
C O R P O R A T I O N

F O R N A T I O N A L



S E R V I C E

OFFICE OF THE INSPECTOR GENERAL

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Review of

The Arc of the United States

Arlington, Texas

Grant Number 95ADNTX015

This report is issued to CNS Management. According to OMB Circular A-50, *Audit Follow Up*, the Corporation must make final management decisions on the report's findings and recommendations no later than December 2, 1996. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented or the amount of disallowed costs.

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

Corporation for National Service
Office of Inspector General
Review of The Arc of the United States
Grant Agreement #95ADNTX015

We performed a limited review, as described in the Scope and Methodology section of this report, of The Arc of the United States' (The Arc) financial reporting and accounting systems and management controls to assess their ability to comply with Federal fiscal accounting and Corporation for National Service (CNS) grant requirements.

RESULTS IN BRIEF

We found that The Arc's accounting systems and system of internal controls are not adequate to report grant expenditures in accordance with grant requirements and to safeguard Federal funds. The conditions leading to this conclusion include inadequate monitoring of subgrantees, accounting policies and procedures; tracking of labor hours and AmeriCorps Member service hours; and support for in-kind costs. As a result, we are making recommendations to improve grant oversight. In addition, we are questioning \$11,571 in costs charged to the grant and recommending a reduction of matching costs of \$16,569.¹

Finally, in Finding IV we estimate that The Arc is at risk of exceeding the five percent administrative limit set by CNS regulations. These matters are discussed in detail in the findings and recommendations section of this report.

We provided a draft of this report to The Arc and CNS officials for their comments. Their responses are presented, in their entirety, as Exhibits A and B, respectively.

The Arc generally agreed with most of our findings and listed corrective actions it has taken or will take to strengthen its monitoring of its subgrantees. The Arc has also provided copies of additional documentation related to questioned costs which we have forwarded to CNS Grants Management for their review during the audit resolution process. The Arc disagreed with our finding related to the tracking of labor costs. Their response and our assessment are included in Finding III.

Both The Arc and CNS disagreed with our finding related to administrative costs. Their responses and our assessment are included in Finding IV.

¹Costs questioned and unsupported in-kind contributions were derived from reviewing the first five months of the 17 month grant and visiting three of seven sites.

BACKGROUND

The Arc was awarded \$769,426 from CNS to fund an AmeriCorps program for the period August 1, 1995, to December 31, 1996. For The Arc's program, AmeriCorps Members will provide services to individuals with mental retardation and related disabilities through one-to-one mentoring relationships. They will also act as role models and "bridge builders" to help service recipients gain independence in home, work, leisure and to help them engage in community activities of their preference.

The Arc is the nation's largest volunteer organization devoted solely to improving the welfare of the estimated 7.2 million Americans with mental retardation and their families. The Arc of the United States is the national headquarters for independent, separately incorporated, local Arc affiliate chapters in every state.

The AmeriCorps grant provides support for the program as follows:

<u>Cost Category</u>	<u>CNS Award*</u>	<u>Costs Incurred**</u>	<u>Costs Questioned</u>
Living Allowances (49 AmeriCorps Members FTEs***)	\$ 339,637	\$ 28,917	
FICA and Worker's Compensation	32,983	2,394	
Health Care	25,500	1,047	
Member Training, Education, Uniforms, and Other	<u>20,047</u>	<u>44</u>	
Subtotal	418,167	32,401	
Staff Salaries, Benefits and Training	208,811	21,309	\$ 10,246
Travel, Transportation, Supplies, Equipment and Other	103,349	5,961	667
Internal Evaluation	650	0	0
Administrative Expenses	<u>38,449</u>	<u>2,862</u>	<u>658</u>
Total Operational Grant	<u>\$ 769,426</u>	<u>\$ 62,533</u>	<u>\$ 11,571</u>
Total The Arc Operational Grant	\$ 769,426		
Post Service Education Awards	231,549		
Total CNS Funding	<u>\$1,000,975</u>		

*Under the grant, The Arc must provide an additional \$544,137 in matching funds for its program.

**Incurred amounts are for the three sites visited during our review.

***The Arc's 49 AmeriCorps Member FTE is comprised of 25 full-time and 48 part-time AmeriCorps Members.

For The Arc's AmeriCorps grant, Headquarters subcontracted with local Arc chapters to administer the program at six project sites. Headquarters monitors the work of the six sites. Each site is responsible for accumulating and tracking AmeriCorps Members' service hours, disbursing payroll and AmeriCorps Member stipends and maintaining invoice documentation

and receipts. Sites request grant funds by submitting a monthly reimbursement request to Headquarters, which approves it and disburses funds.

