
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

**Review of the
National Council of Educational Opportunity Associations
Washington, D.C.**

Grant Agreement Number 95ADNDC011

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 March 25, 1997. 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
National Council of Educational Opportunity Associations
Grant Number 95ADNDC011

We performed a limited review, as described in the Scope and Methodology section of this report, of the National Council of Educational Opportunity Associations' (NCEOA) 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

With certain exceptions, we found that NCEOA's accounting and reporting systems and management controls appear adequate to safeguard Federal funds and to report grant expenditures in accordance with Federal requirements. We found that NCEOA

- did not document administrative costs as required by CNS' regulations (45 C.F.R. Part 2543);
- lacked adequate documentation to support third-party in kind contributions;
- allocated salary and benefit costs for two NCEOA headquarters staff performing administrative duties to the grant as direct program support;
- allocated development staff salaries to the grant; and
- inappropriately charged \$748 in salary and benefit costs to the grant.

As a result, we are questioning a total of \$35,979 in costs charged to the grant as follows:

Schedule of Questioned Costs

Undocumented administrative costs	\$22,443
Reclassification of program salary & benefit costs as administrative costs	8,204
Development staff salaries & benefits disallowed	4,584
Program Assistant's salary & benefit costs inappropriately charged	<u>748</u>
 Total Questioned Costs	 <u>\$35,979</u>

These matters are discussed in detail in the findings and recommendations section of this report.

We provided a draft of this report to CNS and NCEOA officials for their comments. CNS did not respond. NCEOA's response is presented as Exhibit A. In their response, NCEOA disagreed with our findings related to the allocation of salary costs. A summary of their response and our assessment is included in the findings.

BACKGROUND

NCEOA is a nonprofit organization representing institutions of higher education, school administrators, counselors, and teachers committed to advancing equal educational opportunity and promoting diversity in colleges and universities. NCEOA's goal is to promote educational opportunity for low-income adolescents in disadvantaged middle and high schools through outreach and educational services. Its membership includes ten regional associations comprised of forty state chapters; its headquarters are in the District of Columbia.

NCEOA was awarded an AmeriCorps National Direct grant of \$1,000,299 to support the AmeriCorps College Bound initiative for the period August 1, 1995 through December 31, 1996. NCEOA operates the program in conjunction with 37 of the Department of Education's pre-college TRIO programs¹ in Huntsville, Alabama; San Marcos, Texas; Boston, Massachusetts; and Cleveland, Ohio. The TRIO Programs act as Host Sites for NCEOA's AmeriCorps Members, providing them with service opportunities and day-to-day supervision. NCEOA provides the Members' living allowances, training, and overall program oversight.

The grant provides support for seventy-two (72) full-time AmeriCorps members as follows:

	CNS Award	Grantee's Share
Member Support Costs:		
Living Allowances	\$ 483,691	\$ 88,348
FICA & Worker's Compensation	48,369	8,834
Health Care	68,440	17,960
Member Training, Education, Uniforms and Other	<u>77,420</u>	<u>91,020</u>
Sub-Total	\$ 677,920	\$206,162
Staff Salaries, Benefits & Training	221,243	98,694
Operating Costs	51,150	100,920
Internal Evaluation		100,000
Administration	<u>49,986</u>	<u>242,877</u>
Total Operational Grant	<u>\$1,000,299</u>	<u>\$748,653</u>
Total Operational Grant	\$1,000,299	
Post Service Educational Awards	<u>340,200</u>	
Total CNS Funding	<u>\$1,340,499</u>	

¹ The TRIO programs are five programs authorized under the Higher Education Act of 1965: the Educational Opportunity Centers, Ronald E. McNair Post-Baccalaureate Achievement Program, Student Support Services, Talent Search, and the Upward Bound program.

NCEOA's AmeriCorps Members strive to raise student success and enhance access to postsecondary educational opportunities through: tutoring and mentoring services, increased activities for parental involvement in their children's educational achievement, and organized community service projects. The grant is administered directly through NCEOA's Washington, D.C. office, which pays all expenses and maintains all financial records, data on service hours, programmatic accomplishments and other supporting documentation.

