	\$276.00	276.00	0.00	0.00
Service Charges	\$343.00	343.00	0.00	0.00
Miscellaneous	\$239.00	239.00	0.00	0.00
Penalties	\$0.00	0.00	0.00	0.00
Depreciation	\$842.00	842.00	0.00	0.00
Contract Services	\$2,161.00	2,161.00	0.00	0.00
Indirect Salaries	\$308.00	308.00	0.00	0.00
Equipment	\$456.00	456.00	0.00	0.00
Unemployment Comp.	\$1,593.00	1,593.00	0.00	0.00
FICA	\$24.00	24.00	0.00	0.00
FRINGE BENEFITS		(18,693.55)	18,693.55	0.00
OTHER INDIRECT		(12,373.21)	7,186.79	5,186.42
Total Ind. & G&A	\$32,419.00	\$1,352.23	\$25,880.34	\$5,186.42
TOTAL EXPENSES	\$246,575.00	\$96,877.23	\$94,785.34	\$54,912.42

Note: These costs represent a summary of costs incurred between September 1, 1993 and December 31, 1993 as detailed on Schedule B-2, and cost incurred in 1994, through March 31, 1994, as detailed on Schedule B-3, and our related results of review.

We performed our review on a calendar year basis, in view of the fact that the Grantee maintains its books on a calendar year basis. Also, it was necessary to properly compute indirect expense rates. These results were then re-configured, as shown above, to coincide with the Grant year.

American Institute For Public Service
 President's Youth Service Award Grant
 Schedule Of Costs Incurred And
 Results Of Audit Review
 For the CY Ended 12/31/92

	Per F/S	Results Of Review		Balance
		Amount Questioned	Amount Unsupported	
	(Note 1)			
DIRECT EXPENSES:				
Salaries	\$41,929.00	\$28,402.00	\$13,527.00	\$0.00 (2).
Employee Benefits	6,283.00	6,283.00		0.00 (3).
Payroll Taxes	1,182.00	1,182.00	0.00	0.00 (4).
Contract Services				0.00
Program Expenses				0.00
Travel & Entertainment	1,859.00	529.00	1,330.00	0.00 (5).
Printing & Publications				0.00
Postage	477.00	0.00		477.00
Interest				0.00
Financial Management				0.00
Honoriar Awards Expense				0.00
Pin Expense				0.00
Computer House				0.00
Total Direct	\$51,730.00	\$36,396.00	\$14,857.00	\$477.00
INDIRECT EXPENSES:				
(And Gen. & Admin.)				
Rent	\$1,542.00	\$1,542.00		0.00 (6).
Telephone	1,839.00	1,839.00		0.00 (6).
Office Supplies	675.00	675.00		0.00 (6).
Repair & Maintenance	1,171.00	1,171.00		0.00 (6).
Legal & Accounting				0.00
Dues & Subscriptions				0.00
Insurance				0.00
Service Charges	108.00	108.00		0.00 (6).
Miscellaneous				0.00
Penalties				0.00
Depreciation				0.00
FRINGE BENEFITS	31.96%	(4,323.23)	4,323.23	0.00 (7).
OTHER INDIRECT	10.99%	(1,685.21)	1,632.78	52.42 (7).
Total Ind. & G&A	\$5,335.00	(\$673.44)	\$5,956.01	\$52.42
TOTAL EXPENSES	\$57,065.00	\$35,722.56	\$20,813.01	\$529.42

American Institute For Public Service
 President's Youth Service Award Grant
 Schedule Of Costs Incurred And
 Results Of Audit Review
 For CY Ended 12/31/92

Notes To Exhibit B-1:

1. Costs Incurred Per Financial Statements:

The amounts included in this column represent costs per the Grantee's Certified Financial Statements.

2. Salaries - Salaries are comprised of staff salaries of AIPS employees, and an "in-kind" contribution for the estimated effort of the AIPS president, Mr. Sam Beard. Staff salaries are supported by timesheets prepared by employees, on which they accounted for time directly charged to the PYSA Grant, multiplied by their 1992 average actual hourly rate of pay. Mr. Beard's "in-kind" contribution was based on his estimate, that he spent one-third of his yearly activity on AIPS business, and 50% of the one-third (or 17%) on PYSA related activity.

The results of our review, of salaries, are summarized as follows:

	Per Grantee	Amount Questioned	Amount Unsupported	Balance
	-----	-----	-----	-----
Staff Salaries	\$15,454	\$ 1,927	\$13,527	\$ (a).
Beard In-Kind:				
1/1-8/31/92	17,889	17,889		(b).
9/1-12/31/92	8,586	8,586		(c).
	-----	-----	-----	-----
Total Salaries	\$41,929	\$28,402	\$13,527	\$ -0-
	=====	=====	=====	=====

(a). Staff Salaries -

\$1,927 - This amount represents staff leave that was included in the financial statements as direct salaries. We have reclassified it as indirect labor.

\$13,527 - Based on the fact that a PYSA program was established, and functioning, it is reasonable to conclude that direct labor effort was expended on the PYSA Grant. However, for reasons summarized below, we can not rely on the grantee's time recording system, as being a reliable basis to support the level of hours charged, and the resulting costs. Accordingly, we have set-out the amount of staff salaries as "unsupported". Our concern with time recording system is predicated on the following:

President's Youth Service Award Grant
Schedule Of Costs Incurred And
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Notes To Exhibit B-1:

- During the Grant's period of performance, a significant amount of time was mischarged to the AIPS Grant, by employees on their timesheets and was not discovered, and/or corrected during the AIPS's associated timesheet review and approval cycle. This failure of employees to properly charge their time consistent with their effort, and the failure of supervisors to discover these mischarges and initiate corrective action, casts serious doubt on the reliability of the labor recordation internal control system taken as a whole. Examples of employee mischarges found during our review included:

- Charges to the PYSA Grant on days employees were on sick leave;

- Charges to the PYSA Grant on days employees were on vacation or personnel leave;

- Charges to the PYSA Grant on days when the Grantee was closed for holiday;

- Charges to the PYSA Grant while employees were working on other direct or indirect activity, including time they were out-of-town working on other high profile programs.

The degree to which the time reporting systems failed, can be demonstrated by the following example. In the month of May 1993, one employee charged 150 hours to the PYSA Grant. In reality, the employee did not work on the PYSA program at all during the entire month. These mischarges went undiscovered until October, 1993, when the employee reviewed and corrected her own timesheets at the request of the Grantee. In total, this employee made changes to 73 days.

In late 1993, the Grantee undertook its own review to identify and correct mischarges. This review was performed by an outside consultant and primarily concentrated on correcting charges made to the PYSA Grant when employees were on leave. This review disclosed 18 additional days in which mischarges to AIPS were made. This review, however, did not appear to address the possibility of employees incorrectly charging the AIPS Grant when they were at work, but worked on other effort, as was found by the employee who corrected her own timesheets.

- Timesheets were not prepared in accordance with the requirements of OMB Circular A-122, Attachment B, paragraph 6,1. Among these requirements, the circular indicates that: the time report must account for the total activity for which employees

Notes To Exhibit B-1:

are compensated, and; the reports must be signed by the individual employee, or their supervisor. We found that PYSA employees, as a standard practice, were not required to account for their total effort, as required by A-122. Also, we found various instances in which employees failed to sign their timesheets. In addition to violating the OMB Circular, this failure casts doubt on the existence, and/or effectiveness of an internal, supervisory timesheet review process, in that the review process failed to identify and initiate corrective action of the omission.

- Instances were found in which employees failed to comply with the AIPS's own internal time reporting procedures, in preparing their timesheets. For example, employees are required to make a daily notation on their timesheet describing what they did on the day they worked on PYSA. On many days, this section was left blank. Also, employees are required to sign timesheets. This was not consistently complied with. Again, supervisory review failed to identify or correct these non-compliances.

(b). Beard In-Kind, 1/1/92 - 8/31/92 - This amount represents Mr. Beard's estimate of effort he expended on PYSA during the period from January 1, 1992 through August 31, 1992. We have questioned it due to the fact that: 1). The amount is not supported in accordance with A-122 Attach. B para. 6.1.(4), which requires labor charges to be supported by timesheets that are prepared at least monthly, and are part of an adequate time reporting system. Mr. Beard did not prepare a timesheet during this period, nor did the AIPS have an adequate time reporting system. 2). The amount represents effort incurred before the Grant was awarded, on or about September 1, 1992. A-122 Attachment B, Para. 34 indicates that compensation for personal services incurred prior to the effective date of the award are unallowable unless the grantee has a written approval from the granting agency to incur such costs. Since none of Mr. Beard's effort was provided for in the original approved budget, the AIPS does not have such an approval. 3). The amount does not meet the A-110 stated criteria for acceptable "in-kind" contributions. OMB Circular A-110, Attach. E, para. 3.b.(6) indicates that to be acceptable, "in-kind" contributions must be provided for in the Federal agency's approved budget. Since no effort was provided for, in the approved budget, for Mr. Beard's "in-kind" contribution, it cannot now be accepted as part of the cost sharing and matching contributions.

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Notes To Exhibit B-1:

(c). Beard In-Kind, 9/1/92 - 12/31/92 - This amount represents Mr. Beard's estimate of effort he expended on PYSA during the period from September 1, 1992 through December 31, 1992. We have questioned it due to the fact that: 1). The amount is not supported in accordance with A-122 Attach. B para. 6.1., which requires the amount to be supported by timesheets that are prepared at least monthly, and are part of an adequate time reporting system. Mr. Beard did not prepare a timesheet during this period. On September 14, 1993, Mr. Beard recreated his timesheets for the 12 months beginning September 1992 through August 1993. However, since these recreated timesheets do not comply with the requirements of A-122 we do not consider them as adequate support of the claimed costs. 2). The amount does not meet the A-110 stated criteria for acceptable "in-kind" contributions. OMB Circular A-110, Attach. E, para. 3.b.(6) indicates that to be acceptable, "in-kind" contributions must be provided for in the Federal agency's approved budget. Since no effort was provided for, in the approved budget, for Mr. Beard's "in-kind" contribution, it cannot now be accepted as part of the cost sharing and matching contributions.

3. Employee Benefits - Employee benefits are comprised of health insurance of AIPS employees, and an "in-kind" contribution for the estimated effort of the AIPS president, Mr. Sam Beard.

The results of our review, of fringe benefits are summarized as follows:

	Per Grantee	Amount Questioned	Amount Unsupported	Balance	
	-----	-----	-----	-----	
Staff Fringe	\$ 1,214	\$ 1,214	\$	\$	(a).
Beard In-Kind:					
1/1-8/31/92	3,300	3,300			(b).
9/112/31/92	1,769	1,769			(c).
	-----	-----	-----	-----	
Total	\$ 6,283	\$ 6,283	\$	\$	
	=====	=====	=====	=====	

(a). Staff Fringe - This amount represents staff fringe benefits that were included in the financial statements as direct expenses. We have reclassified them as indirect expenses.

Notes To Exhibit B-1:

(b). Beard In-Kind, 1/1/92 - 8/31/92 - This amount represents claimed "in-kind" contributions related to the value of Mr. Beard's fringe benefits from January 1, 1992 through August 31, 1992, that were paid by Mr. Beard's employer, the NDC. We have questioned them for the following reasons: 1). The amount relates to a period before the Grant's was awarded, on or about September 1, 1992. 2). Per OMB Circular A-122, Attach. B, Para. 10.a.(6)(b), the services of an employee of another organization should be valued at the employee's regular rate of pay exclusive of fringe benefits and indirect expenses. Since Mr. Beard is an employee of the NDC, his fringe benefits cannot be used for cost sharing or matching purposes. 3). The amount does not meet the A-110 stated criteria for acceptable "in-kind" contributions. OMB Circular A-110, Attach. E, para. 3.b.(6) indicates that to be acceptable, "in-kind" contributions must be provided for in the Federal agency's approved budget. Since no effort was provided for, in the approved budget, for Mr. Beard's "in-kind" contribution, it cannot now be accepted as part of the cost sharing and matching contributions.

