
C O R P O R A T I O N

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S E R V I C E

OFFICE OF THE INSPECTOR GENERAL

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Review of

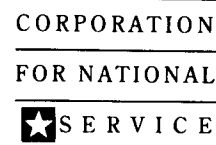
The Council of Great City Schools

Grant Number 94ADNDC009

This report is issued to CNS Management. According to OMB Circular A-50, *Audit Followup*, the Corporation must make a final management decision later than September 16, 1996. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

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

Office of Inspector General
Review of the Council of Great City Schools
CNS Grant # 94ADNDC009



Tichenor and Associates, under contract to the Office of Inspector General, performed a limited review of the Council of the Great City Schools' (CGCS) financial reporting and accounting systems to assess their ability to comply with Federal fiscal accounting and reporting requirements applicable to its AmeriCorps grant, as well as its ability to safeguard related funds. We have reviewed the report and workpapers supporting its conclusions and agree with the findings and recommendations presented.

Based on the review, CGCS'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. Tichenor and Associates noted the following deficiencies:

- CGCS's oversight of subgrantees/subreceptients needs improvement;
- CGCS lacks written accounting policies and procedures; and
- CGCS does not adequately track labor hours.

To date CNS has awarded CGCS two grants. The first was a planning grant of \$200,000 covering the period July 1, 1994 through August 31, 1995. On September 30, 1995, the Corporation awarded CGCS an operating grant of \$765,422 covering the period August 1, 1995 through December 31, 1996. We recommend that CNS grants management determine whether CGCS has corrected the conditions noted above.

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The Council of the Great City Schools (CGCS) has been awarded grants from the Corporation for National Service (CNS) for use in accordance with the National and Community Service Act of 1990 (Public Law 101-610), as amended. We performed a limited scope review as described in the Scope and Methodology Section of this report of the financial management system of CGCS to determine its adequacy in providing effective control over these grants in accordance with criteria contained in applicable OMB Circulars, CNS Regulations (45 CFR Part 2541), or included within the terms of the grant. Our review included applying agreed-upon procedures to test compliance with such criteria during the period September 1, 1994 through October 30, 1995, the date of this report. Our review did not constitute an audit of any financial statements prepared by CGCS.

Results in Brief

Based on our review, CGCS'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. We noted the following deficiencies:

- CGCS's oversight of subgrantees/subreipients needs improvement,
- CGCS lacks written accounting policies and procedures, and
- CGCS does not adequately track labor hours.

These deficiencies are discussed in detail in the Findings and Recommendations section of this report. We have discussed these issues with the management of CGCS and they agree with the issues and are working towards corrective action.

Initial year review of CGCS.

Background

The Council of the Great City Schools is a non-profit membership organization headquartered in Washington, D.C. It represents 47 of the largest urban public school systems in the United States. Its purpose is to promote the improvement of education in its member schools through research, action, and other appropriate activities.

The purpose of its AmeriCorps program was to demonstrate the efficacy of service as a mechanism for fostering substantially improved teacher development for the urban setting. The planning process was carried out at five (5) sites to assemble design teams and coalitions necessary for developing fully functioning service corps at each site as well as a national coordination capacity among the partners. Each site would include members from the urban school district and members from the cooperating institution of higher education for that locality.

The AmeriCorps grant for \$200,000 was CGCS's first AmeriCorps grant and covered the period July 1, 1994 through August 31, 1995.

The grant provided support for the program as follows:

<u>Cost Category</u>	<u>Amount</u>
Staff: Salaries	\$ 25,000
Subrecipient Allocation	170,000
Operational: Travel	<u>5,000</u>
TOTAL	<u>\$200,000</u>

*Under the grant CGCS was required to provide an additional \$85,750 in matching funds for its program.