SCOPE AND METHODOLOGY

We performed our review during the period November 1, 1995 through March 6, 1996. Our procedures included site visits to The Arc's Headquarters in Arlington, Texas, and two subgrantees: The Arc of Maryland in Annapolis and Stone Belt Arc in Bloomington, Indiana. We obtained an understanding of The Arc's accounting system and management controls and performed limited testing to determine whether they were operating as intended. Our procedures included:

- interviewing key accounting and program personnel at Headquarters and two sites;
- testing a judgmental sample of financial transactions related to the grant;
- reviewing The Arc's procedures for drawing down funds and disbursing them to its subgrantees;
- reviewing The Arc's management controls to monitor AmeriCorps Members and report service hours, and testing, on a judgmental basis, the accuracy of The Arc's system used to accumulate service hours; and
- inquiring of The Arc officials about their knowledge of, and adherence to, CNS regulations and policies regarding lobbying activities.

We performed our review in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. However, our procedures were substantially less in scope than an audit, and accordingly, did not include elements essential to the expression of an opinion on management controls. Accordingly, we do not express such an opinion. Further, if additional audit procedures had been performed, other matters might have come to our attention that would have been reported. Also, projections of any evaluation of the internal control structure over financial reporting to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This report is intended for the information and use of Corporation and The Arc management. However, this report is a matter of public record and its distribution is not limited.

FINDINGS AND RECOMMENDATIONS

I. The Arc Headquarters' plans to monitor subgrantees were inadequate.

At the time of our site visit to The Arc Headquarters, no staff had made monitoring site visits to any of the subgrantees. The Project Director stated that she planned to make periodic monitoring visits to the subgrantees and evaluate on-going program activities; however, her plans did not include procedures for reviewing the subgrantee's financial systems, documentation to support claimed costs, or the allowability of these costs when compared to grant terms and conditions. Furthermore, The Arc did not assess the internal controls or the financial reporting and accounting systems of the sites before awarding the subgrants.

Federal regulations require that grantees monitor grant and subgrant supported activities to assure compliance with applicable requirements (45 C.F.R. 2543.51, *Monitoring and Reporting Program Performance*).

We recommend that The Arc develop and implement grant management procedures for reviewing subgrantee financial systems; documentation supporting claimed costs; and the allowability of these costs when compared to grant terms and conditions.

II. Inadequate policies and procedures contributed to erroneous reports and unallowable charges to the grant.

During our review, we found that neither The Arc of Maryland or Stone Belt Arc could demonstrate an awareness of Federal regulations that applied to the grant. We also found the following conditions at The Arc:

- Each site is responsible for maintaining its own accounting system. The Arc of Maryland had no documentation to support its accounting policies and procedures. Additionally, neither The Arc of Maryland or Stone Belt Arc had an adequate travel policy.
- Bank reconciliations were not routinely prepared for cash accounts at The Arc of Maryland or Stone Belt Arc.
- The Arc of Maryland charged administrative costs to the grant based on a budgeted amount, rather than actual costs incurred. Furthermore, other indirect costs such as copier usage and postage were charged without a documented basis. When informed that it could not charge administrative costs based on a budgeted amount, The Arc of Maryland stopped charging administrative costs to the grant and stated that it would not charge administrative costs to the grant until it has determined a method for

allocating such costs. (See Finding IV for further discussion of administrative costs.)

Federal regulations require that recipients of Federal funds have records that identify adequately the source and application of funds for federally-sponsored activities, maintain effective control over and accountability for all funds, property and assets, and have written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award. These regulations also require that recipients' financial management systems provide for the accurate, current and complete disclosure of the financial results of each federally-sponsored project or program (OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C, section 21).

Furthermore, Federal regulations state that costs charged to the grant must be adequately documented and prohibit certain unallowable charges such as fund raising and entertainment to the grant (OMB Circular A-122, *Cost Principles for Nonprofit Organizations*). In-kind contributions must also meet applicable Federal regulations regarding documentation and allowability.

Without an adequate understanding of Federal grant regulations or documentation of policies and procedures, there is limited assurance that policies and procedures will be applied correctly and consistently. For example, we found that The Arc could not provide adequate documentation and made unallowable charges to the grant. As a result we have questioned costs and recommended reductions in matching funds as follows:

<u>Site</u>	<u>Description</u>	<u>Questioned cost (CNS share)</u>	<u>Reduction in match (Grantee share)</u>	<u>Reason</u>
Headquarters & Stone Belt	Airline travel	\$ 477	\$ 12	Inadequate documentation
Maryland	Refreshments; Entertainment	190	63	Unallowable cost; Not in budget
Maryland	Administrative costs	658	1,781	No supporting documentation
Stone Belt	Fund raising	0	373	Unallowable cost
	Total	\$1,325	\$2,229	

In addition, we found that reimbursement reports submitted by Stone Belt Arc and The Arc of Maryland contained errors. At Stone Belt Arc, we found errors in its October 1995 reimbursement request for \$10,869 causing an overstatement of \$1,031, and errors in its November 1995 request for \$13,702 causing an overstatement of \$2,285. When informed of the errors, Stone Belt Arc revised and resubmitted the reports. At The Arc of Maryland, we found that its November 1995 request for \$8,374 contained an overstatement of \$99 related to stipends.