(c). Beard In-Kind, 9/1/92 - 12/31/92 - This amount represents claimed "in-kind" contributions related to the value of Mr. Beard's fringe benefits from September 1, 1992 through December 31, 1992, that were paid by Mr. Beard's employer, the NDC. We have questioned them for the reasons noted in paragraph 3.(b).2. and 3.(b).3

4. Payroll Taxes - Payroll taxes represent the employer's share of FICA tax. We have reclassified the amount from a direct expense to indirect.

The results of our review, of payroll taxes are summarized as follows:

	Per Grantee	Amount Questioned	Amount Unsupported	Balance
	-----	-----	-----	-----
Staff FICA	\$ 1,182	\$ 1,182	\$	\$ (a).
Beard In-Kind:				(b).
	-----	-----	-----	-----
Total	\$ 1,182	\$ 1,182	\$	\$
	=====	=====	=====	=====

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Notes To Exhibit B-1:

(a). Staff FICA - This amount represents staff FICA that was included in the financial statements as direct expenses. We have reclassified them as indirect expenses.

(b). Beard In-Kind - None of Mr. Beard's payroll taxes were allocated to the PYSA Grant in 1992.

5. Travel & Entertainment - This account includes the cost of travel of AIPS employees and its president, Mr. Sam Beard. It also includes the cost of registering for various conferences and conventions that the AIPS attended. The results of our review of this account is as follows:

	Per Grantee	Amount Questioned	Amount Unsupported	Balance
	-----	-----	-----	-----
Staff Travel and Lodging Conferences	\$ 1,859	\$ 529	\$ 1,330	\$
	-----	-----	-----	-----
Total	\$ 1,859	\$ 529	\$ 1,330	\$
	=====	=====	=====	=====
		(a)	(b)	

(a). Costs questioned is broken down as follows:

Excess Per Diem	\$ 129 (1)
Telephone	26 (2)
Travel Report Reconciliation	374 (3)

Total	\$ 529
	=====

(1). AIPS employees prepared travel reports which summarized all incurred expenses related to traveling for the PYSA Program. The travel reports separately identified expenses for hotel rooms, meals, air fare, rail fare, auto, taxi, tolls, parking, and miscellaneous such as telephone and tips. Review of expenses incurred by employees for hotel rooms and meals, and charged to the PYSA program, revealed charges that were in excess of allowable Federal Per Diem rates. General Services Administration guidelines, specifically 41 CFR Chapter 301, Appendix A, provide maximum Per Diem rates allowable for official travel within the Continental United States, summarized by specific locations within States. Review of AIPS employee

Notes To Exhibit B-1:

charges to the PYSA program revealed instances where charges exceeded allowable per diem rates.

(2). Represent telephone charges included on AIPS employees travel reports which were not identified as being related to the PYSA program.

(3). We compared total PYSA travel claimed per employee travel reports with total travel charged to the PYSA program on the books and records of AIPS. Amounts charged to the PYSA program on the books and records of AIPS exceeded total travel identified by PYSA employees on their weekly travel reports. As a result we have identified the excess and questioned it in entirety.

(b). Remaining Staff Travel and Lodging costs are considered to be unsupported based upon the following:

- There was no evidence noted on the travel reports of required supervisory review for reasonableness and allowability, as well as prior supervisory approval of the nature and purpose of the trip.

- Employee travel expenses were misclassified on many travel reports. For example, many hotel bills contained expenses for meals and telephone calls. These should have been separately accounted for in other areas of the travel report.

- In several cases an employees travel report contained expenses for another AIPS employee. These should have been documented and claimed on the other employees travel report.

- Section 274 of the Internal Revenue Service Code requires that certain documentation be maintained for travel expenditures. This includes the amount of the expenditure, time and place of the expenses, and business purpose of the expenditures. This information must be maintained in a book, diary, account book, or similar records. Without a diary or similar records, there would not be enough evidence to substantiate allowability. We believe that this type of information is also necessary to properly support travel expenses claimed on Government grants and contracts. AIPS did not maintain such diaries or similar records.

Notes To Exhibit B-1:

6. Indirect Expenses - The AIPS allocated all indirect expenses on the basis of the relationship of direct labor hours charged to the PYSA Grant, including uncompensated overtime, to total regular time hours. These expenses include those that are clearly designated as "Indirect Expenses" per the financial statements, as well as indirect expenses that have been commingled with direct expenses, and designated as "Direct Expenses" per the financial statements. We have taken exception to the method of allocation used by the AIPS for the following reasons:

- The grantee included uncompensated overtime incurred on the PYSA Grant in the numerator of the formula used to allocate costs to the PYSA Grant; but failed to include any uncompensated time in the denominator. This inconsistency resulted in a higher percentage of indirect costs being allocated to the PYSA Grant than should have been the case.

- The grantee's timekeeping procedures only required employees to account for time spent on the PYSA Grant. They did not record time spent on other direct activity, such as the Jefferson Awards. Accordingly, we do not know to what extent overtime was worked on other projects, and the extent to which this additional unrecorded effort should have also been reflected in the denominator to compute indirect costs allocable to the PYSA Grant.

- As a result of the Grantee's failure to require its employees to record all of their time, on their timesheets, the Grantee's method of allocation is not considered adequate. OMB Circular A-122, Attach. B, Para. 6.1., indicates that in order to support the allocation of indirect costs; employees must account for the total activity for which they are compensated. This was not done at the AIPS.

- We do not consider the method used by the Grantee to result in an equitable allocation of indirect expenses to the total activity of the AIPS. By using labor hours, other significant direct activity of the organization was not allocated a share of indirect expenses. For example, in CY 1993, the grantee reported over \$300,000 of direct costs as being incurred on the Jefferson Awards. Only \$33,000 of this effort was allocated a share of indirect expense.

For purposes of this audit, we allocated all indirect expenses in accordance with guidance contained in OMB Circular A-122.

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Notes To Exhibit B-1:

In this regard, we developed annual indirect expense rates, for two pools of expense. The rates were then applied to applicable direct base cost. The two rates are as follows:

- Payroll Taxes And Fringe Benefits. This pool of expenses included: employer's share of FICA; employee health and life insurance; and vacation, holiday & sick leave. The basis of allocation was incurred direct labor dollars.

- Indirect Expenses. This pool of expenses included all other non-direct expenses, as detailed in Schedules 1 and 2 of this report. The basis for allocation of this pool was total direct costs.

Our computation is detailed on Schedules 1 and 2 of this report.

7. The computation of the rates used to allocate indirect costs to the PYSA Grant are contained on Schedule 1 and 2 of this report. Also, see Note 6 above regarding our review of indirect costs.

	Per Grantee's Financial Statements				Amount Questioned				Amount Unsupported				Balance		
	01/01/93- 08/31/93	09/01/93- 12/31/93	Total	01/01/93- 08/31/93	09/01/93- 12/31/93	Total	01/01/93- 08/31/93	09/01/93- 12/31/93	Total	01/01/93- 08/31/93	09/01/93- 12/31/93	Total	01/01/93- 08/31/93	09/01/93- 12/31/93	Total
DIRECT EXPENSES:															
Salaries	\$130,001.00	\$76,598.00	\$206,599.00	\$61,397.00	\$39,007.00	\$100,404.00	\$68,604.00	\$37,591.00	\$106,195.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00 (2).
Employee Benefits	7,721.00	9,772.00	17,493.00	7,721.00	9,772.00	17,493.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 (3).
Payroll Taxes	8,889.00	4,324.00	13,213.00	8,889.00	4,324.00	13,213.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 (4).
Contract Services	0.00	6,590.00	6,590.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6,590.00	6,590.00	0.00	0.00	6,590.00
Program Expenses			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Travel & Entertainment	49,976.00	17,538.00	67,514.00	11,057.00	5,006.00	16,063.00	27,083.00	12,279.00	39,362.00	5,836.00	253.00	6,089.00	5,836.00	253.00	6,089.00 (5).
Printing & Publications	19,852.00	31,456.00	51,308.00	0.00	0.00	0.00	0.00	0.00	0.00	19,852.00	31,456.00	51,308.00	19,852.00	31,456.00	51,308.00
Postage	7,533.00	6,367.00	13,900.00	0.00	0.00	0.00	0.00	0.00	0.00	7,533.00	6,367.00	13,900.00	7,533.00	6,367.00	13,900.00
Interest	0.00	144.00	144.00	144.00	144.00	144.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial Management			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Honoraria Awards Expense			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Pin expense	13,237.00	11,542.00	24,779.00	13,237.00	11,542.00	24,779.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 (8).
Computer House			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 (8).
Total Direct	\$231,209.00	\$164,331.00	\$395,540.00	\$102,301.00	\$69,795.00	\$172,096.00	\$95,687.00	\$49,870.00	\$145,557.00	\$33,221.00	\$44,666.00	\$77,887.00	\$33,221.00	\$44,666.00	\$77,887.00

	Per Grantee's Financial Statements				Amount Questioned				Amount Unsupported				Balance		
	01/01/93- 08/31/93	09/01/93- 12/31/93	Total	01/01/93- 08/31/93	09/01/93- 12/31/93	Total	01/01/93- 08/31/93	09/01/93- 12/31/93	Total	01/01/93- 08/31/93	09/01/93- 12/31/93	Total	01/01/93- 08/31/93	09/01/93- 12/31/93	Total
INDIRECT EXPENSES:															
(And Gen. & Admin.)															
Rent	\$6,709.00	\$5,063.00	\$11,772.00	\$6,709.00	\$5,063.00	\$11,772.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 (6).
Telephone	7,057.00	4,477.00	11,534.00	7,057.00	4,477.00	11,534.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 (6).
Office Supplies	1,963.00	1,580.00	3,543.00	1,963.00	1,580.00	3,543.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 (6).
Repair & Maintenance	4,203.00	2,818.00	7,021.00	4,203.00	2,818.00	7,021.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 (6).
Legal & Accounting	0.00	7,488.00	7,488.00	0.00	7,488.00	7,488.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 (6).
Dues & Subscriptions	267.00	38.00	305.00	267.00	38.00	305.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 (6).
Insurance	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 (6).
Service Charges	40.00	257.00	297.00	40.00	257.00	297.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 (6).
Miscellaneous	379.00	239.00	618.00	379.00	239.00	618.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 (6).
Penalties	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 (6).
Depreciation	1,435.00	842.00	2,277.00	1,435.00	842.00	2,277.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 (6).
FRINGE BENEFITS															
FRINGE BENEFITS			34.48%	(23,654.66)	(12,961.38)	(36,616.04)	23,654.66	12,961.38	36,616.04	0.00	0.00	0.00	0.00	0.00	0.00 (7).
OTHER INDIRECT				(13,445.10)	(9,860.10)	(23,305.21)	9,980.15	5,201.44	15,181.60	3,464.95	4,658.66	8,123.61	3,464.95	4,658.66	8,123.61 (7).
Total Ind. & GRA	\$22,053.00	\$22,802.00	\$44,855.00	(\$15,046.76)	(\$19,481.00)	(\$15,066.25)	\$33,634.81	\$18,162.82	\$51,797.63	\$3,464.95	\$4,658.66	\$8,123.61	\$3,464.95	\$4,658.66	\$8,123.61
TOTAL EXPENSES	\$253,262.00	\$187,133.00	\$440,395.00	\$87,254.24	\$69,775.52	\$157,029.75	\$129,321.81	\$68,032.82	\$197,354.63	\$36,685.95	\$49,324.66	\$86,010.61	\$36,685.95	\$49,324.66	\$86,010.61

(Note 1)

American Institute For Public Service
 President's Youth Service Award Grant
 Schedule Of Costs Incurred And
 Results Of Audit Review
 For CY Ended 12/31/93

Notes To Exhibit B-2:

1. Costs Incurred Per Financial Statements:

The amounts included in this column represent costs per the Grantee's Certified Financial Statements.

2. Salaries - Salaries are comprised of direct staff salaries of AIPS employees, allocated vacation, holiday and sick leave of AIPS staff, an allocation of Mr. Beard's and the office manager's indirect time, and an "in-kind" contribution for the estimated effort of the AIPS president, Mr. Sam Beard. Staff salaries are supported by timesheets prepared by employees, on which they accounted for time directly charged to the PYSA Grant, multiplied by their 1993 average actual hourly rate of pay. Mr. Beard's "in-kind" contribution was based on Mr. Beard's timesheets.