The program was administered by a National Program Coordinator located in Washington, D.C. Each of the five (5) participating sites (Long Beach, Toledo, Denver, Omaha, and Philadelphia) received \$32,000 in grant funds and provided a planning team including a school district person and a college representative. Subsequently, on September 30, 1995, CGCS was awarded an AmeriCorp operating grant of \$765,422.

Scope and Methodology

We performed this review at CGCS's offices in Washington, D.C. during the period October 23, 1995 to October 27, 1995. We obtained an understanding of CGCS's accounting and management controls and performed limited testing to determine whether they were operating as intended by CGCS management and whether they were adequate for administration of CNS grants. The management of CGCS is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial reports in accordance with generally accepted accounting principles and applicable regulatory requirements.

Although we reviewed CGCS's monitoring of its sites (subgrantees) operating the program for the planning grant, our review did not include visits to any program site.

Our review program included:

- interviewing key management, accounting, and program personnel;
- reviewing CGCS's organization chart, policy and procedures manuals, and its chart of accounts;
- reviewing prior single audit reports on CGCS's financial statements and management controls;
- testing a judgmental sample of financial transactions related to the grant; and
- reviewing CGCS's oversight and monitoring of subgrantees/subrecipients participating in CNS' grants.

We performed our review in accordance with 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 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 to future periods are subject to the risk that the internal control structure may

become inadequate because the degree of compliance with the policies or procedures may deteriorate. CNS issued the draft report to CGCS and the Grants Management Office of CNS for comment (See Exhibit A and B). We found all of these comments satisfactory.

Findings and Recommendations

I. CGCS Oversight of Subgrantee/Subrecipients Needs Improvement

CGCS did not enter into written agreements with subrecipients participating in its AmeriCorps planning grant. CGCS developed the grant proposal in partnership with the Council of the Great City Colleges of Education and the Recruiting New Teachers, Inc. (RNT). The initial proposal called for six (6) sites, each with representation from CGCS's School District and a member from the Council of the Great City Schools of Education in the same city. Subsequent budget considerations reduced the number of sites to five (5) and allocated \$160,000 to the participating sites under the grant for their part in the project. RNT was allocated \$10,000 for their participation in the project. The subrecipients agreed to provide \$68,000 in "in-kind" matching funds, as well as their efforts to complete the project. Without signed agreements with the subrecipients CGCS could not ensure that the matching promised by the subrecipients would be met, nor could they enforce the requirements set forth in the grant award including all relevant Federal regulations.

Additionally, CGCS did not have written procedures setting forth its method for oversight of the subrecipients to specify how CGCS would: (1) approve invoices from the subrecipients; (2) determine how and when advances would be approved and reconciled/liquidated; (3) determine specific reporting requirements and support to be provided; and (4) determine allowability of costs including indirect costs, and whether the subrecipients would need their own approved indirect rates.

We recommend that CGCS develop and implement grant management policies and procedures to address the issues discussed above. Additionally, we recommend that CGCS enter into written agreements with all subgrantees/subrecipients to ensure that CGCS's contractual responsibilities as a grantee are met.

II. CGCS Lacks Written Accounting Policies and Procedures

CGCS has no documentation to support its accounting policies and procedures. This is significant because policies and procedures are the foundation of an internal control system. If these systems are not documented, there is limited assurance that the policies and procedures will be applied consistently, or that they can be measured for effectiveness. For purposes of CNS

grants, CGCS's accounting system is the financial mechanism for grant transaction processing and reporting. If the accounting policies and procedures necessary to comply with CNS grant awards and Federal regulations are not documented, neither CGCS nor CNS can be confident that full compliance is being accomplished. Areas of specific concern are accounts payable, procurement, payroll, and indirect cost allocation. To ensure that CGCS costs are charged equitably to the CNS grants, consistent application of accounting principles is necessary.

We recommend that CGCS document its accounting policies and procedures. The level of detail is a function of management's requirements. We suggest that at a minimum the systems that support CNS grants such as accounts payable, procurement, payroll, and indirect cost allocation be documented.