We recommend that The Arc and its subgrantees maintain adequate supporting documentation for all charges to the grant and up-to-date written policies and procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award. Such policies and procedures should include The Arc's policy over non-local travel and how indirect and administrative costs are charged to the grant. They should also provide for the routine reconciliation of cash and review of reimbursement requests by someone other than the preparer prior to submitting the requests to Headquarters. Finally, The Arc should familiarize staff at all sites with Federal regulations applicable to the grant so that only allowable costs are charged to the grant.

III. The Arc does not adequately track labor costs charged to the grant.

At Stone Belt Arc, we found labor charges for staff were not adequately supported. Seventy-five percent of the salary and benefits of the AmeriCorps Coordinator at Stone Belt Arc are funded by the AmeriCorps grant. However, the AmeriCorps Coordinator did not prepare time and attendance records as required by the grant provisions.

At The Arc of Maryland, we found that staff did not allocate their time between allowable and unallowable activities, and the Project Director performed fund raising activities which were charged to the grant. Fifteen percent of the salary and benefits of the Project Director at The Arc of Maryland are paid from the AmeriCorps grant. The Project Director's duties included performing fund raising for The Arc. We found that the related salary costs were charged to the grant. However, fund raising activity is not an allowable grant cost. These costs were charged to the grant, in part, because The Arc of Maryland did not require an allocation of time spent on activities which are unallowable charges to the grant and other grant related duties.

Under the terms and conditions of the grant, "salaries and wages charged directly to this Grant or charged to matching funds must be supported by signed time and attendance records for each individual employee regardless of position" (AmeriCorps Provisions, section 23 c. I). Furthermore, Federal regulations require employees who split their time between two or more functions to maintain an after-the-fact distribution of their activities. These

regulations also prohibit paying for fund raising activities with grant funds (OMB Circular A-122, Attachment B, sections 6 and 19).

As a result, we are questioning \$7,697 for the salary and benefits of the AmeriCorps Coordinator paid with CNS funds for five months of the grant due to the lack of supporting documentation. We are also questioning \$2,549 for the salary and benefits of the Project Director paid with CNS funds due to unallowable charges related to fund raising and the lack of supporting documentation on the distribution of her time between allowable and unallowable activities. We are recommending a corresponding reduction in The Arc's match of \$3,416.

We recommend that The Arc ensure that staff charged to the grant prepare time and attendance reports as required. Additionally, the time sheets should document time spent on allowable and unallowable activities and administrative and program activities to facilitate accurate allocation of costs to the grant.

In its response to a draft of this report, The Arc stated that we spoke to new employees at The Arc of Maryland "who were not yet fully knowledgeable of . . . accounting procedure, travel policy and job duties of relevant staff positions." However, the employee we spoke with was the Director of Finance. We believe the person in this position would be knowledgeable of accounting policies and procedures under their supervision.

The Arc also stated that the Project Director's time sheets did not show time spent on fund raising. However, we found on the time sheet for the pay period ended December 16, 1995, at least one instance of fund raising activity which was charged to the grant. In addition, the Project Director described her job duties as including fund raising and grant writing. Because the Project Director did not always classify the type of work she was performing on her time sheet, we were unable to determine the amount of time spent on fund raising activities, which can not be charged to the grant, and other allowable activities. Therefore, we questioned the total amount of her salary and benefits charged to the grant.

IV. Administrative costs are not properly classified.

We reviewed position descriptions and interviewed staff whose salary is charged to the grant about their job duties to determine whether the person performed program or administrative activities. Based on our review, we found that certain staff were charged 100 percent as program costs even though some of their duties involved administrative tasks. The Arc did not allocate grant charges for staff salaries and benefits between administrative and program costs because they believed that these charges were all program costs. Furthermore, staff did not distinguish between administrative and program duties when completing their time sheets.

CNS regulations state that not more than five percent of the amount provided by CNS to the grantee and its subgrantees may be used to pay for administrative costs (45 C.F.R. 2540.110, *Limitation on use of Corporation funds for administrative costs*). CNS defined administrative costs in its regulations to include “the portion of the salaries and benefits of the director and any other program administrative staff equal to the portion of time that is not spent in support of specific project objectives. Specific project objectives are defined as recruiting, training, placing, or supervising participants” (45 C.F.R. 2510.20, *Administrative costs*). These regulations also provide that “particular costs, such as those associated with staff who perform both administrative and program functions, may be prorated between administrative and program costs if included in the budget and approved by the Corporation grants officer.”

Based on our review, we reclassified certain staff payroll charges as administrative costs and estimated that additional administrative costs at The Arc ranged from a minimum of \$3,568 to a maximum of \$12,333² (see following schedule). Adding the range of reclassified amounts to administrative costs incurred, we estimate that The Arc of Maryland had incurred from 40 to 73 percent of its budgeted administrative costs after four months while total costs incurred were 22 percent of its total budget. The reclassified administrative cost percentage for Headquarters ranged from 42 to 158 percent compared with 25 percent of total costs incurred.

²Minimum and maximum amounts are totals of salary and benefit costs reclassified by CNS OIG as shown in the table on page 8. Because the staff did not distinguish between administrative and program duties on their time sheets, we were unable to determine the percent of actual time performing program duties.