The results of our review, of direct salaries, are summarized as follows:

	Per Grantee	Amount Questioned	Amount Unsupported	Balance
	-----	-----	-----	-----
Staff Salaries	\$111,784	\$ 5,589	\$106,195	\$ (a).
Staff V,H,&S	12,003	12,003		(b).
Indirect				
Salaries	10,056	10,056		(c).
Beard In-Kind	72,756	72,756		(d).
	-----	-----	-----	-----
Total Salaries	\$206,599	\$100,404	\$106,195	
	=====	=====	=====	=====

(a). Staff Salaries -

\$5,589 - This amount represents AIPS staff uncompensated overtime that was charged to the PYSA Grant. Since the staff was not paid for this effort and AIPS did not incur actual costs, costs cannot be claimed for reimbursement. Accordingly, they have been questioned.

\$106,195 - Based on the fact that a PYSA program was established, and functioning, it is reasonable to conclude that direct labor effort was expended on the PYSA Grant. However, for reasons summarized in Note 2 to Exhibit B-1, we cannot rely on the grantee's time recording system, as being a reliable basis to support the level of the hours charged, and the resulting costs. Accordingly, we have set-out this amount of staff salaries as "unsupported".

American Institute For Public Service
 President's Youth Service Award Grant
 Schedule Of Costs Incurred And
 Results Of Audit Review
 For CY Ended 12/31/93

Exhibit B-2
 Pg. 3 Of 6

Notes To Exhibit B-2:

(b). Staff Vacation, Holiday & Sick Leave (V,H,&S) - This amount represents staff leave that was included in the financial statements as direct salaries. We have reclassified it as indirect labor.

(c). Indirect Salaries - The grantee estimated 120 hours of indirect effort for Mr. Beard in 1993, and 229 hours of indirect effort for one of the AIPS staff. We have questioned this amount for the following reasons: 1). For both individuals, the hours represent fixed monthly estimates, that are not supported by timesheets. 2). For Mr. Beard, "in-kind" contributions must be provided for in the Federal agency's approved budget. Since no effort was provided for, in the approved budget, for this "in-kind" contribution, it cannot now be accepted as part of the cost sharing and matching contributions.

(d). Beard "In-Kind" - See Note 2.(c).2. to Exhibit B-1.

3. Employee Benefits - Employee benefits are comprised of health and life insurance of AIPS employees, and an "in-kind" contribution for the effort of the AIPS president, Mr. Sam Beard.

The results of our review, of fringe benefits are summarized as follows:

	Per Grantee	Amount Questioned	Amount Unsupported	Balance
Staff Fringe	\$ 9,769	\$ 9,769	\$	\$ (a).
Beard In-Kind	7,724	7,724		(b).
Total	\$17,493	\$17,493	\$	\$

(a). Staff Fringe - This amount represents staff fringe benefits that were included in the financial statements as direct expenses. We have reclassified them as indirect expenses.

(b). Beard In-Kind - This amount represents claimed "in-kind" contributions related to the value of Mr. Beard's fringe benefits that were paid by Mr. Beard's employer, the NDC. We have questioned them for the reasons noted in Exhibit B-1, Para.3.(b).2. and 3.(b).3.

American Institute For Public Service
 President's Youth Service Award Grant
 Schedule Of Costs Incurred And
 Results Of Audit Review
 For CY Ended 12/31/93

Exhibit B-2
 Pg. 4 Of 6

Notes To Exhibit B-2:

4. Payroll Taxes - Payroll taxes represent the employer's share of FICA tax for AIPS employees, and an "in-kind" contribution for the effort of the AIPS president, Mr. Sam Beard.

The results of our review, of payroll taxes are summarized as follows:

	Per Grantee	Amount Questioned	Amount Unsupported	Balance
	-----	-----	-----	-----
Staff FICA	\$10,116	\$10,116	\$	\$ (a).
Beard In-Kind:	3,097	3,097		(b).
	-----	-----	-----	-----
Total	\$13,213	\$13,213	\$	\$
	=====	=====	=====	=====

(a). Staff FICA - This amount represents staff FICA that was included in the financial statements as direct expenses. We have reclassified it as indirect expenses.

(b). Beard In-Kind - This amount represents claimed "in-kind" contributions related to the value of Mr. Beard's payroll taxes that were paid by Mr. Beard's employer, the NDC. We have questioned them for the reasons noted in Exhibit B-1, Para.3.(b).2. and 3.(b).3.

5. Travel & Entertainment - This account includes the cost of travel of AIPS employees and its president, Mr. Sam Beard. It also includes the cost of registering for various conferences and conventions that the AIPS attended. The results of our review of this account is as follows:

	Per Grantee	Amount Questioned	Amount Unsupported	Balance
	-----	-----	-----	-----
Staff Travel and Lodging	\$55,425	\$16,063	\$39,362	\$
Conferences	6,089			6,089
	-----	-----	-----	-----
Total	\$61,514	\$16,063	\$39,362	\$ 6,089
	=====	=====	=====	=====
		(a)	(b)	

American Institute For Public Service
President's Youth Service Award Grant
Schedule Of Costs Incurred And
Results Of Audit Review
For CY Ended 12/31/93

Exhibit B-2
Pg. 5 Of 6

Notes To Exhibit B-2:

(a). Costs questioned is broken down as follows:

Excess Per Diem	\$ 2,785 (1)
Telephone	66 (2)
Travel Report Reconciliation	11,161 (3)
Entertainment	182 (4)
Fund Raising	1,869 (5)

Total	\$16,063 =====

(1). AIPS employees prepared travel reports which summarized all incurred expenses related to traveling for the PYSA Grant. The travel reports separately identified expenses for hotel rooms, meals, air fare, rail fare, auto, taxi, tolls, parking, and miscellaneous such as telephone and tips. Review of expenses incurred by employees for hotel rooms and meals, and charged to the PYSA program, revealed charges that were in excess of allowable Federal Per Diem rates. General Services Administration guidelines, specifically 41 CFR Chapter 301, Appendix A, provide maximum Per Diem rates allowable for official travel within the Continental United States, summarized by specific locations within States. Review of AIPS employee charges to the PYSA program revealed instances where charges exceeded allowable per diem rates.

(2). The amount questioned represents telephone charges included on AIPS employees travel reports which were not identified as being related to the PYSA program.

(3). We compared total PYSA travel claimed per employee travel reports with total travel charged to the PYSA program on the books and records of AIPS. Amounts charged to the PYSA program on the books and records of AIPS exceeded total travel identified by PYSA employees on their weekly travel reports. As a result we have identified the excess and questioned it in entirety.

(4). Represents two lunches charged to the PYSA program that are considered entertainment.

(5). Represents travel expense incurred by Mr. Beard related to fundraising activity. The costs are questioned in accordance with OMB Circular A-122, Attach. B, Para. 19b.

American Institute For Public Service
President's Youth Service Award Grant
Schedule Of Costs Incurred And
Results Of Audit Review
For CY Ended 12/31/93

Exhibit B-2
Pg. 6 Of 6

Notes To Exhibit B-2:

(b). Remaining staff travel and lodging costs are considered to be unsupported as noted in Exhibit B-1 Note 5.(b).

6. Indirect Expenses - See Exhibit B-1, Note 6.

7. The computation of the rates used to allocate indirect costs to the PYSA Grant are contained on Schedule 1 and 2 of this report. Also, see Note 6 above regarding our review of indirect costs.

American Institute For Public Service
 President's Youth Service Award Grant
 Schedule Of Costs Incurred And
 Results Of Audit Review
 For the Period 1/1/94 - 3/31/94

	Per F/S	Results Of Review		Balance	
		Amount Questioned	Amount Unsupported		
	(Note 1)				
DIRECT EXPENSES:					
Salaries	\$24,660.00	\$8,045.00	\$16,615.00	\$0.00	(2).
Employee Benefits				0.00	(3).
Payroll Taxes	1,395.00	1,395.00	0.00	0.00	(4).
Contract Services	2,591.00			2,591.00	
Program Expenses				0.00	
Travel & Entertainment	3,030.00	610.00	2,420.00	0.00	(5).
Printing & Publications				0.00	
Postage	2,469.00	0.00		2,469.00	
Interest	775.00	775.00		0.00	
Financial Management				0.00	
Honoriar Awards Expense				0.00	
Pin	13,211.00	13,211.00		0.00	(8).
Computer House	1,694.00	1,694.00		0.00	(8).
Total Direct	\$49,825.00	\$25,730.00	\$19,035.00	\$5,060.00	
INDIRECT EXPENSES:					
(And Gen. & Admin.)					
Rent	\$2,478.00	\$2,478.00			(6).
Telephone	1,451.00	1,451.00			(6).
Office Supplies	665.00	665.00			(6).
Repair & Maintenance					
Legal & Accounting	119.00	119.00			(6).
Dues & Subscriptions					
Insurance	276.00	276.00			(6).
Service Charges	86.00	86.00			(6).
Miscellaneous					
Penalties					
Depreciation					
Contract Services	2,161.00	2,161.00			(6).
Indirect Salaries	308.00	308.00			(6).
Equipment	456.00	456.00			(6).
Unemployment Comp.	1,593.00	1,593.00			(6).
FICA	24.00	24.00			(6).
FRINGE BENEFITS	34.50%	(5,732.18)	5,732.18	0.00	(7).
OTHER INDIRECT	10.43%	(2,513.11)	1,985.35	527.76	(7).
Total Ind. & G&A	\$9,617.00	\$1,371.72	\$7,717.53	\$527.76	
TOTAL EXPENSES	\$59,442.00	\$27,101.72	\$26,752.53	\$5,587.76	

American Institute For Public Service
 President's Youth Service Award Grant
 Schedule Of Costs Incurred And
 Results Of Audit Review
 For Three Months Ended 3/31/94

Exhibit B-3
 Pg. 2 Of 3

Notes To Exhibit B-3:

1. Costs Incurred Per Financial Statements:

The amounts included in this column represent costs per the Grantee's internally prepared financial statements.

2. Salaries - Salaries are comprised of direct staff salaries of AIPS employees, allocated vacation, holiday and sick leave of AIPS staff, and an "in-kind" contribution for the estimated effort of the AIPS president, Mr. Sam Beard. Staff salaries are supported by timesheets prepared by employees, on which they accounted for time directly charged to the PYSA Grant, multiplied by their 1994 average actual hourly rate of pay. Mr. Beard's "in-kind" contribution was based on Mr. Beard's timesheets.

The results of our review, of direct salaries, are summarized as follows:

	Per Grantee	Amount Questioned	Amount Unsupported	Balance
Staff Salaries	\$ 16,615	\$	\$ 16,615	\$ (a).
Staff V,H,&S	1,621	1,621		(b).
Beard In-Kind	6,424	6,424		(c).
Total Salaries	\$ 24,660	\$ 8,045	\$ 16,615	

(a). Staff Salaries - Based on the fact that a PYSA program was established, and functioning, it is reasonable to conclude that direct labor effort was expended on the PYSA Grant. However, for reasons summarized in Exhibit B-1, Note 1, we can not rely on the grantee's time recording system, as being a reliable basis to support the level of the hours charged, and the resulting costs. Accordingly, we have set-out this amount of staff salaries as "unsupported".

(b). Staff Vacation, Holiday & Sick Leave (V,H,&S) - This amount represents staff leave that was included in the financial statements as direct salaries. We have reclassified it as indirect labor.

(c). Beard "In-Kind" - See Exhibit B-1, Note 2.(c).2.

American Institute For Public Service
 President's Youth Service Award Grant
 Schedule Of Costs Incurred And
 Results Of Audit Review
 For Three Months Ended 3/31/94

Exhibit B-3
 Pg. 3 Of 3

Notes To Exhibit B-3:

3. Employee Benefits - The AIPS did not include employee benefits in its quarterly financial statements for the quarter ended March 31, 1994. However, this has no impact on the results of audit. Since fringe benefits are an indirect expense, and we have computed 1994 indirect expenses based on the 1993 rates, we have effectively given the Grantee credit for its fringe benefits.

4. Payroll Taxes - Payroll taxes represent the employer's share of FICA tax for AIPS employees. We have questioned the amount as a direct charge, and have reclassified it as an indirect expense.