III. CGCS Does Not Adequately Track Labor Hours

CGCS utilizes time sheets which track labor hours by days (or partial days). Employees are currently not required to account for labor hours outside of the normal work day/week (9:00 a.m. to 5:00 p.m., Monday thru Friday) and, therefore, some labor hours are currently being omitted. This tracking deficiency is significant when determining the allocation of indirect costs. If all labor hours are properly recorded, and so included in the allocation base, the effective indirect cost rate will be reduced. OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Section A.4.a., incorporated by reference in the CGCS grant awards, requires equitable allocation of costs. This would include full accounting of all costs.

We recommend that CGCS revise its labor hour tracking system to include requirements for recording all labor hours worked.

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


TICHENOR & ASSOCIATES
October 30, 1995



Council of the Great City Schools
1301 Pennsylvania Avenue, N.W. ♦ Suite 702 ♦ Washington, D.C. ♦ 20004
(202) 393-CGCS ♦ (202) 393-2400 (fax)

February 22, 1996

Luise S. Jordan
Inspector General
Corporation for National Service
1201 New York Avenue, N.W.
Washington, D.C. 20525

Dear Ms. Jordan:

As requested, we offer the following response to the draft report submitted by Tichenor & Associates to the Corporation for National Service (CNS) on the limited scope review of the Council of the Great City Schools' (CGCS) financial reporting and accounting systems. We strongly believe that the CGCS' overall accounting systems are adequate and can be relied upon to comply with Federal regulations. Our belief is based on the fact that despite the deficiencies identified in the limited scope review of our FY 1994-95 AmeriCorps Planning Grant, we did safeguard Federal funds and comply with all reporting requirements. Additionally, we are committed to improving our accounting systems on a regular basis, and have already taken steps to do so.

During the exit conference with the auditors, we were informed by James Anderson, Audit Manager of Tichenor & Associates, that although there were areas of our accounting systems that needed corrective action, the general systems and controls we had in place were adequate to report AmeriCorps grant expenditures and to safeguard Federal funds. At no time during that discussion were we led to believe that our procedures would jeopardize the successful administration of our FY 1995-96 AmeriCorps Operating Grant.

At this time, as a result of the postaward initial audit, our discussions with Tichenor & Associates, and with our accounting firm, Salter and Company, the Council has implemented changes that should remediate the problematic areas identified during the administration of the FY 1994-95 AmeriCorps Planning Grant.

Response to Specific Deficiencies:

1. CGCS Oversight of Subgrantee/Subrecipients Needs Improvement

As a result of the limited scope review, the Council has developed and implemented grant management policies and procedures to address the issues raised by Tichenor & Associates. Specifically, now in place are written policies

and procedures that will: 1) approve of invoices from the Subrecipients; (2) determine how and when reimbursements will be approved and reconciled/liquidated; (3) determine specific reporting requirements and support to be provided; (4) determine allowability of costs including indirect costs. The Council has entered into written agreements with all subrecipients to ensure that the Council's contractual responsibilities as a grantee are met. All agreements are available for your inspection.

We have taken additional steps to ensure full understanding of financial management by subgrantees. The site project coordinators attended the CNS Washington meeting in August 1995 and received the *Project Director's Handbook* which details the financial administration of AmeriCorps grants. Further, written instructions were sent to site project coordinators by the Council with specific information on methods of payment, documentation required, and timelines for submission of request for reimbursements and quarterly financial reports. Additionally, the National Program Director and the Director of Finance at CGCS have worked with site project directors, school system and university accounting personnel to ensure that all participants understand the financial requirements and procedures for administration of the AmeriCorps' Operating Grant. Finally, all of the procedures for oversight of an AmeriCorps grant are being documented and will be made part of the *Accounting Policies and Procedures Manual* of the Council of the Great City Schools.