Schedule of Reclassification of Payroll Charges

<u>Position title</u>	<u>Description of duties</u>	<u>Classification by CNS OIG* (program or administrative)</u>	<u>Charged to CNS as program by The Arc**</u>	<u>Reclassified by CNS OIG as administrative</u>
Project Secretary	Managing files, telephone reception, word processing	Administrative	\$ 2,568	\$ 2,568
HQ Project Secretary	Typing, filing, faxing, copying, phone support	Administrative	<u>1,000</u>	<u>1,000</u>
Subtotal - Minimum additional administrative costs			\$ 3,568	\$ 3,568
HQ Project Director	Preparing quarterly reports, administering overall policies and procedures including reading through CNS correspondence, distributing information and clarifying memos to the sites, conducting ACM orientation training, preparing training outlines and reviewing sites' training plans, refining program objectives for sites to ensure consistency	Mostly administrative (specific program activities must be budgeted, documented and accounted for to be an allowable program cost)	6,216	6,216
Project Director	Preparing progress reports and/or financial reports, supervising Project Coordinator, conducting and coordinating training of ACMs	Both (therefore staff must keep a detailed break out of duties)	<u>2,549</u>	<u>2,549</u>
Total - Maximum additional administrative costs			<u>\$12,333</u>	<u>\$12,333</u>

* Determination of whether person performed administrative or program activities is based on CNS regulations 45 C.F.R. 2510.20, *Administrative costs*.

** Amounts represent total charged to CNS funds at the date of our site visit, not total annual salary.

The Corporation's five percent limitation on administrative costs paid with CNS funds will be determined by grant expenses for the entire period and for all The Arc's sites combined. However, based on the administrative costs incurred at the three sites we visited during the first four months of the grant, The Arc is at risk of exceeding the limit by the end of the grant period. If The Arc exceeds the five percent limitation, it must use its own funds to cover the excess.

We recommend that The Arc require staff charged to the grant to prepare a time sheet allocating time between program and administrative activities. Furthermore, The Arc should base its determination of administrative costs on the definition provided by CNS regulations.

In their responses to a draft of this report, both The Arc and CNS disagreed with our conclusion that the staff payroll costs we identified are subject to the 5% limit on administrative costs paid with CNS funds. Both The Arc and CNS argued that these staff costs are not administrative costs because the functions performed by the staff are reasonable and specifically needed to achieve the purposes of the grant.

We agree that the staff functions are reasonable and necessary for carrying out The Arc's AmeriCorps program. While being reasonable and necessary means that the staff costs are allowable under OMB cost principles, they are not the criteria established by CNS for determining whether allowable staff costs are classified as administrative or non-administrative (programmatic) costs. Regarding staff costs, CNS regulations state that performing the "specific project objectives" of recruiting, training, placing, and supervising AmeriCorps Members are non-administrative, and that performing other functions are administrative (45 C.F.R. 2510.20 *Administrative Costs*). Accordingly, we cannot agree with the positions asserted by The Arc and CNS.

V. AmeriCorps Member service hours are inadequately tracked at Stone Belt Arc.

We reviewed the time sheets for the period September 1995 through December 1995 for a sample of five AmeriCorps Members at Stone Belt Arc to determine whether monthly totals on service hour summary schedules prepared for each AmeriCorps Member were accurate and supported by the individual's time sheets. Service hour summary schedules are the basis for determining if an AmeriCorps Member served the minimum number of hours required for an educational award.³ The individual summary schedules are also consolidated into monthly narrative reports sent to Headquarters. Headquarters combines the data on the monthly narrative reports and submits the information to CNS on a quarterly basis.

Hour data on the summary schedules are totaled by month and type of service (direct service, training or other). For our sample, we found that 29 percent of the service hour totals did not agree with the supporting time sheets. For one month, October 1995, we also traced the service hours reported on the summary sheets to the monthly narrative report and found that 26 percent of the service hour totals did not agree with the supporting summary schedules. We also noted for our sample of AmeriCorps Member time sheets, none were signed by a supervisor as required.

³The minimum number of hours is 1,700 for a full-time and 900 for a part-time AmeriCorps Member.

Under the terms and conditions of the grant, grantees “must keep time and attendance records on all AmeriCorps Members in order to document their eligibility for in-service and post-service benefits. Time and attendance records must be signed both by the Member and an individual with oversight responsibilities for the Member” (AmeriCorps Provisions, section 23 c. ii).

Although the difference in hours for each error was small, resulting in both overstatements and understatements, the frequency of errors indicates a pervasive problem. We recommend that The Arc improve its procedures for tracking and summarizing AmeriCorps Member service hours at Stone Belt Arc. These procedures should provide for a review by someone other than the person preparing the reports. The procedures should also require that time sheets be signed by the AmeriCorps Member’s supervisor.

VI. In-kind costs are not adequately supported.

We found that The Arc did not maintain adequate supporting documentation for in-kind costs used to support its share of grant expenditures. The conditions we noted included a lack of documentation, use of unsupported or inappropriate pay rates for staff labor charges, and double counting items. Although we are recommending a reduction in matching costs of \$6,688 at Headquarters, \$2,550 at Stone Belt Arc and \$1,686 at The Arc of Maryland because of these conditions, we noted that each site was still on target to meet its matching funds requirement.