5. Travel & Entertainment - This account includes the cost of travel of AIPS employees and its president, Mr. Sam Beard. The results of our review of this account is as follows:

	Per Grantee	Amount Questioned	Amount Unsupported	Balance
	-----	-----	-----	-----
Staff Travel and Lodging Conferences	\$ 3,030	\$ 610	\$ 2,420	\$
	-----	-----	-----	-----
Total	\$ 3,030	\$ 610	\$ 2,420	\$
	=====	=====	=====	=====
		(a)	(b)	

(a). Costs questioned of \$610 represents amounts charged to the PYSA program on the books and records of AIPS in excess of total travel identified by PYSA employees on their weekly travel reports.

(b). Remaining staff travel and lodging costs are considered to be unsupported as noted in Exhibit B-1 Note 5.(b).

6. Indirect Expenses - See Exhibit B-1, Note 6.

7. For the period of performance extending into 1994, ie., from January 1994 to March 31, 1994, we were unable to determine actual indirect expense rates. This was due to the fact that our audit was completed prior to the close of the Grantee's operating year which ends on December 31. In accordance with FAR 42.708, we have recommended use of our 1993 audit determined indirect expense rates, for purposes of allocating indirect costs to direct effort expended in 1994.

Indirect
 Expense Pools

	Per F/S	Adjust- ments	Bal.	Quest- ioned	Bal.	P/R Tax & F/B's	Indirect
POOL OF INDIRECT EXPENSES:							
Salaries	6288	-4106	2182	2182	0		0 (2)
Rent & Utilities	10662		10662		10662		10662
Telephone	13711		13711		13711		13711
Office Supplies	5169		5169		5169		5169
Repair & Maint.	5147		5147		5147		5147
Accounting Fees	6500		6500		6500		6500
Dues & Subscription	454		454		454		454
Insurance	1229		1229		1229		0
Service Fees	344		344	344	0		0
Depreciation	2009		2009		2009		2009
Miscellaneous	125		125		125		125
Penalties	4084		4084	4084	0		0
Vacation, Hol., & Sick		12094	12094		12094		0 (3)
Employee Benefits	952	22476	23428	10877	12551	12551	0 (3)(4)
Payroll Taxes	318	7515	7833		7833	7833	0 (3)
Travel & Entertainment	261		261		261		261
Printing & Publications	1761		1761		1761		1761
Postage	422		422		422		422
Interest	492		492	492	0		0
Financial Mgmt	286		286		286		286
Total Pool Of Expenses	60214	37979	98193	17979	80214	33707	46507

BASIS OF ALLOCATION:

Salaries	148514	4106	152620	35046	117574	117574	117574 (5)
Vacation, Hol., & Sick		-12094	-12094		-12094	-12094	-12094 (3)
Employee Benefits	22476	-22476	0		0	0	0 (3)
Payroll Taxes	7515	-7515	0		0	0	0 (3)
Program Expenses	214563		214563		214563	214563	
Travel & Entertainment	6169		6169		6169	6169	
Printing & Publications	41616		41616		41616	41616	
Postage	9961		9961		9961	9961	
Interest	11617		11617		11617	11617	
Financial Management	6770		6770		6770	6770	
Honoraria Awards	27000		27000		27000	27000	
Basis Of Allocation	496201	-37979	458222	35046	423176	105480	423176
Total Costs	556415	0	556415				

INDIRECT RATES

31.96% 10.99%

American Institute For Public Service
Computation Of Indirect Expense Rates
Calendar Year 1992

Schedule 1
Pg. 2 Of 2

Notes To Schedule 1:

1. See Exhibit B-1, Note 6.
2. We have reclassified \$4,106 of AIPS staff time from indirect to direct labor. The grantee has no evidential matter to support this labor being classified indirect. We have questioned \$2,182 of S. Beard indirect labor allocated to the PYSA Grant, for reasons noted in Exhibit B-1, Note 2.(c).
3. This amount was reclassified from direct to indirect.
4. We questioned \$10,877 of S. Beard's employee benefits for reasons noted in Exhibit B-1, Note 3.(b).2 and 3.(b).3.
5. We excluded, from the basis of allocation, \$35,046 of direct salaries. The amount consists of the following:

- Exclude S. Beard's "in-kind" contribution	\$ 51,483
- Include N. Leonard pay from Delaware 1st	(16,437)

Net Reduction	\$ 35,046
	=====

American Institute For Public Service
 Computation Of Indirect Expense Rates
 Calendar Year 1993 (Note 1)

Schedule 2
 Pg. 1 Of 2

Indirect
 Expense Pools

	Per F/S	Adjust- ments	Bal.	Quest- ioned	Bal.	P/R Tax & F/B's	Indirect
POOL OF INDIRECT EXPENSES:							
Contract Services	109	4742	4851		4851		4851 (3)
G&A Labor	308	-308	0		0		0 (2)
Rent & Utilities	15641		15641		15641		15641
Telephone	15325		15325		15325		15325
Office Supplies	4708		4708		4708		4708
Equipment	9328		9328	3118	6210		6210 (7)
Accounting Fees	9949		9949		9949		9949
Dues & Subscription	843	-438	405	250	155		155 (4)(8)
Worker's Comp. Ins.	1107		1107		1107	1107	0
Service Fees	395		395	395	0		0 (8)
Depreciation	3026		3026	-624	3650		3650 (7)
Miscellaneous	5525	-5149	376	335	41		41 (4)(8)
Vacation, Hol., & Sick		17367	17367		17367	17367	0 (3)
Employee Benefits		27259	27259	7724	19535	19535	0 (6)
Payroll Taxes	21	15705	15726	3097	12629	12629	0 (6)
Total Pool Of Expenses	66285	59178	125463	14295	111168	50638	60530

BASIS OF ALLOCATION:

Salaries	240152	308	240460	76242	164218	164218	164218 (5)
Vacation, Hol., & Sick	(Above)	-17367	-17367		-17367	-17367	-17367 (3)
Employee Benefits	27259	-27259	0		0	0	0 (3)
Payroll Taxes	15705	-15705	0		0	0	0 (3)
Contract Services	7653	-4742	2911		2911	2911	2911 (3)
Program Expenses	182310		182310		182310	182310	182310
Travel & Entertainment	107157		107157		107157	107157	107157
Printing & Publications	65191		65191		65191	65191	65191
Postage	20292		20292		20292	20292	20292
Interest	11038		11038		11038	11038	11038
Financial Management	7061		7061		7061	7061	7061
Honoraria Awards	7000		7000		7000	7000	7000
Pin Expense	24779		24779		24779	24779	24779
Dues & Subscription		438	438		438	438	438 (4)
Miscellaneous		5149	5149		5149	5149	5149 (4)
Basis Of Allocation	715597	-59178	656419	76242	580177	146851	580177
Total Costs	781882	0	781882				

INDIRECT RATES

34.48% **10.43%**

Notes To Schedule 2:

1. See Exhibit B-1, Note 6.

2. We have reclassified \$308 of AIPS staff time from indirect to direct labor. The grantee has no evidential matter to support this labor being classified indirect.

3. This amount was reclassified from direct to indirect, as recorded in the Grantee's general ledger.

4. This amount was reclassified from indirect to direct, as recorded in the Grantee's general ledger.

5. We excluded, from the basis of allocation, \$76,550 of direct salaries. The amount consists of the following:

- S. Beard's "in-kind" contribution:		
Fundraising	\$10,604	
Other	62,152	

		\$ 72,756
- S. Beard indirect labor charges		9,288
- Uncompensated time charged to PYSA		5,589
- Portion of N. Leonard salary, Del. 1st		(11,083)
- Misc. Adjustment		(308)

Net Reduction		\$ 76,242
		=====

6. We questioned \$7,724 and \$3,097 of S. Beard's employee benefits and payroll taxes for reasons noted on Exhibit B-1, Note 3.(b).2 and 3.(b).3.

7. We questioned \$3,118, which represents the cost of assets purchased and expensed in 1993, instead of being capitalized and depreciated. We credited the indirect expense pool for \$624, which represents 1 year's estimated depreciation.

8. The amount questioned represents unallowable finance charges.

BACKGROUND INFORMATION
PRESIDENT'S YOUTH SERVICE AWARDS GRANT

In 1992, the AIPS submitted a proposal entitled "Presidential Youth Service Awards" (PYSA) to the Commission on National and Community Service (CNCS), an agency of the U.S. Government, and the Points of Light Foundation (the Foundation). The proposal explained the objectives and implementation of the awards program, and estimated funding for AIPS expenditures at \$300,000 per year for three years. Each party was to contribute \$100,000 each year. The first year's estimate included expenditures for labor of three professionals to be hired by the AIPS, fringe benefits, travel, a National ceremony, telephone, printing and postage, office rent, office supplies, rental of a copying machine and three computers and printers, and an annual audit.

The CNCS issued Cooperative Agreement No. CA-001, effective September 22, 1992, whereby the CNCS, the AIPS, and the Foundation were to initiate a program for Presidential awards to youths. The primary purpose of the program was to establish a recognition system for the many young people involved in voluntary service activities. Two different recognition awards were contemplated; "The National Award" at local and State levels, and "The President's Award" at the National level. The program was to run for three years, from September 22, 1992 through August 30, 1995. According to the agreement, the program was to be funded at \$300,000 per year, for three years, with each party contributing \$100,000 each year. All funding was to be associated with actual costs incurred by the AIPS. The CNCS was to provide program support, oversight, monitoring, coordinating, and applicable approvals; the Foundation was to be involved with implementation, oversight, coordination, and promotion of the program; and the AIPS was to be responsible for planning and implementing the program in accordance with its proposal dated September 22, 1992.

Following the award of the Grant, the AIPS began a nationwide marketing effort. This effort resulted in the distribution of over 7,000 awards, in the first year.

In late 1993, a decision was made, by the CNCS, to bring the implementation of all service award programs into the CNCS. In a letter dated Dec. 13, 1993, the CNCS advised the AIPS of this, and set March 31, 1994 as the completion date for AIPS involvement in the PYSA.

GRANTEE'S ORGANIZATION AND OPERATIONS

The Institute was founded in 1972 as a non-profit, public foundation to create a Nobel-type prize for public service in the U.S. In that year, it created the Jefferson Awards to recognize outstanding individuals. The awards have been presented annually in Washington, D.C. from 1972 to 1994; the most recent having been awarded in June 1994. Over 85 newspapers and television stations assist the AIPS with the Jefferson Awards by serving as media and financial sponsors. A second founding purpose of the Institute was to attract young Americans into community and public service. Toward that goal, it launched a Service By Youth program and worked with the Weekly Reader to administer Jefferson Awards for students. It also worked with the Points of Light Foundation, the U.S. Conference of Mayors, and Youth Service America to manage an annual National Youth Service Day. The major sources of financial support for programs were media and Board of Selector dues, the State of Delaware, private donors and corporations, and a special endowment fund.

In 1992, the AIPS, initiated the Presidential Youth Service Awards. Through it, they established a recognition system for the many young people involved in voluntary service activities.

Appendix III

GRANTEE'S ACCOUNTING SYSTEM

In late 1993, the Grantee installed "The Peachtree" computerized accounting system. This system is a fully integrated system, that is controlled by a general ledger. In implementing the system, the Grantee backloaded data from January 1, 1993 through September or October 1993. Prior to the installation of the computerized system, the financial and accounting system that was in place consisted primarily of a check book for disbursements, a schedule of cash receipts, a monthly bank reconciliation, and a manual semi-monthly payroll system. Each check/disbursement was coded with an account number which identified type of expense and program. Most cash receipts identified the donors, but not all identified the related program. Employee timesheets were prepared for the PYSA program only; they did not account for 100% of employee time. The president of the AIPS did not prepare a timesheet or effort report, until September 1993.

During this pre-"Peachtree" period, which encompassed the first Grant year, the AIPS did not maintain an ongoing system of accounts and financial reports. A general ledger, cost accounting system by program or fund, and trial balance were not maintained on a continuing basis. According to AIPS personnel, once a year a public accountant was engaged to construct a general ledger, a trial balance, data by program and fund, and a financial report. In September 1993, the Institute engaged the accountant to construct such data for 1992. The accountant's report for 1992 was dated November 1993. The report for 1993 was dated March 1994.

Appendix IV

OTHER MATTERS TO BE REPORTED

PYSA REVENUE:

The following is a summary of PYSA revenue sources from September 1992 through October 1994, exclusive of In-Kind contributions and PIN revenue. The grantee has concurred with this revenue summary.