SCOPE AND METHODOLOGY

We performed our review at NCEOA's headquarters in Washington, D.C. during the period April 22, 1996 through June 18, 1996. We obtained an understanding of NCEOA'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;
- reviewing key management controls over NCEOA's accounting and reporting systems, including the monitoring and reporting of AmeriCorps member service hours and programmatic accomplishments;
- reviewing the A-133 audit report for NCEOA's fiscal year ended September 30, 1994; and
- testing a judgmental sample of financial transactions related to the grant.

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 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 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 OIG and CNS management. However, this report is a matter of public record and its distribution is not limited

FINDINGS AND RECOMMENDATIONS

- I. Administrative costs charged to the grant were not documented as required by CNS regulations (45 C.F.R. Part 2543).

During our review, we found that NCEOA lacked documentation for \$22,443 in administrative costs it had charged to the federal share of the grant. Federal regulations require that NCEOA

- maintain records “that identify adequately the source and application of funds for federally-sponsored activities;” and
- maintain “accounting records including cost accounting records that are supported by source documentation.”²

NCEOA based the amount of its claimed administrative costs on a percentage of its other allowable costs rather than actual costs incurred. Under the National and Community Service Act of 1990, as amended, no more than five percent of the Federal share of an AmeriCorps grant may be used for administrative costs (42 U.S.C. 12571(d)). In the general provisions of NCEOA’s AmeriCorps grant, CNS stated that grantees could claim administrative costs equal to five percent of the Federal share of grant program costs, and ten percent of NCEOA’s matching program costs, “without supporting documentation and [an] allocation plan for administrative and indirect costs” (AmeriCorps Grant Provisions Paragraph 24.c).

The AmeriCorps grant provision makes a blanket waiver of the documentation requirements in CNS’ regulations that would otherwise apply to AmeriCorps program administrative costs. However, CNS exceeded its authority in attempting to create a blanket waiver for all AmeriCorps programs. Under section 2543.3 of the regulations, the requirements of 45 C.F.R. Part 2543 supersede any CNS program guidance that is inconsistent, unless the deviations are authorized as provided under 45 C.F.R. 2543.4. Under section 2543.4, only the Office of Management and Budget may grant exceptions for classes of grantees. CNS may only waive the requirements in 45 C.F.R. Part 2543 when “awarding small awards,” or “on a case-by-case basis.” CNS’ blanket waiver of the documentation requirements for administrative costs for all AmeriCorps programs is beyond this authority. Therefore, the requirements of CNS’ regulations supersede the AmeriCorps grant provisions, and AmeriCorps grantees must comply with the regulations’ requirements for documenting their administrative costs.

Because NCEOA has not provided appropriate support for its administrative costs, we are questioning the \$22,443 charged to the grant for the period August 1, 1996 through March 31, 1996.

² CNS regulations at 45 C.F.R. 2543.21(b)(2) and (7) (incorporating OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, into CNS regulations).

We recommend that NCEOA properly document all administrative costs claimed. Further, we recommend that CNS clarify for all its AmeriCorps grantees that administrative costs claimed must be supported by adequate documentation as provided in the applicable regulations.

In their response to a draft of this report, NCEOA stated that it was ready to provide documentation to support its administrative costs.

II. Documentation for third party in-kind contributions was inadequate because it did not appropriately establish the basis for valuing the contributions.

The AmeriCorps grant required NCEOA to provide, as matching costs, about 61% of the total operating costs of its AmeriCorps Program. Under the grant budget this matching requirement amounted to \$633,511.³ As of the date of our review, thirty-six of NCEOA's Host Sites had reported \$197,851 of in-kind contributions which could be used to meet the operational matching requirement.

CNS regulations require that third party in-kind contributions used to meet the grantee's matching requirements be verifiable from the grantee's records, and that the documentation include the basis for determining the value of the contributions. Furthermore, the regulations provide that "when an employer other than the recipient furnishes the services, these services shall be valued at the employee's regular rate of pay, provided these services are in the same skill for which the employee is normally paid"(45 C.F.R. Part 2543.23 (e)).