Federal regulations state that third party in-kind contributions must be verifiable from the recipient’s records and the basis for determining the valuation shall be documented (OMB Circular A-110, Subpart C, section 23). Although the value of donated services may be used to meet cost sharing or matching requirements, the regulations require that “when an employer donates the services of an employee, these services shall be valued at the employee’s regular rate of pay (exclusive of fringe benefits and indirect costs) provided the services are in the same skill for which the employee is normally paid” (OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment B, section 10 a).

Furthermore, “salaries and wages of employees used in meeting cost sharing or matching requirements on awards must be supported in the same manner as salaries and wages claimed for reimbursement from awarding agencies” (OMB Circular A-122, Attachment B, section 6, 1 (4)). As stated earlier, under the terms and conditions of the grant, salaries and wages charged to matching funds must be supported by signed time and attendance records for each individual employee (AmeriCorps Provisions, section 23 c. I).

We recommend that The Arc provide adequate supporting documentation for all in-kind goods and services used to meet its match requirements. Specifically, in-kind contributions for donated salaries should be valued based on each person’s actual salary, not an average estimated rate. If The Arc is unable to provide adequate documentation, we recommend that

CNS require The Arc to meet its matching requirement through other means and also reduce its share of outlays, as reported on its Financial Status Report, accordingly.

Summary of Questioned Costs			
<u>Description</u>	<u>Questioned costs (CNS share)</u>	<u>Reductions in match (Grantee share)</u>	<u>Reason</u>
Airline travel; Admin. costs (<i>Finding II</i>)	\$ 1,135	\$ 1,793	Inadequate documentation
Fund raising; Entertainment (<i>Finding II</i>)	190	436	Unallowable cost
Salary & benefits (<i>Finding III</i>)	7,697	2,566	Inadequate documentation
Salary & benefits (<i>Finding III</i>)	2,549	850	Fund raising; unallowable cost
In-kind contributions (<i>Finding VI</i>)	<u>0</u>	<u>10,924</u>	Inadequate documentation
Total	\$11,571	\$16,569	

The Arc of the United States

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Exhibit A
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May 9, 1996

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

Dear Ms. Jordan:

This letter serves as a response by The Arc of the United States to the April 10 limited review from the Corporation for National Service, Office of the Inspector General. At the outset we want to bring your attention The Arc's record in successfully conducting many federal projects from many federal agencies. In addition to completing the various project's goals and objectives, we have consistently been determined through audit to comply with all applicable federal financial requirements. Indicated below are our responses to your concerns:

I. The Arc's monitoring of subgrantees.

Sharon Water's visit to The Arc's National Headquarters November 27-29, 1995 to conduct "a limited review" of our "financial reporting and accounting systems" occurred prior to our first round of site visits to our participating chapters. Our site visit schedule was consistent with our operating proposal approved by the Corporation for National Service, in which we had indicated our plans to make two rounds of site visits, with the first from mid-January through February. This was to provide our sites time for initial organization, implementation, and recruitment.

Our site visits were based on a model used by the Corporation senior project officers for their own site visits to grantees and was provided by our project officer Marlene Zakai. When Ms. Waters visited with our project director she suggested we incorporate into our visit checklist a random sampling of a budget line item so that we could be satisfied that our sites were retaining all supporting documentation as we had advised. We did add that test as a regular part of our site visit checklist.

In response to the limited review, The Arc will take the following three actions before any further reimbursement is provided:

- 1) We will require all sites to complete The Arc's mandated internal control questionnaire (copy attached).
- 2) We will obtain a written copy of each sites accounting practices and procedures. After reviewing these documents, our chief financial officer will advise each site to take any corrective actions necessary.



*a national organization
on mental retardation*
formerly Association for
Retarded Citizens of the United States

- 3) The sites will be notified by formal memo that henceforth copies of supporting documentation must be attached to the monthly reimbursement forms submitted to The Arc by each site including staff time sheets. This action will provide further awareness that, as they were instructed in writing from the inception of the project, they must have complete documentation for their reimbursement forms to be prepared for their A-133 audit. There is also a constant reminder of this statement which is printed at the top of each monthly reimbursement form.

II. Erroneous reports and unallowable charges to the grant.

The Arc has taken or will take the following actions:

- 1) In the original subcontract signed by each site, there were instructions informing them of the requirement of complying with relevant OMB circulars along with a copy of AmeriCorps provisions. To reinforce that all sites understand their obligations under these relevant federal regulations, The Arc will execute a formal addendum to the subcontract with each site that will confirm their understanding of and compliance with the AmeriCorps Provisions and Grants Policy Guidance memos and with OMB circulars A-110, A-122 and A-133 that apply to this grant. The Arc's chief financial officer will provide to each site a written summary of highlights of the pertinent OMB circulars, via formal memo and will follow the distribution of this information with a phone appointment with each site's chief financial officer to ensure that the information is understood.
- 2) All sites have been instructed to provide The Arc with a copy of their travel policy. A copy of The Arc's non-local travel policy will be provided to all sites.
- 3) The Arc will reinforce the importance of each site regularly reconciling their cash accounts by formally instructing them in writing to do so. The Arc will also require that a copy of a monthly bank reconciliation be submitted on at least a quarterly basis by each site.
- 4) The Arc will require each site to show evidence of its negotiated administrative rate (federal or state agency, United Way, or other major funder). If a site has no negotiated rate, The Arc will require the site to show evidence of its computation of the functional allocation of expenses with a breakdown of staff time and associated costs.