<u>Receipt Date</u>	<u>Points Of Light</u>	<u>CNCS (1)</u>	<u>Other</u>	<u>Total</u>
12/07/92	\$ 25,000	\$	\$	\$ 25,000
01/07/93		53,500		53,500
01/12/93	25,000			25,000
03/29/93	25,000			25,000
04/10/93		28,402		28,402
06/02/93	25,000			25,000
07/02/93			10,000(2)	10,000
07/02/93			30,000(3)	30,000
08/30/93		18,098		18,098
10/02/93	18,000			8,000
11/12/93		55,053		55,053
12/30/93			10,000(4)	10,000
12/30/93			2,500(5)	2,500
01/04/94		18,000		18,000
01/28/94		12,404		12,404
	----- \$118,000 =====	----- \$185,457 =====	----- \$ 52,500 =====	----- \$355,957 =====

NOTES:

- (1) Represents receipts from the CNCS.
- (2) Contribution from New York Telephone.
- (3) Contribution from Good Samaritan, Inc. June 24, 1993 correspondence from Mr. Ned Carpenter, Secretary-Treasurer, acknowledged this contribution to the Presidents Youth Service Awards. This receipt was erroneously booked in July 1993 as Jefferson Awards revenue. The grantee has agreed that this contribution is PYSA revenue.
- (4) Contribution from Mobile.
- (5) Contribution from Corning Inc. Foundation.

PIN Revenue And Expenses:

The results of our review, does not account for the cost of manufacturing, and delivering the award pins, or the related income realized as a result of selling the pins. Income and expenses related to the manufacture, delivery, and sale of PYSA pin awards are not considered part of the Grant closeout activity for two reasons, as follows: 1). At the time of our audit, the Grantee has not concluded its operations related to the sale and delivery of pins. Accordingly, the final figures related to this effort are not presently known. 2). In a letter to the CNCS, dated December 23, 1993, the AIPS indicated that expenses related to the manufacture and distribution of the pin awards should not be considered as part of the Grant operating budget; that these costs are recoverable through income from the sale of the pins.

The following is an unaudited summary of PYSA Pin expenses and revenue from program inception through October 1994, per the Grantee's records.

Pins Purchased	63,000 (b)
Cost Per Pin	\$.84

Total Pin Cost	\$52,920
Tooling (Dye)	4,500
Computer House	11,904
Shipping	4,150
Check Charges	27

Total Cost	\$ 73,501
Pin Revenue,	
9/92 - 10/94	51,533

Difference	\$ 21,968
	=====

NOTES:

(a). Per the grantees records as of October 31, 1994, there are 33,713 PIN's remaining in inventory, with a cost value of \$28,318.92 (33,713 Pins X \$.84). The grantee advised us that all pins that were ordered from the manufacturer, have been received.

(b). The following is a listing of pin orders placed by the AIPS, with the Bastian Company, Inc., Geneva, New York, for the manufacture of the award pins.

Job Order Number -----	Number Of PIN's Ordered And Received -----
53771P	5,000
U53771	5,000
U53748	5,000
53850P	2,500
53851P	2,500
54025P	1,500
54024P	2,500
N54038	6,500
N54039	6,500
54075P	6,500
54074P	6,500
54076P	6,500
54077P	6,500
Total	----- 63,000 =====

American Institute of Public Service Response

To: Luise S. Jordan
Inspector General
Corporation for National Service
1201 New York Avenue, NW
Washington, DC 20525

From: Sam Beard
President
American Institute for Public Service

Thursday, March 2, 1995

Re: President's Youth Service Awards Close Out Audit

Dear Ms. Jordan,

Thank you very much for your kind attention.


Enclosed please find our response to Mr. Haag's
November 30, 1994 Audit Report.

We specifically request the opportunity to meet
with a program officer of the Corporation to
finalize PYSA.

Also, enclosed please find the final
FORM 269 A.

Thank you again.

Sincerely,



Sam Beard
President

American Institute of Public Service Response

RESPONSE TO THE HAAG & COMPANY NOVEMBER 30, 1994 AUDIT

RE: THE PRESIDENT'S YOUTH SERVICE AWARDS (PYSA)

Thursday, March 2, 1995

Introduction

The American Institute For Public Service (AIPS) approaches this response with humility and respect. The program is terminated. The Institute is removed from further involvement. We wish to go about our business, and to be paid fairly for work undertaken and expenses incurred. Let's resolve this and go forward.

From the beginning of the President's Youth Service Awards, the American Institute pledged that we would report and justify all government monies spent on the program. We have met this standard.

We wish to begin by putting the program and the effort in the right context.

1. What's The Program All About? - Let's Not Forget The Purpose and The Tone

The President's Youth Service Awards is about

Public Service

Positive Energy

Inspiration and Motivation

Inspiring Kids To Serve America As
Volunteers In Their Local Communities

Passing the Tradition of Service On
to the Next Generation

The American Institute is very proud of the major role that we played in creating and managing the President's Youth Service Awards. We ran the program with great enthusiasm and dedication, and thoroughly enjoyed all the hard work. We do not regret the three and a half years of effort it took to create the program and obtain the highest levels of national approval.

American Institute of Public Service Response

The program was approved by two President's of the United States, was created by an Executive Order of the President, and was approved and ratified by the two major national organizations overseeing voluntarism and service to America - the Commission on National and Community Service (now the Corporation for National and Community Service) and the Points of Light Foundation.

All across the country the program was adopted with enthusiasm by hundreds of educational, religious, and social service organizations which are on the front line dealing with kids.

In a very short period of time, the American Institute made hundreds of presentations nationwide and contacted all fifty of the nation's Governors and over 100 of the nation's leading educational, religious and social service organizations. Close to two thousand organizations participated awarding over 25,000 presidential awards to deserving young Americans.

From a programmatic viewpoint, the American Institute is very proud of the national service purpose of PYSA and our professional efforts in carrying it out.

At all times we showed extra enthusiasm and extra initiative. We do not wish to be penalized for showing initiative.

Respectfully we are encouraged by President Clinton's important priority - to "Reinvent Government." As you know the whole goal of reinventing government is to encourage initiative and risk-taking and to serve the people in the country as customers.

We ask that our performance be reviewed in that context.

2. The Big Picture - What's Going On?

In the big picture, the following stands out:

- o \$422,579 were spent on PYSA - cash out of pocket. An additional \$121,545 was an in-kind labor contribution to PYSA to bring total program expenses to \$544,124.

- o **Out of the \$422,579 cash spent, the auditor questions \$22,791. That's all.**

1. \$5,589 where people worked overtime and on weekends.

OIG Comments:

AIPS' statements in section 2 are misleading.

Bullet 1: Haag & Company reports \$556,902 in claimed costs as presented in the report's Summary of Audit Results (page 3). The Summary's costs are based on AIPS' audited financial statements and quarterly reports. The Summary also presents the costs that are questioned as a result of the audit.

Bullet 2: This statement is absolutely incorrect. The total of costs *questioned* as unallowable is \$219,833. Haag & Co. reports an additional \$244,920 as *not properly supported*; as the auditors report describes in detail, these costs were undocumented or unreasonable or both.

American Institute of Public Service Response

2. \$17,202 on travel - for which we have back-up bills for \$15,793.

- o The American Institute loved creating and running the President's Youth Service Awards. You broke our hearts when you took the program away from us and dismantled it.

Now the only remaining question is will you pay the Institute the extra money spent and owed on PYSA.

- o The auditor questions the American Institute's time sheets. See P. 10. "We cannot rely on the grantee's time recording system, as being a reliable basis to support the level of hours charged, and the resulting costs. Accordingly, ...salaries are set out as "Unsupported."

The response is simple:

1. We worked exceptionally hard on PYSA and loved it. Our hearts were in the program and we worked overtime and on weekends.
2. The Institute went over our own records cut out overtime hours where people worked more than an 8 hour day.
3. The auditor, trying to cut costs, knocked out "uncompensated overtime" - a majority of which was where we were working 10 to 14 hour days on weekends at conferences - AFL-CIO, NEA, AFT, COOL, B'Nai Brith, etc.

The whole discussion is overtime. This tells the story of labor spent.

4. One employee did her time sheets 35% wrong. Amy Mast kept her time sheets inaccurately. Amy kept everything inaccurately. \$10,000 of the travel questioned is because Amy didn't do her travel expenses as asked. She was not a successful employee, became disgruntled, and caused an Inspector General's investigation of our time sheets.

OIG Comments:

For the periods under audit, AIPS time keeping systems failed to meet Federal requirements because employee recorded only the time to be charged against the cooperative agreement; time spent on other projects was not recorded. Further, a previous audit report, an OIG investigative report and this report have all reported errors in AIPS timekeeping system. Management controls in the system are inadequate to prevent or detect these errors. However, the auditor chose not to "disallow" payroll charges. Instead, these charges are included in those reported as "unsupported".

Re: items 2 and 3 of the response on this page - the underlying logic of disallowing the costs is also simple. The employees were not paid for the overtime. Therefore, AIPS has not incurred a cost that it can charge to, or be reimbursed for under, the cooperative agreement.

Re: item 4 of the response on this page - the fact that the mischarges were material in amount, recurring and were not discovered by supervisors demonstrates the lack of control over the time and expense reporting systems. The report focuses on the lack of management controls in the systems. Exhibit B-1, page 3 of 10, clearly describes the absence of controls. We reiterate, however, that the auditor's decision was not to question the costs but to classify them as "unsupported".

American Institute of Public Service Response

5. Under threat - "If you falsify your time records, this is a federal offense, the two Institute employees who had made an error on 92 hours, signed affidavits that their time sheets were accurate and that they actually spent more hours on PYSA than were recorded.

You can't go deeper into the verification of time sheets than that.

We did the work, and more. We should be paid for the direct labor, the fringe, and the fair percentage of overhead, which is based on labor spent on PYSA.

3. The Policy and Management Structure

In September, 1992 the White House, represented by the Assistant to the President for Community Service; the Commission for National and Community Service, represented by the Executive Director; the Points of Light Foundation, represented by the President and Vice President; and the American Institute, represented by the President, finalized and approved the overall program document creating the President's Youth Service Awards.

This document is specifically named in the Cooperative Agreement No. CA-001 governing the program. Please see P. 2, #3. B.

This document states clearly - P. 5, #6:

"6. The Steering Committee

Each of the major collaborators will appoint one individual to serve on a Steering Committee. This Steering Committee will set the policy and oversee the implementation of the President's Youth Service Awards - one from the Commission, one from POL, and one from the Institute. The White House will be represented on the committee."

Reference to the Steering Committee and the establishment of the policy and management control mechanism for PYSA is important, because three items questioned by the independent auditor were covered and approved directly by the Steering Committee. They are itemized in the September, 1992 Program Document and the Cooperative Agreement No. CA-001:

OIG Comments:

AIPS alludes to a previous OIG investigation. It is not our practice to threaten those whom we interview. To state that falsifying time (or any other records) that are used to charge the federal government is a federal offense is a *fact*, not a threat.

Further, the audit does not take exception to the fringe benefits paid to AIPS employees; instead, it questions the method of allocating the costs of these benefits to the cooperative agreement.

American Institute of Public Service Response

- o The Ability of the Institute to Amend the Budget As Needed Once PYSA Was Operating
- o The designation of Sam Beard as having a major program implementation responsibility in a line function - "KEY PERSONNEL - Project Director."
- o Fund Raising

It doesn't seem proper two and one half years after the management decisions were made and relied on for an independent auditor, who participated in none of the meetings, to disallow these agreements.

4. Verifying Proper Expenditure of All Government Monies Received and Monies Still Owed the Institute By The Government For Carrying Out PYSA

Government Monies Received

To date the Institute has received the following monies from the Corporation (Commission) and POL for PYSA:

POL	\$100,000
	<u>\$18,000</u>
S-T	\$118,000
Corporation	\$100,000
	<u>\$85,457</u>
S-T	\$185,457
TOTAL	\$303,457

OIG Comments:

We have substantiated that, because AIPS reported that it was unable to raise private contributions to cover the one-third match up to \$100,000 it had promised to provide under the cooperative agreement, the Commission's grants manager allowed Mr. Beard to count his services to AIPS as an in-kind contribution. Nonetheless, Federal record-keeping requirements were not met. See page 4 of the auditor's report and Exhibits B-1, B-2, B-3 and the accompanying notes.