NCEOA's Host Sites reported in-kind contributions on quarterly reports sent to NCEOA. We reviewed five of the 41 reports submitted by the Host Sites for the quarters ending December 31, 1995 and March 31, 1996. These five reports represented \$39,066 of the \$197,851 reported by the Host Sites. Of the \$39,066 in contributions, \$33,785 represented services provided by the TRIO Program staff overseeing the AmeriCorps programs at each Host Site. However, we found that NCEOA and the Host Sites had valued these services at \$250 per day (the maximum Federal consultant contract rate), rather than based on the staffs' regular rate of pay as required by CNS regulations.

In addition, for other goods and services there was no documentation provided to determine the basis for valuing the contributions. NCEOA's in-kind contribution form listed the goods and/or services provided, with a total cost column. However, the form did not provide sufficient information to assess the valuation placed on the in-kind contributions because no receipts or other documentation was provided to verify the cost basis.

³ This amount includes NCEOA's costs for: AmeriCorps Member training and education; staff salaries, benefits and training; internal evaluation; and administration.

As of the date of our review, NCEOA had not yet claimed any third party in-kind contributions on its Financial Status Reports for the periods ending December 31, 1995 and March 31, 1996. NCEOA officials stated that they were awaiting guidance from CNS' grant management office on what documentation was required. In addition, NCEOA officials also indicated that their independent accounting firm had prepared an analysis of the service rate arriving at a new rate of \$150 per day.

We recommend that NCEOA revise its accounting procedures to appropriately value, document, and report third party in-kind contributions used to meet its grant match requirement. CNS should ensure that NCEOA's match, once it is properly valued and documented, is sufficient to meet the grant's requirements.

In their response to a draft of this report, NCEOA stated that it is continuing to seek guidance from the Corporation on the documentation needed to support third party, in-kind contributions.

III. Administrative duties performed by NCEOA headquarters staff were inappropriately charged to the CNS grant as direct program support.

During our assessment of salary costs charged to the grant we reviewed position descriptions and interviewed staff to determine whether the individuals performed program or administrative activities. We found that staff performing administrative functions were charged to the grant as program costs.

As discussed in Finding I, only five percent of CNS grant funds are available for grantee administrative costs. CNS regulations define administrative costs to include "costs for financial, accounting, auditing, internal evaluations and contracting functions" (45 C.F.R. Part 2510.20). The regulations further state that administrative costs 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 means recruiting, training, placing, or supervising participants."

Based on our review, we have reclassified \$8,204 in payroll charges for the Accounting Assistant and Central Office Secretary as administrative costs. The Accounting Assistant's responsibilities include the accounts payable and accounts receivable functions. Prior to March 1996, the Central Office Secretary provided office support to the AmeriCorps program as needed. In March 1996 the Central Office Secretary was assigned to the AmeriCorps program full-time to perform computer entry of programmatic information. However, because their activities do not meet the definition of non-administrative costs in CNS' regulations at 45 C.F.R. 2510.20, the related salary costs are administrative rather than program.

Furthermore, we found that the charges for these positions were not properly allocated to the AmeriCorps grant. The salary and benefit costs for the Accounting Assistant and, until March 1996, for the Central Office Secretary were allocated to the AmeriCorps grant based on the time charges

of NCEOA's Directors in Washington, D.C. However, the cost principles applicable to NCEOA's grant require that all staff costs charged to a grant "in whole or in part" be based upon personnel activity reports that reflect the actual distribution of full activity of each staff member (OMB Circular A-122, Attachment B, section 6.1.).

We recommend that NCEOA reassess its procedures related to allocating salary costs to the CNS grant. NCEOA should review all headquarters staff responsibilities and determine whether they perform administrative or program activities. Furthermore, NCEOA must base its determination on the administrative cost definition provided by CNS regulations at 45 C.F.R. 2510.20.

In their response to a draft of this report, NCEOA stated that each of the two individuals cited in the report performed functions specific to the grant. We agree that the staff functions are reasonable and necessary for carrying out NCEOA's 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 position asserted by NCEOA.

IV. Development staff salaries and benefits were charged to grant.

During our review we found that the Associate Director of Development and the Development Assistant's salary and benefit costs were allocated to the grant based upon the percentage of time spent by the Director on the AmeriCorps program. We determined that the Director's activities primarily involved securing matching funds for the Host Sites.