The Arc's response to the questioned costs noted in the chart on page 5 of the limited review follows:

Headquarters - Documentation is available on expenses; examples are attached. Airline travel: D. Pierson (boarding pass) and Airfare; R. Baca (coupon attached).

Maryland - The costs noted were for food and beverages for working lunches for the Members during their three-day orientation and pre-service training, and for do-it-yourself sandwich fixings for a brief working lunch

during the focus group meeting conducted with Members by The Arc's project director during her first site visit. Since the schedules for both the pre-service training and focus groups were very full, it was essential to avoid lost time. By having lunch provided during these meetings, the Members were able to continue to participate in the designated activities. Both expenses are allowable as regulated by OMB Circular A-122 Attachment B, Item 24 Meetings, conferences. a. Costs associated with the conduct of meetings and conferences, include the cost of renting facilities, meals, speakers' fees, and the like.

Maryland - The Arc agrees with the findings that the \$658 cash and \$1,781 match for administrative costs submitted for September 1995 were incorrect and should be disallowed. The Arc of Maryland has completed a comprehensive computation of its administrative costs and will correctly back-bill for the administrative costs incurred during September and the subsequent months during which no administrative costs were charged against the grant.

Stone Belt - Fund raising - Charges of Public Relations Firm. Upon questioning this change, we determined that their function could be defined as fund raising. Stone Belt is, therefore, revising the October and November reports, removing the \$373.01 match cost.

The Arc will continue our current practice of scrutinizing monthly reimbursement forms submitted by the sites to the National Headquarters to ensure the reasonableness, allocability and allowability of the costs in accordance with applicable federal regulations. The project director will monitor all monthly reimbursement forms and ensure charges to the approved site budgets are meeting project objectives.

III. Tracking of labor costs charged to the grant.

When The Arc of Maryland's "limited review" was undertaken by the representative of the Inspector General's office, no initial interview was done to define the scope of the limited review. Because of the lack of this initial interview much of the information gathered was incorrect. Questions were posed to new employees who were not yet fully knowledgeable of the internal systems being reviewed. Some questions should have been asked of established personnel who were apprised of such information including the accounting procedure, travel policy, and job duties of relevant staff positions.

The Project Director at The Arc of Maryland regularly completed two separate timesheets - one was a functional timesheet indicating the 20% of her time devoted to AmeriCorps; the other timesheet listed 100% time for total attendance, holiday, sick and vacation tracking. The functional timesheet shows none of her time spent on

AmeriCorps was for fund raising, one of the other functional categories. Copies of these are attached.

The project director at the Stone Belt Arc has been instructed that all AmeriCorps personnel complete timesheets as required by the grant provisions. Time previously had been kept on calendars.

As part of the aforementioned memo to sites regarding monitoring of subgrants, all sites will now be required to submit a copy of their completed and signed time and attendance sheets of all AmeriCorps staff to the National Office.

IV. Administrative costs

As defined by the AmeriCorps Provisions which follow, The Arc's project director and secretary are correctly classified as performing program activities. The director (1.0 FTE) and secretary (.25 FTE) both engage only in activities which support this specific project. Everything the director does is directed toward the successful day-to-day completion of specific project objectives, internal evaluation and creative methods of quality improvement. The secretary is responsible for seeing that such actions taken by the project director are carried to completion.

As directed on page 29 in the AmeriCorps Provisions:

24. ADMINISTRATIVE COSTS.a.Definitions.Administrative costs include:

v. that portion of the salaries and benefits of the Program's director and other administrative staff not attributable to the time spent in support of a specific Program or project.

Administrative costs do not include the following attributable costs directly related to Program or project operations, such as:

- iii. costs for...any internal evaluations of the Program or project that are related specifically to creative methods of quality improvement;
- iv. costs for staff that work in an operational capacity (defined as those duties necessary to carry out the daily activities of the Program):

45 C.F.R. 2510.20.2ii Administrative costs do not include Costs for staff who recruit, train, place, or supervise participants, including costs for staff salaries, benefits, training, and travel, if the purpose is for a specific program or project objective.

OMB Circular A-110 further directs:

Attachment H - Circular No. A-110. MONITORING AND REPORTING PROGRAM PERFORMANCE... 2. Recipients shall monitor the performance under grants and other

agreements and, where appropriate, ensure that time schedules are being met, projected work units by time periods are being accomplished, and other performance goals are being achieved. This review shall be made for each program, function, or activity of each agreement as set forth in the approved application or award document.