Furthermore, we question the reasonableness of the hourly rate AIPS used to value Mr. Beard's services: AIPS divided Mr. Beard's corporate salary (\$160,000+ annually) by 2080 hours, resulting in a hourly charge of \$77.40 per hour. In contrast, the agreement's budget established an hourly rate of approximately \$17.00 for the services.

In the attachments to our transmittal letter we have included an analysis of the charges revised to value the in-kind services a rates comparable to those normally paid for the services Mr. Beard performed.

American Institute of Public Service Response

Actual Out Of Pocket Monies Spent

Total monies spent on PYSA are \$422,579. These break out as follows:

	<u>TOTAL</u>	<u>AUDITOR QUESTIONED</u>
DIRECT LABOR	\$167,533	\$5,600
FRINGE	\$23,676	None (Formula Only)
CONTRACT SERVICES	\$ 9,181	None
TRAVEL	\$60,314	\$17,202
CONFERENCES	\$ 6,089	None
PRINTING	\$83,150	None
POSTAGE	\$16,846	None
INDIRECT EXPENSES	<u>\$52,715</u>	None (Formula Only)
TOTAL EXPENSES	\$422,579	

Plus Beard In-Kind: \$121,545. **TOTAL PROGRAM: \$544,124**

How does the Institute verify and justify that these monies were properly spent on PYSA?

The breakdown of the PYSA budget is not complex.

Think of the number of checks written. For printing: 17 checks total. Payroll - 6 people times 24 pay periods per year. Travel: American Express and Diner's Club - 12 bills each per year. Reviewing dollars spent is not very complex.

Let's review each item.

OIG Comments:

The table does not add up. For the amounts presented the total should be \$419,504.

As discussed in the auditor's report and on the previous page, the Beard in-kind services are questioned because the rate used is an unreasonable and inflated valuation of the services, and Mr. Beard's records of time spent on the project are inadequate and do not meet Federal standards.

American Institute of Public Service Response

A. Direct Labor

Total direct labor spent for the PYSA contract is \$167,533.

This is exclusive of any in-kind labor.

The auditor disallows all direct labor, because he does not feel that the Institute's "time recording" to be "adequate." The auditor refers the issue to the management of the Corporation (CNCS) to "evaluate the reasonableness of the effort in light of program goals and accomplishments."

The Institute knows that we spent all the recorded hours on PYSA and more. We did the work and deserve to be paid. The evidence and progress reports show that PYSA was a huge national undertaking and that the work was done with unquestioned dedication, professionalism representing the President, and enthusiasm.

At more than one Steering Committee meeting, the Commission stated as part of the management decisions that the Institute was required to verify that all monies sent by the government to the Institute properly spent. The Commission stated that they would send an auditor in immediately to assure that our books were set up properly and that our record keeping was done to their satisfaction. The Institute welcomed the decision, and on more than one occasion requested the auditor.

The auditor did not appear until the last day of contract - at year end.

On their own initiative, the Institute kept duplicate time sheets. We asked each professional to maintain record of hours spent on PYSA.

When the auditor arrived August 31, 1993. He that he was surprised that the Commission had not instructed us in any manner on time sheets or procedures or systems.

The lack of follow through on the promises Commission as agreed to at the Steering Committee is a major factor in what the auditor finds about time sheets.

The Institute asked each employee to maintain time sheets covering all hours worked on PYSA. Personnel at the Institute were hired as professionals. Part of the assumed professional responsibility is the ability to record accurately hours worked.

- 8 -

OIG Comments:

The statement that the auditor "disallowed" all direct labor is incorrect. The only disallowed direct labor was uncompensated overtime. The report includes balances for direct labor among costs that are classified as "not properly supported" because of the deficiencies in the time-keeping systems discussed in the report in Exhibits B-1, B-2, B-3 and the accompanying notes and also in page 4 of AIPS response.

The time sheets maintained by AIPS are not detailed records of their time; instead the time sheets were used only to record time charges to the Cooperative Agreement. Thus, the systems fails to meet Federal requirements. The auditors report also describes management control weakness (pages 4 and 12) which allowed and failed to detect material errors in reporting time charged to the agreement. See Exhibit B-1, p. 3 of 10 and Exhibits B-2 and B-3.

The gratuitous description of the auditor's surprise is not substantiated by facts. More importantly, the cooperative agreement documents set for the requirements for record keeping and reporting by reference to OMB Circulars. The Commission was not responsible for training AIPS in basic record keeping.

American Institute of Public Service Response

Why does the Institute feel that these time sheets are accurate?

The validity of the time sheets prepared by Mary Ellen Hearn, Nancy Leonard, Mary Tigani, and Linda Whitmarsh were never in question. All seem to agree that these are accurate.

The Institute had the misfortune of having a disgruntled employee complain to the Commission that our time sheets were inadequate and that we were not clearly delineating our expenses as between PYSA and the Jefferson Awards. There was an official investigation by the Inspector General's Office.

The time sheets questioned were for Amy Mast, Ann Shepard, and Kevin Sclesky.

Under the laser beam and pressure of an official federal investigation, the Institute employees signed affidavits that their time sheets were accurate and that they had even worked more overtime hours on PYSA than had been recorded. Each employee before signing was cautioned by the Inspector General, "If you falsify your records, this is a federal offense."

Without hesitation the employees signed the affidavits verifying the time sheets. The Inspector General investigation found "no fraud."

The time sheets stood up under the severest test - the threat of perjury and criminal proceedings. What else can you do to validate time sheets?

The Institute, without knowing of an impending Inspector General investigation, was adamant that time sheets be accurate. The Institute had already reviewed the internal time sheets and had made corrections before PYSA was billed.

The Inspector General's report confirms the following hour changes:

Sclesky	16 hours
Shepard	76 hours
Mast	<u>559 hours</u>
Total	651 hours

Out of seven employees working on PYSA only Amy Mast, the disgruntled employee, made substantial errors in recording time allocations between PYSA and the Jefferson Awards. This was corrected by the Institute prior to

OIG comments:

We are uncertain as to whom AIPS is referring in the comment that begins, "All seen to agree. . ." Neither OIG nor Haag and Co. in any reports have ever provided assurance of the accuracy of any AIPS time charges; mainly because of their record keeping practices and the serious deficiencies in AIPS management controls. We feel the system of management controls is so weak as to render the information "unreliable." See Exhibit B-1, page 3 of 10 of the Haag and Company report and the following page (page 10) of AIPS response.

American Institute of Public Service Response

allocating costs on our financial statements.

Excluding Amy Mast, six employees worked over 8,500 hours, and 92 hours were amended by the Institute - 1.1 percent. And our official vacation log and sick leave log had these 92 hours recorded correctly.

These hours were never billed incorrectly or charged to the Corporation.

The Institute regrets that the Inspector General's report found that the Institute "had poor administrative oversight" and "admitted that they did not review PYSA time sheets until the end of the first year of the program." We wish that this had not been the finding, and accept the finding with humility.

We really felt that employees could accurately record when they were working on PYSA.

In summary, we did the work. We worked the hours. The direct labor should be compensated.

B. Fringe Benefits

Total fringe benefits paid out by the Institute (no in-kind) are \$23,676.

The auditor "took no exception to these costs."

The auditor "reclassified all fringe benefits, payroll taxes and vacation, holiday and sick leave from direct to indirect expenses."

In response, the Institute questions this reclassification.

In September, October, 1993 Mr. Haag visited the Institute to review our financial reports and record keeping systems.

At that time Mr. Haag reviewed with the Institute how to keep our books properly. Mr. Haag gave us substantial guidance in how to keep our records to meet federal standards. We were extremely grateful for the guidance and implemented his suggestions.

Specifically we sat with Mr. Haag and asked item by item which expenses are proper to be direct and which are proper to be indirect. We then met with our accountant to change our system according to Mr. Haag's recommendations.

Mr. Haag's recommendations included, among others,

- 10 -

OIG Comments:

The statement that Mr. Haag provided consulting services on how to keep AIPS record is incorrect. Such services were beyond the scope of his assignment.

In the following paragraph, the statement regarding direct vs. indirect costs is confusing because even AIPS reports classify the costs as indirect. We have no idea as to AIPS allocation basis because the time keeping system does not regard the total hours. OMB Circular A-122 "Cost Principles for Non-Profit Institutions" states that to use hours as the basis for allocating indirect costs, the timekeeping system must accumulate total hours. (A-122, Attachment B, ¶6.1.2 (b).)

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salaries and fringe be recorded as direct expenses.

This included a very complicated formula on how to arrive at the allocation of fringe and indirect expenses.

Mr. Haag's formula specifically lists "Total Cost of Labor Including W-2, Payroll FICA Tax, and Health Benefits."

Our accountant verified that fringe benefits are direct expenses.

Having established our books and financial records based on Mr. Haag's explicit instructions in September, 1993, we question the rationale for Mr. Haag to change this allocation in November, 1994.

C. Travel

Total PYSA travel expenses are \$60,314.

Mr. Haag questions "approximately \$17,000 of employee travel" and "classified all other employee travel as unsupported." Mr. Haag states that "we do not consider the grantee's control procedures related to employee travel expenses...were adequate." "We refer them to management within CNCS to evaluate the reasonableness of the effort in light of program goals and accomplishments."

Response Re Unsupported Travel Expenses

The Institute spent this money and has the following very specific and detailed reports verifying the expenses:

American Express Monthly Statements
and Diner's Club Monthly Statements -
Person by Person
Both are itemized and allocated individual
by individual.
Specific Records, Receipts, and Reports for
Any Itemized Cash Disbursements
Individual Travel Reports for each employee
broken down by day, date, and purpose.
These include receipts for all items.

The Institute required travel itineraries
be approved prior to PYSA travel.

The travel is real. The back-up is very detailed.
The Institute should be reimbursed.

OIG Comments:

As stated on page 5 of the report, the \$17,000 of employee travel was questioned because many travel reports were not available; for those travel reports available \$5,000 was in excess of maximum daily travel allowances permitted by Federal Travel Regulations. Furthermore, as reported in Exhibit B-1, page 8 of 10, the travel reports were found to be inaccurate.

The travel reports maintained AIPS, as well as the documentation submitted with this response, fail to even meet the documentation requirements of the IRS. Further, the copies of expense account statements include meal and other expenditures in excess of allowances permitted by the Federal Travel Regulations.

Given the poor record keeping and the management control weaknesses, we cannot accept travel charges without travel reports to review.

American Institute of Public Service Response

ANALYSIS OF PYSA EXPENSES

*** TRAVEL**

- * All travel is backed up in multiple ways. Each item has supported hotel, restaurant and cash receipts. Each is recorded on individual, signed travel reports. Each is verified against American Express and Diners Club bills which are paid by check. Individual cash reimbursements are paid in check only upon verification of documented cash receipts.

See OIG Comments on preceding page.

	<u>Actual</u>	<u>Auditor</u>	
<u>Conferences</u>			
	\$ 6,089.00	\$ 6,089.00	Approved No Question
<u>Travel</u>			
	<u>\$60,314.00</u>	<u>\$60,314.00</u>	
	\$66,403.00	\$66,403.00	

Step 1

Auditor Shows Travel claimed as: \$60,314.
Auditor Lists Submitted Travel
Reports totaled as: \$48,169
Auditor Questions: \$12,145

Response: The auditor is missing three major expenses:

1. Nancy Leonard 1994	\$ 1,524.
2. Linda Whitmarsh 1994	\$ 891.61
3. Amy Mast total bills are \$10,531.17	
Mast reports	\$10,531.17
total \$2,118	<u>- \$2,118.00</u>
	\$8,413.17
	<u>\$ 8,413.17</u>

Please Reinstate \$10,828.78

Amy Mast created nothing but problems. Couldn't do her time sheets. Couldn't fill out her expense reports. Regardless, these are real bills backed up by real work. They should be paid.

\$10,828.78 should be allowed. They are supported by bills and canceled checks.
\$1,316.22 remains as a difference. This is too difficult to check. AIPS waives this amount.

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Step 2

Auditor Questions \$5,057 additional.