Under CNS regulations "an AmeriCorps staff member's time and related expenses may not be charged to the Corporation or Grantee share of the grant while engaged in organized fund raising, including financial campaigns; endowment drives, the general solicitation of gifts and bequests, door to door solicitations, direct mail, or similar activities for which the sole purpose is raising capital or obtaining contributions for the organization. . . . Development officers and fund-raising staff are not allowable expenses"(AmeriCorps Grant Provisions Paragraph 6.b).

Federal regulations also provide that "costs of organized funding raising, financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable"(OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, Attachment B, Section 19).

We recommend that \$4,584 in salary and benefit costs charged to the grant be disallowed as costs for fund-raising related activities as follows:

Schedule of Disallowed Development Salary & Benefit Charges

	Salary	Benefits	Total
Associate Director of Development	\$2,833	\$798	\$3,631
Development Assistant	<u>877</u>	<u>76</u>	<u>953</u>
Total	<u>\$3,710</u>	<u>\$874</u>	<u>\$4,584</u>

In their response to a draft of this report, NCEOA stated that the two individuals cited in the report as performing development activities actually performed recruitment and training of AmeriCorps Members rather than fundraising activities. During our review we determined that the Associate Director of Development's duties primarily involved securing matching funds for the program. No documentation was provided to contradict this assessment. Therefore we continue to question the \$4,584 for salaries and benefits charged to the grant.

V. NCEOA inappropriately charged \$748 in salary and benefit costs to the grant.

As part of our review, we performed procedures to determine whether NCEOA was properly allocating salary and benefit costs to the grant. We reviewed the March 1996 and November 1995 payroll allocation worksheets and found that in March 1996, NCEOA applied an incorrect percentage when allocating the AmeriCorps College Bound Program Assistant's salary and benefit costs. The mathematical error resulted in an overcharge of \$748.

We are questioning the \$748 charged to the grant and recommend that NCEOA consider establishing procedures to review the monthly payroll worksheet to ensure that costs are accurately allocated and that errors will not go undetected.

In their response to a draft of this report, NCEOA stated that the payroll allocation worksheet in question had been adjusted, but that the time sheets supporting the worksheet did not reflect the correction. We were not provided with documentation supporting NCEOA's assertion on this matter, therefore we continue to question the \$748 in salaries and benefits charged to the grant.



*National Council of Educational
Opportunity Associations*

1025 Vermont Avenue, N.W., Suite 900

Washington, D.C. 20005

(202) 347-7430
FAX (202) 347-0786
Job Line (202) 347-1821
Information Line (202) 347-1724

Association for Equality and
Excellence in Education, Inc.

Association of Special Programs
in Region Eight

Caribbean Association of
TRIO Programs

Mid-America Association of
Educational Opportunity
Program Personnel

Mideastern Association of
Educational Opportunity
Program Personnel

New England Association of
Educational Opportunity
Program Personnel

Northwest Association of
Special Programs

Southeastern Association of
Educational Opportunity
Program Personnel

Southwest Association of
Student Assistance Programs

Western Association of
Educational Opportunity
Personnel

September 19, 1996

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

Dear Ms. Jordan:

We have received your letter dated August 20, 1996 summarizing the results of your limited review of our grant #95ADNDC011. We are pleased that with the exceptions noted you found NCEOA's accounting and reporting systems and management controls adequate to safeguard Federal funds and to report grant expenditures in accordance with Federal requirements. You noted five exceptions:

- 1) Documentation of administrative costs;
- 2) Documentation to support third-party in kind contributions;
- 3) Allocation of salary and benefit costs for two NCEOA headquarters staff;
- 4) Allocation of development staff salaries to the grant; and
- 5) Charging \$748 in salary and benefit costs to the grant.

We would like to respond to each of them.