OMB Circular A-122 also directs:

Appendix I Cost Principles for nonprofit organizations, Attachment A, A - Basic Considerations, 2. c. Factors affecting allowability of costs. Be consistent with policies and procedures that apply uniformly to both Federally financed and other activities of the organization. Also from OMB Circular A-122, Appendix I, Attachment A, A Basic Considerations 4a....A cost is allocable to a Government award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:

- (1) Is incurred specifically for the award.
- (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received,

The Arc believes our interpretation that both the project director and secretary are program-specific and not administrative is entirely consistent with and in direct compliance with the AmeriCorps provisions and OMB circulars. We, therefore, also contend that the 5% administrative cap in our approved project budget has not been and will not be exceeded.

In response to the table on page 8 of the limited review , The Arc provides the following clarifications:

HQ Project Director:

All activities described are in support of the specific project and are program costs. In order for project objectives be successfully met, it is necessary that the Corporation be informed of the sites' progress, that the sites be fully versed on the directives issued by the Corporation and that for these activities to happen; the interpretation on a day-to-day basis of CNS directives is a program cost. The conducting of training for Members, which includes preparing and reviewing training plans and outlines, is specifically designated in the AmeriCorps Provisions as not administrative (see 24. ADMINISTRATIVE COSTS. a. Definitions ...Administrative costs do not include...ii. costs for staff who ... train ... Members including staff salaries,... if the purpose is for a specific program or project objective. The refining of project objectives is an activity in support of a specific Program or project (AmeriCorps Provisions 24. ADMINISTRATIVE COSTS a. Definitions).

Project Director:

All activities described are in support of the specific project and are program costs. See above references listed under HQ Project Director.

Project Secretary (site) and HQ Project Secretary:

All activities described are in support of the specific project and are program costs.

V. Tracking of AmeriCorps Member service hours.

The Arc will review the specific files to which the limited review refers and will ensure that Stone Belt Arc makes necessary corrections, if any.

During her first round of site visits, The Arc's national project director has, in each site, done a random sampling Members' files to determine if the tracking of service hours is accurate and consistent with the sites' project objectives. Only two minor discrepancies have been found; in one case the error was an undercounting of documented service hours. In all cases the necessary corrections have been made. Given the large number of Members and hours to be tracked, The Arc is pleased to have found such a minimal level of discrepancy.

The Arc's project director will continue to monitor Member's files and the records of service hours in all subsequent round two site visits. We will also do additional random sampling by fax.

VI. Documentation of in-kind costs.


The Arc has already distributed to all sites an in-kind documentation form for their use (copy enclosed). This form is used by all sites to document the in-kind goods and services, as well as in-kind staff support, and it requires appropriate signatures. The Arc will do random sampling of in-kind documentation via fax and during all round two site visits to ensure continued compliance.

All matching staff is budgeted at verifiable salary costs. The Arc continue to ensure that third party in-kind contributions, if staff at participating sites, are recorded at actual salary rates. Any third party in-kind donations by individuals not associated with participating sites are recorded at our consultant stipend of \$275 per day, well within the AmeriCorps maximum rate of \$443 per day (AmeriCorps Provisions 23. FINANCIAL MANAGEMENT PROVISIONS e. Consultant services.) As required by Public Law 102-389, payments to individuals for consultant services under this Grant will not exceed the daily equivalent of the maximum rate (exclusive of any indirect expenses, travel, supplies and so on) allowed by federal law. As of January 1995, this rate is \$443 per day.

Conclusion

We are pleased to provide this response which we feel effectively addresses all of the points made in the draft report. As noted we agree with the findings on the Arc of Maryland's September 1995 administrative costs of \$658 and \$1,781 matching and have appropriately corrected the reports. We also agree with the finding regarding Stone Belt's matching costs in October and November for fund raising which is now being corrected. With these two exceptions, we have proved that all of the questioned costs and definition interpretations are entirely consistent with the AmeriCorps Provisions, Grant Guidance memos and OMB circulars A-110, A-122 and A-133. We would be please to provide you with additional information if needed.

Sincerely,



Sharon Davis, Ph.D., Director
Research & Program Services



Connie Davis, Director
Business Services

SD/CD:dle

MEMORANDUM

Exhibit B
Page 1 of 4

Date: May 16, 1996

To: Luise Jordan, IG

CC: Terry Russell, General Counsel

From: Mike Kenefick, Director of Grants and Contracts *m.k.*

Subject: Draft Report 96-07
Review of The Arc of the United States
Dated April 10, 1996

CORPORATION
FOR NATIONAL
 SERVICE

We appreciate the opportunity to respond to your draft report identified above. We would like to apologize for our delay in responding. We are experiencing severe technical difficulties with our automated systems which have affected our working capacity.