This breaks out as follows:

Item

1. Excess Over Per Diem	\$2,914	We never traveled extravagantly. These are legitimate expenses. Sometimes available hotels are more expensive
2. Telephone	\$ 92	Agreed
3. Unallowed Lunches	\$ 182	Only to convince labor people to participate + proper entertainment re program
4. Fund Raising	<u>\$1,869</u>	An accepted program purpose
	\$5,057	

Summary: Should Be Disallowed: \$92
 Legitimate Expenses: \$4,965

Please Reinstate \$4,965

Reconciliation

Actual Expenses	\$66,403.00	
Approved Conferences	\$ 6,089.00	
* Unquestioned Travel (Auditor States This Is "Unsupported.")	\$43,112.00	* Absolutely no travel is unsupported.
Please Reinstate	+ \$10,828.78	
	+ <u>\$ 4,965.00</u>	
	+ \$15,793.78	
Disallow	- \$ 1,316.22	
	- <u>92.00</u>	
	- \$ 1,408.22	
TOTAL	\$66,403.00	

OIG Comments:

The charges are unallowable because

Item 1. -The charges are in excess of allowable ceiling established in the Federal Travel Regulations.

Items 3 and 4 - Entertainment and Fund Raising Costs are unallowable under OMB Circular A-122.

Use of the term "Approved" should not be interpreted to mean accepted by the auditors.

Due to the failure to maintain travel records as required by Federal requirements and the management control weaknesses that permit errors to occur and remain undetected, we cannot accept the \$12,000 in travel costs that were questioned by the auditors.

American Institute of Public Service Response

D. Indirect Expenses

On indirect expenses, Mr. Haag takes "exception to the method of allocation used by AIPS." (P. 17 - B-1 Note 6.)

This is an irony, because we used the exact system that Mr. Haag recommended and instructed us in the use of in September/October, 1993.

Mr. Haag's system is very complicated, and is as follows.

Take total overhead. Divide this by the total cost of labor, including W-2, FICA, and health benefits, to create an overhead rate.

Multiply this rate times the direct labor, including W-2, payroll tax FICA, and health benefits, allocated to PYSA, to get the PYSA indirect.

We had been using PYSA direct labor hours as a percentage of total hours, to create our overhead rate. Mr. Haag stated that our system and his system create the exact same end result, but requested that we use his system, which our accountants have.

To change his mind in November, 1994 is inappropriate.

Mr. Haag states that his allocation formula for indirect expenses equals exactly the formula of PYSA hours as a percentage of total hours.

Let's review total hours by the appropriate periods.

OIG Comment:

We have no evidence that supports AIPS continued claim of a system designed by Haag and Co. The firm was hired to review AIPS records, not provide guidance to AIPS.

Further, our discussions with the auditors and their previous reports indicate that AIPS records were so inadequate at the time of the first review that definite recommendations of this nature could not have been made.

American Institute of Public Service Response

OIG Comments:

A. Calendar Year 1993

Mr. Haag instructed us to calculate overhead on a calendar year basis.

See Schedule 2 of the report

	<u>PYSA Hours/ Total Hours</u>	<u>Percent</u>
Hearn	411/1280	32%
Leonard	1242/2080	59.7%
Mast	1090/1520	71.7%
Sclesky	1842/2080	88.5%
Shepard	1692/2080	81.3%
Whitmarsh	1260/2080	60.6%
Beard	<u>971/2080</u>	<u>46.7%</u>

Overall: 8,508/13,200 64.5%

For 1993 the proper allocation of indirect expenses for PYSA is 64.5 percent of total indirect.

B. Calendar Year 1992

The PYSA program began in September, 1992. Mr. Haag instructed us to take the last four months and use these as a basis to determine the overhead rate. We did this as follows:

See Schedule 1 of the report.

	<u>PYSA Hours/ Total Hours</u>	<u>Percent</u>
Beard	336/704	48%
Hearn	220.5/704	31%
Leonard	237/704	34%
Mast	38/144	26%
Sclesky	222/312	71%
Shepard	186.5/672	28%
Whitmarsh	<u>227/704</u>	<u>32%</u>

Overall 1467/3944 37%

Proper allocation of indirect expenses for the last four months of 1992 is 37%.

C. Calendar Year 1994

The PYSA program was taken out the AIPS hands in early 1994. The Corporation asked AIPS to fulfill PYSA orders through Year II of the program. The cutoff date of mailing pin requests is March 31, 1994. Fulfilling pin orders extends into June. The heavy period is March and April. The Institute kept time sheets through April to carry out the Corporation's request. We did not bill for time spent in May or June, and

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we are not billing for time spent in 1995 fulfilling orders - even though the time is extensive.

We followed Mr. Haag's 1992 recommendation for allocation of 1994 indirect.

	<u>PYSA Hours/ Total Hours</u>	<u>Percent</u>
Leonard	379.5/680	55.8%
Shepard	208/680	30.6%
Sclesky	254/680	37.4%
Whitmarsh	200/680	29.4%
Beard	<u>110/680</u>	<u>16.2%</u>
Overall	1,151.5/3400	33.9%

Proper allocation of indirect expenses for the first four months of 1994 is 33.9 percent.

Summary of Indirect

	<u>AIPS Total</u>	<u>PYSA Percent</u>	<u>PYSA ALLOCATION</u>
<u>1992</u>			
September, 1992 - December 1992	\$41,581	37%	\$ 5,335
<u>1993</u>			
Full Year	\$61,525	64.5%	\$39,683
<u>1994</u>			
January - April	<u>\$22,705</u>	33.9%	<u>\$ 7,697</u>
TOTAL PYSA INDIRECT EXPENSES			\$52,715

Other

The auditor questions indirect costs for tax penalties, interest and finance and service charges.

We agree. This totals \$386 and some part of a computer depreciation.

The exception of the interest cost for the loan for the pin inventory.

OIG Comments:

As stated in the report (page 5), in accordance with Federal Acquisition Regulations 42.708, the 1993 indirect expense rate was used. AIPS' indirect rates for 1994 were not available at the time of the audit because AIPS reports on a calendar year basis.

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E. Manufacture of Presidential Pins and Certificates and Letters and Their Delivery

As part of PYSA, the Institute established a separate bank account to cover all revenues and costs related to the manufacture of the presidential pins, the certificates and letters, and to cover the expenses of the mail order house in charge of fulfillment.

The outstanding costs from this operation as of February 1, 1995 are approximately \$25,000.

The Corporation and the Institute agreed to fulfill these orders through the end of Year III. The cutoff date is listed as March 31, 1995. Experience shows that orders will be heavy in March and continue heavy well into April, 1995. The orders will taper off in May and some will extend into June because of the academic September - June year.

Hopefully by the end of April, 1995, the revenues will have offset all costs.

All these expenses are expenses of the program and should be reimbursed by the Corporation.

A part of these expenses is a separate interest charge of monies borrowed to build up an inventory of pins. The President's Physical Fitness Council told us this was essential so that people all across the country would not be infuriated at the President's program through three to six month delays awaiting pin manufacture.

Page 3. d. 2). in the auditor's report sets up language for the Corporation to avoid their responsibility to cover these costs.

"In a letter to the CNCS, dated December 23, 1993 AIPS indicated that expenses related to the manufacture and distribution of the pin awards should not be considered as part of the Grant operating budget; that these costs are recoverable through income from the sale of the pins."

Yes, the pin costs are not part of the marketing operating budget of PYSA, but they are definitely a cost of the program. Any outstanding pin costs are the responsibility of the Corporation.

OIG Comments:

As discussed in the report (page 3) the cooperative agreement budget did not provide for the sharing of costs related to the pin inventory.

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F. April, 1994 Costs

In December, 1993 Rick Allen of the Corporation and Sam Beard of the Institute, met. Mr. Allen indicated that the Corporation would be taking over the running of PYSA.

We agreed that all inquiries for new program information would be forwarded by the Institute and handled by the Corporation. We agreed that the stated deadline for Year II is March 31, 1994. The Institute would handle all requests for pins related to Year II. The PYSA experience is that pin orders are strong in March and continue strong into April. They taper way off and continue into May and June.

The Institute has submitted their real expenses through April, 1994 as part of the agreed to pin fulfillment agreement. These expenses are legitimate costs of PYSA.

The Institute has not submitted any expenses for pin fulfillment from May, 1994 through June, 1995, and will not. But we are continuing to fulfill the orders as not to disappoint the close to 2,000 organizations who in good faith have continued to reward young Americans for outstanding voluntary service. This includes extensive work in 1995 and ongoing.

5. Mr. Beard's In-Kind Labor Contribution

Mr. Haag disallows all Mr. Beard's "In-Kind" Labor contribution for a variety of reasons. The Institute's response to each is as follows:

1. "Not Provided For In The Approved Budget"

Somehow disallowing any value of Mr. Beard's "in-kind" labor contribution defies common sense.

From the beginning Mr. Beard has spent thirty to forty percent of his time on PYSA.

The Institute's Board of Selectors and Mr. Beard spent three and one half years working in a devoted and consistent manner to initiate, create, and sell the concept of PYSA to the White House, Points of Light, and the Commission.

Many people were involved in creating PYSA, but without Mr. Beard's persistence, there would be no program at all.

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Mr. Beard and the Institute were the major drafters of the PYSA final White House approved Proposal as finalized in September, 1992.

In the official PYSA Cooperative Agreement CA-001 item #11 lists "KEY PERSONNEL." The Cooperative Agreement specifies that Samuel Beard serve as Project Director for PYSA. Any change requires "prior written approval."

The PYSA Steering Committee managers felt that Mr. Beard's participation was vital to the program.

Throughout the PYSA program Mr. Beard as Project Director prepared and presented all PYSA Progress Reports. In each Mr. Beard was listed as a key participant in the program. Mr. Beard had the responsibility of drafting all management documents, training the PYSA staff, and even in the beginning handling an equal portion of states and national organizations. The Steering Committee continually received reports that Mr. Beard was playing a major line function leadership role in PYSA.

The Auditor who participated in none of these meetings, and who has no knowledge of the day to day workings of the program managers or decision makers refers to a budget prepared in March and April, 1992 as being the governing document. (See page 37 - 43.)

This budget is a hypothetical budget created to the best of the Steering Committee's approval in early 1992 - a full seven months before the program began.

The budget specifically states that "The American Institute reserves the right to adjust dollars among budgeted items as appropriate." The whole purpose of this phrase, as approved by the White House, the Commission, Points of Light, and the Institute was to allow for adjustment once PYSA became operational.

The budget talks of three full time professionals. PYSA ended up with seven professionals plus Mr. Beard to carry out the immensity of the task. PYSA was originally designed to kick off in June, 1992, and the letters from the White House were not sent until the end of November, 1992 with a March 31, 1993 Year I end. We added extra people to adjust for the delay and try to catch up - anything to make Year I a success.

Contingencies and changes of exactly this nature is why total flexibility was built into the approved program documents.

OIG Comments:

Costs that are unallowable under Federal regulations as set forth in the OMB Circulars cannot be accepted or allowed even if the budget is adjusted. Furthermore, rebudgeting must be approved by the Commission or CNS which assume the authority for the Commission's grants.

Instead of three full time employees dedicated to the cooperative agreement, AIPS staff participated to varying degrees and all charged their time (with varying degrees of accuracy as discussed in the report and our comments on AIPS response) to the agreement.

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All parties accepted Mr. Beard's role as central to PYSA and its success. It doesn't make any sense to claim that Mr. Beard had no part or value to the program.

2. Insufficient Time Sheet Verification

When the Institute initiated PYSA, the Institute allocated an in-kind allocation of \$4,000 per month as the value for Mr. Beard's services. This was consistent with a signed, written agreement between the Institute and Mr. Beard's employer.

As part of Mr. Haag's recommendations in September, 1993, Mr. Haag indicated that proper in-kind verification required time sheets. Mr. Haag suggested that Mr. Beard prepare time sheets going back over the one year period and indicate that these were retroactively prepared. Mr. Beard followed this recommendation. Mr. Haag then asked Mr. Beard how he had arrived at these figures.

Mr. Beard showed Mr. Haag that he maintains a daily schedule of appointments and responsibilities for every calendar year. A review of this daily calendar by activity provided a detailed basis to pinpoint the expenditure of Mr. Beard's time during this time period. Mr. Haag selected random dates and time periods and asked Mr. Beard to demonstrate to him how the validity of the time sheets related to the calendar. This was done.