2. CGCS Lacks Written Accounting Policies and Procedures

On the positive side, the audit team noted that our current accounting system seems to be well organized and tightly controlled. Salter and Company, CPAs, the independent auditing firm retained by CGCS, also believe that our system of checks and balances is efficient and effective for an organization of our size. However, as noted by Tichenor & Associates, we do realize that the absence of written documentation to support our accounting policies and procedures is associated with some risks. To address this issue, the management of the CGCS are in the process of developing an *Accounting Policies and Procedures Handbook*. It is anticipated that this manual will be completed by June 30 of this year.

Lack of a manual does not mean, however, that consistent application of accounting principles are not being applied to the administration of the CNS grant. All accounting policies and procedures necessary to comply with CNS grant awards and Federal regulations are being documented. The systems that support CNS grants such as accounts payable, procurement, payroll, and indirect cost allocation have been specified. The Council is fully confident, as is their independent auditors, that full compliance with CNS grant guidelines are being accomplished.

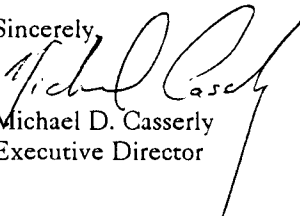
3. CGCS Does Not Adequately Track Labor Hours

As stated in Tichenor & Associates draft report, the Council utilizes time sheets to track labor hours by days (or partial days) and these days are charged to different cost centers. There are strict guidelines and procedures for completion and submission of time sheets. This information is communicated to all employees in writing. The Council does not track labor hours by actual number of hours outside of the normal work day/week because it has not found it necessary to do so. No other categorical program within CGCS operations require such a tracking system. Revision of tracking labor hours will be considered once there is justification or need (i.e., receipt of a grant paying indirect cost based on an approved rate using full allocation of all costs).

Although the Council understands that there is merit in tracking actual labor hours to effectively reduce the indirect cost rate, at this time we do not find it necessary to implement such a system. The AmeriCorps FY 1994-95 Planning Grant did not include administrative and indirect costs, and a maximum limit of 5% for administrative costs (indirect costs) is placed on the AmeriCorps Operating Grant.

Ms. Jordan, please rest assured that the Council of the Great City Schools is a worthy recipient of grant awards from the Corporation for National Service and any other government agency. With the changes that have been made and that are being made, we feel fully confident that CGCS is currently in compliance with CNS and Federal regulations on the administration of grants. Please let us know if we can provide you with additional information.

Sincerely,



Michael D. Casserly
Executive Director

cc: Shirley Schwartz, Program Director
Teresita ValeCruz, Dir of Finance & Administration

MEMORANDUM

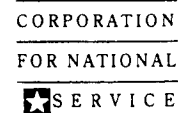
Grants Management Office

DATE: March 11, 1996

TO: Luise S. Jordan
Inspector General

FROM: Simon G. Woodard *Simon G. Woodard*
Operations Officer, Grants Management

SUBJECT: Council of Great City Schools, CNCS Grant No. 94ADNDC009
OIG Draft Report 96-14



In accordance with the agreement between the Acting Chief Financial Officer and the Director of Grants Management, I am forwarding this report directly to your office with copies to other interested parties.

The findings and recommendations of the subject report have been reviewed. This office is appreciative of these findings in the early stages of the operations grant period of performance. We take no exception to the auditors findings and recommendations and will work with The Council of Great City Schools (CGCS) to correct the deficiencies noted in the report.

I have had discussions with Dr. Shirley Schwartz, Executive Director of CGCS's AmeriCorps program. Dr. Schwartz assured me that CGCS is very interested in complying with the deficiencies noted in the draft report. In reviewing CGCS's response to the draft report, you've no doubt noted that CGCS is already taking measures to comply with Government financial accounting and reporting requirements.

We expect that our response to the final audit will show resolution of all outstanding issues. If you have any questions, please contact me at extension 114.

cc:

Gary Kowalczyk
Mike Kenefick
Shirley Sagawa
Marlene Zakai
Laura Hamasaka

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