We agree that the grantee has a responsibility to monitor subgrantees and assure internal controls and accounting systems are adequate to safeguard Federal funds and document and support expenditures of the grant (finding I). We also agree that grantees have the responsibility to assure adequate policies and procedures are followed to safeguard Federal funds (finding II). We will provide technical assistance to the grantee in developing a plan for monitoring the subgrantees, maintaining adequate supporting documentation and determining reasonableness, allowability and allocability of costs in accordance with provisions of the applicable Federal cost principles. Additionally, we have alerted the grantees auditors, currently performing the annual A-133 audit for the Callander year ending December 31, 1995, of the findings for the purpose of addressing the issues during their review. We will review the A-133 audit to determine if the grantee has established policies and procedures to comply with the requirements of the provisions of the grant and cost principles. We have received copies of the documentation sent in by the grantee that will reduce the questioned cost associated with finding II. This documentation relates to airline travel for R. Baca and D. Pierson in the amount of \$477 and an explanation of meeting cost in the amount of \$190 along with the corresponding reduction in questioned match. This will reduce the questioned cost of finding II from \$1,325 to \$658, if the documentation is accepted. The grantee indicated that they agree with the remaining \$658 questioned cost and \$2154 in corresponding match and indicated that adjustments will be made in their to correct overbilling. We will monitor the revised reports to determine the propriety.

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We agree that the grantee is responsible for tracking labor costs charged to the grant. The grantee has responded that they also agree with the finding and part of the questioned costs. The grantee has subsequently submitted documentation for the Project Director at The Arc of Maryland, reducing questioned cost from \$10,246 to \$7,697. The grantee indicated that the Project Director at The Stone Belt Arc had already been instructed that all AmeriCorps personnel complete time sheets. We will request the technical assistance provider reiterate the importance of this procedure and make the auditors performing the current a-133 review aware of the deficiency in complying with the specific requirements of the grant so that they may address the issue during their review and report. The Office of Grants and Contracts will request the funds upon agreement to the PMD.

We do not agree with the finding addressing the classification of administrative costs (finding IV). The assumption on which the costs were questioned are built is an interpretation of program costs which include "Costs for staff who recruit, train, place or supervise...". Using this limited interpretation is the basis for concluding that everything else is administrative costs. The description of program staff costs is not comprehensive nor limiting but is stated as including the above items and other direct costs such as living allowances, training, travel. There are other allowable direct costs not specifically stated in the category of staff and in other categories. For example, direct defined program costs for participants in this section of the regulations addressing administrative and program costs includes living allowances, insurance payments, and expense for training and travel. This inclusion is not exclusionary to other direct costs not mentioned, specifically child care, FICA, unemployment, uniforms, etc.

We will address the reasons for our disagreement separately by position and salary questioned as follows:

HQ Project Director

The Arc has undertaken the task of assisting community organizations gain the awareness and capacity to support individuals with mental retardation as participants in their midst. They endeavor to establish partnerships with community organizations to increase community involvement and persuade community organizations that they have an important role in servicing individuals with mental retardation. They operate out of six sites. These goals require developing policy, training, distributing information and redefining program objectives to ensure consistency.

The Arc is a new program for the Corporation. As with any new program, the grantee has undertaken additional programmatic and reporting requirements necessary to the performance of the grant. The grantee outlined the organizations plan to meet those requirements in their proposal and budget which was accepted by the Corporation and incorporated into their grant documents. Preparing quarterly reports, developing and administering policies and procedures, disseminating information regularly to all sites and responding to questions, preparing training materials, conducting training and reviewing sites training plans, and refining program objectives are all included in the grantees proposal and accepted as necessary functions of the HQ Project Director of the program to meet the objectives of the grant.

The HQ Project Director was identified in the budget as one Full Time Equivalent, charging 11/12 of their salary to the grant with no matching. The budget was accepted by the grants office as necessary for the performance of the grant.

HQ Project Secretary

The HQ Secretary works directly with the HQ Project Director, assisting the Director in fulfilling their duties as the responsible official of the grant. The HQ Director responsibilities are outlined above and necessitate the types of assistance outlined in the inspector generals report to fulfil the grantees obligations to the Corporation and achieve the grantees objectives.

Project Director

The Project Director for The Arc of Maryland is responsible for establishing partnerships with community organizations to increase communitiy involvement and persuade communitiy organizations that that they have an important role in servicing individuals with mental retardation. This objective is served by the duties performed by the Project Director as described in the IG report. Their duties include directing and overseeing the participants, conducting training and reporting on performance. These activities are performed specifically to achieve the objective of the grant and are reflected in the proposal and budget and accepted by the grants office as necessary and reasonable to achieve the objectives of the grant. They are directly related to the program, are identifiable with the program, are necessary to obtain the objectives of the program and are program costs.

Project Secretary

The Project Secretary for The Arc of Maryland is budgeted at .5 FTE with 75 percent paid by the Corporation. The Secretary's position is deemed a direct cost to the program because the duties listed in the IG report support the grantees objective of building community partnerships to increase community involvement and foster mutually supportive activities for individuals with mental retardation.

We agree that grantees must maintain support and verification for in-kind contributions. The grantee has addressed the issue and included their solutions in their response to the draft report. We will make the auditors currently performing the A-133 review aware of the finding and the corrective action so that their review will include verifying and testing the corrective actions. A copy of the report will be sent to the IG upon receipt.