After October, 1993, the time sheets were kept on a current basis.

The time sheets are a good basis of determining the degree of Mr. Beard's involvement. The government was not asked to reimburse the Institute for these expenses.

6. Work Performed Prior To Contract Beginning in September, 1992

Beard spent many, many hours during 1992 prior to September on PYSA. None of these hours were recorded or charged to PYSA.

Mr. Haag is inaccurate. None of Beard's time prior to the beginning of the program was counted, and this is recorded on time sheets which Mr. Haag has.

Mr. Haag has Mr. Beard's September through December, 1992 time sheets, which record the 336 hours spent and charged to PYSA as an in-kind service.

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OIG Comments:

We calculated this \$4,000 to be 30 percent of Mr. Beard's annual salary of \$160,000.

The calendar shown to the auditors does not specify which of Mr. Beard's activities are related to PYSA. It is simply a listing of appointments and engagements. Also, the calendar "book" for 1992 could not be found at the time of the audit.

In effect by including his services as part of the matching costs, he is precisely asking for reimbursement!

According to the AIPS financial statements provided to Haag and Company, Mr. Beard's time was allocated to the PYSA agreement. Further, the Financial Status Reports submitted by AIPS to the Commission tie in to these financial statements, and thus, include Mr. Beard's time.

The response is also incorrect in that the basis for allocating Mr. Beard's time was not the timesheets. Instead, as discussed above a flat charge of \$4,000 per month was used.

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7. Beard Time Spent on Fund Raising

Part of the management Steering Committee decisions and discussions and agreements approved that the Institute would fund raise to bring in revenue to cover program expenses.

All discussions with the principals and part of the agreement to proceed on PYSA was the following.

- o The Institute would fund raise.
- o The Institute would cover one third of program expenses unless the program was terminated. The Institute would cover their share any way they could - through in-kind services and endowment income or raised monies.

This is best covered in the Cooperative Agreement CA-001 #6. PERIOD OF PERFORMANCE AND FUNDING SCHEDULE

"F. The American Institute For Public Service will also contribute a match of \$100,000 per year from nonfederal sources..."

The best indication of fund raising being a known and approved part of the PYSA program is that FUND RAISING is specifically covered in the Cooperative Agreement No CA-001. (See item #9.)

Time spent on fund raising is an approved program expense.

8. Exclusion of Fringe Benefits

The auditor questions including Mr. Beard's fringe benefits as being part of in-kind service. The auditor cites OMB A-122.

The Institute's accountant formally reviewed OMB Circular A-133 which specifically allows fringe as a proper expense for in-kind services.

"When an employer, other than the recipient, funds the services of an employee, these services shall be valued at the employee's regular rate of pay (plus an amount of fringe benefits that are reasonable, allowable, and allocable, but exclusive of overhead amounts."

9. Printing

Actual printing bills are \$83,150.60 compared to \$51,308 reported by Mr. Haag. The auditor was given copies of the bills. Please see the attached summary of printing.

OIG Comments:

Fund raising costs are not allowable under the Federal regulations set forth in OMB Circular A-122.

The citation of OMB Circular A-133 to support costs is incorrect. Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions* establishes audit requirements for these organizations who are recipients of Federal funds. The Circular incorporates Circular A-122 cost regulations. A-122 states that in-kind services are to be valued exclusive of fringe benefits.

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ANALYSIS OF PYSA EXPENSES

PRINTING

<u>Date Pd & Actual</u>	<u>Computer</u>	<u>Auditor</u>
<u>1992</u>		
1/18/93 * \$29,382.51	Computer	*
	Not In Place	
<u>1993</u>		
4/27/93 \$10,092.00	\$10,092.00	
5/20 \$ 1,475.00	\$ 1,475.00	
6/25 \$ 8,285.25	\$ 8,285.25	
9/22 \$ 101.35	\$ 101.35	
9/24 \$ 92.00	\$ 92.00	
9/24 \$ 1,350.00	\$ 1,350.00	
10/15 \$ 587.00	\$ 587.00	
10/15 \$ 214.25	Miscoded	
10/19 \$10,157.00	\$10,157.00	
12/3 \$10,000.00	\$10,000.00	
** 2/2/94 \$ 5,615.00	\$ 5,615.00	
** 4/15/94 \$ 3,553.00	\$ 3,553.00	
	\$51,307.60	\$51,308 P.19
<u>1994</u>		
3/10/94 \$ 221.24	Miscoded	
5/27/94 \$ 1,210.00	\$ 1,210.00	***
9/7/94 \$ 752.00	After 3/31	
12/20/94 \$ 63.00	After 3/31	
	\$ 2,246.24	\$ 1,210.00
TOTAL:	\$83,150.60	\$52,517.60
		\$51,308.00

Reconciliation

1. Auditor Approved	\$51,308.00
2. Submitted To Auditor	+\$30,592.51
3. Miscoded	+ 435.49
4. After 3/10/94	+ 815.00
	<u>\$83,150.51</u>

* Received by auditor.
This was incurred in November, 1992 and paid January 18, 1993. Because it was paid in January, 1993, we included it in year 1993. Properly the accountants removed it from the 1993 Audited Financial Statement. We never amended and reprinted the 1992 Financial Statement.

** (5,615 + 3,553 = 9,168 as reported in computer

*** Received by auditor.

OIG Comments:

The audit was performed using the audited financial statements for 1992 and 1993. . Apparently, AIPS has found information related to costs omitted from the statements. Our intent was not to deny valid charges. AIPS should amend and correct its financial reports and submit the supporting documentation

See above comment.

American Institute of Public Service Response

ANALYSIS OF OVERALL COSTS

<u>Category</u>	<u>Haag</u> 9/92- 8/93	<u>Haag</u> 9/93- 3/94	<u>Haag</u> <u>Total</u>	<u>Reynolds</u> <u>Total</u>	<u>Under</u> <u>Question</u>
LABOR					
Direct Salaries	171,930	101,258	273,188		
Subtract Beard To Get Dollars Spent. (8.)		-105,655	167,533	167,533	(1.) 5,600
Employee Benefits	14,004	9,772	23,776		
Payroll TxS	10,071	5,719	15,790 39,566		
Subtract Beard To get Dollars Spent (8.)			-15,890 **22,676	** 23,676 2,616(new)	(2.) Formula Not Amnt 2,616 (3.)
\$2,616		Haag left out 1994 Staff FICA is \$1,616 Health is \$1,000 \$2,616	as reported		
Contract Services	0	9,181	9,181	9,181	None
Travel	42,835	17,479	60,314	60,314	(4.) 17,202
Conferences	3,000	3,089	6,089	6,089	None
Printing	19,852	31,456	51,308	83,150	(5.) 31,842
Postage	8,010	8,836	16,846	16,846 459(new)	(6.) 459 (7.)
Indirect + G & A	27,388	32,419	59,807	52,715	Formula Not Amount
TOTAL DOLLARS SPENT			\$394,754	\$422,579	

OIG Comments:

FICA and other fringes were considered in the report; they are included in the HAAG and Company indirect rates.

American Institute of Public Service Response

EXPLANATION

- (1.) The auditor questions 370.5 hours of uncompensated overtime for a value of \$5,589.

A review of the auditor's analysis and the actual month by month time sheets shows that over half of this was weekend conferences - NEA, AFT, AFL-CIO Student Council Presidents, Cool, etc.

This shows the dedication of the PYSA staff. Spending 10 to 14 hours on Saturday and Sunday working the halls, getting people involved.

AIPS had already knocked off substantial overtime hours where individuals worked more than an 8 hour day.

Recommendation: Disallow one half of the \$5,589.

Allow half for the conferences.
Reinstate \$2,795.

Other than that the Commission message is:
Don't go to conferences. Don't work on weekends.
Make sure to only work an 8 hour day, or you'll be penalized.

Does this represent the Clinton Reinventing Government? I doubt it.

2. The auditor in September/October instructed AIPS that fringe is a direct expense and follows time sheets and hour allocations.

In November, 1994 the same auditor has created a new formula. There is no known government policy which changes the old formula. Fringe was allocated person by person based on hours worked on PYSA.

Overall this was 64.2 percent. Not 31.96, 34.48, or 34.48%.

3. The auditor agrees that he did not include 1994 fringe. This totals \$1,616 for FICA and \$1,000 for health.

There should be no dispute.

OIG Comments:

As we commented previously, AIPS employees are not paid for their overtime. AIPS did not incur a cost for the overtime. Therefore, AIPS cannot charge the Federal government for costs it did not incur.

This statement is not factual. Haag and Company's report includes fringe benefits. As described in the report on page 5 and discussed earlier in our comments to the AIPS response, because the 1994 rate was not available, the 1993 rate was used.

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4. Travel. Please see detailed analysis.
5. Please see detailed analysis. All these are easy to prove bills.
6. Postage. A new bill to send letters at Corporation request informing participants of new program status.
7. The auditor agrees that the monies were spent. There is no disagreement on indirect expenses. The issue is the formula.

The auditor created a new November, 1994 formula allocating indirect expenses at 10.99%, 10.43% and 10.43%.

In September/October 1993 the auditor carefully indicated how he wanted indirect allocated. The Haag formula, as used by the accountants, is total overhead, divided by total cost of labor, including FICA and Fringe, to create an overhead rate. Multiply the overhead rate times the PYSA direct labor including FICA and Fringe and you get the proper share of PYSA overhead.

Our accountants used the auditor's formula.

The easy formula, as understood by Mr. Beard, is to calculate total hours worked on PYSA as a percentage of total hours worked. Direct labor hours during 1993 were 64.5 percent of total labor, 37 percent for the four months in 1992, and 33.9 percent for the four months in 1994.

The new Haag formula is arbitrary. We only worked 10.99 percent of our time on PYSA?

8. During the PYSA contract, Beard spent In-Kind Salary of \$105,655 and In-Kind Fringe of \$15,890 for a total of \$121,545.

During the period 9/92 through 8/31/93, Beard spent In-Kind \$68,692 direct salary and \$12,333 fringe for a total of \$81,025.

9. The pin account is separate. Hopefully with the sale of pins through March - May of 1995, this account will erase any money which the corporation owes the American Institute. The current owed balance is about \$25,000.

Sell, 12,500 pins at \$2 each and this account will be 0.

OIG Comments:

See comments on previous pages of this response.

AIPS recently submitted another Financial Status Report. That report claims a total of \$126,000. The additional \$5 thousand is not identified here or on the FSR.

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8. How Much Money Does The Corporation Owe The American Institute for PYSA?

ANALYSIS OF INCOME & EXPENSES

TOTAL EXPENSES	\$422,579
TOTAL INCOME	
The Corporation & Points of Light	\$303,457 (1.)
Contributions To The American Institute For PYSA	\$32,500 (2.) - \$335,957
TOTAL OWED AMERICAN INSTITUTE	\$ 86,622

(1.) Points of Light sent AIPS \$118,000 and the Corporation has sent AIPS \$185,457 for a total of \$303,457.

(2.) AIPS received contributions for PYSA from the following sources:

New York Telephone	\$10,000
Good Samaritan	\$10,000 *
Mobil Corporation	\$10,000
Corning	2,500
	<u>\$32,500</u>

* The donation from Good Samaritan was \$30,000. This was \$10,000 for PYSA for each of three years - June, 1993-1994; June, 1994-1995; and June, 1995-1996. Since the Corporation ended PYSA in December, 1993, AIPS offered to give Good Samaritan their future two year commitment back, but requested that Good Samaritan reallocate the remaining \$20,000 to general American Institute projects, which they agreed to do. Please see the attached letter.

PIN ACCOUNT

The pin account is separate and has been maintained separately. The Corporation will owe the Institute any remaining balance from this account.

Hopefully the pins received during 1995 will offset the outstanding \$25,000, and this will become 0 or a plus.

OIG Comments:

This analysis is flawed because it ignores the cost sharing provisions of the agreement which require costs to be split three ways among the participants.

OIG does not agree. We have provided alternative analyses of costs claimed and amounts due in our transmittal letter.

AIPS agreed to raise its share of the costs through fund raising from the private sector. Consequently, these contributions should either reduce the total costs or reduce the costs for which AIPS seeks reimbursement.

The analyses included with our transmittal letter consider these contributions.