1. Failure to document administrative costs

NCEOA did not provide the documentation for administration because we were directed by the Corporation that this was not necessary. As stated in the findings, CNS stated in the grant provisions and later in the attached letter that NCEOA was allowed a fixed rate of five percent of the Corporation's share and a fixed rate up to 10% of the Grantee share without prior approval. NCEOA's actual administrative cost rate is in excess of 20%. However, we stand ready to supply such documentation to the appropriate individuals when asked. We are confident that the \$22,443 in questioned administrative costs which represent an amount equal to 5% of the Corporation's share of expenditures will be found to be adequately supported since the administrative costs based on our actual

Fifteenth Annual Conference
TRIO: Creating Opportunity for Student Success
September 4-7, 1996 • Grand Hyatt • Washington, D.C.

administrative costs would be substantially in excess of this amount.

2. Documentation for third party in-kind contributions

Your review cited problems with documentation of Host Sites' in-kind contributions. However, because NCEOA had not yet reported these costs, you did not question any costs associated with cost-sharing. NCEOA initially began collecting records on third-party in-kind contributions for the Host Sites on forms distributed for this purpose by the Corporation staff at training sessions for new grantees. Unfortunately, NCEOA staff assumed that completion of these forms would be sufficient documentation. When questions were raised about their sufficiency by our outside auditor in December 1995, NCEOA immediately sought clarification on Corporation requirements. A series of phone calls with Corporation staff regarding this question were inconclusive.

As a result, in April, I together with other NCEOA staff and our outside auditor, met with Corporation grants office staff specifically to discuss documentation of cost-sharing. Following that meeting, NCEOA went through a lengthy process of amending its agreements with Americorps College Bound Host Sites to require that they:

- Maintain and document the appropriate records in accordance with OMB Circular A-133 for verification of in-kind contributions to the NCEOA; such costs include but are not limited to supervision, training, recruitment, supplies, and travel. (These In-kind Contributions may include other federal funds.)

- Submit a record of in-kind contributions to the NCEOA at the end of each month.

- Submit to the NCEOA the OMB Circular A-133 audit each year upon request.

NCEOA places Americorps College Bound Members at over 30 colleges, universities, and agencies. NCEOA sought and continues to seek a method of documenting cost-sharing which does not place undue burden on the Host Sites and which, consistent with OMB Circular A-21 (A)(2), recognizes the understandings which already exist between representatives of colleges and universities and their appropriate audit agencies.

Host Sites are now maintaining documentation of their cost-sharing in accordance with OMB Circular A-133. NCEOA is checking this documentation on a random basis. As stated in your review, NCEOA now values supervisory time at a maximum rate of \$150 per day.

NCEOA continues to seek guidance from the Corporation as to whether these amended procedures are sufficient, in the Corporation's view, to provide appropriate documentation to support third party in-kind contributions.

3. Allocation of staff salaries and benefits

NCEOA professional staff allocate their time on a daily basis among the various functions and grants of the organization (e.g. information dissemination, professional development, general administrative, and specific grants). On a monthly basis, some general costs (e.g. rent, phone, Xerox, some support staff salaries) are allocated among these functions on the basis of a formula which averages the time allocation of professional staff. You questioned the allocation of \$8,204 in salaries and benefits for the accounting assistant and a pool secretary that was allocated on the basis of this formula. We believe this allocation is a fair representation of costs.

With respect to the two individuals cited in your report, each performed functions specific to the grants. The accounting assistant was involved in requesting, recording and following up on cost-sharing data, a very time-consuming function specific to the grant. The pool secretary was involved in soliciting evaluation data and other documentation from Host Sites. This function became so time-consuming that as your report indicates, in March 1996, this individual was assigned to Americorps College Bound on a full-time basis.

NCEOA has consistently used the allocation formula for many years, and it has been reviewed on several occasions by auditors reviewing other grants. Accordingly, NCEOA believes that the systems it currently utilizes to allocate staff salaries are a fair representation of costs. In some instances, our current procedures may actually underestimate costs to the Corporation grant. For example, presently 100% of the salary of our Director of Business and Finance is charged to administrative. Should NCEOA re-evaluate its system of allocating salaries, we would examine the feasibility of charging her time which is specifically spent on various grants and functions to those grants and functions. A significant portion of Ms. Dorsey's time is spent on functions specific to the Americorps grant, primarily in areas related to payment of stipends and cost-sharing.

4. The allocation of the salary of the Associate Director to the grant

Your review questions \$4,584 in costs of our Associate Director and his staff

assistant. This individual, Daniel Meza, had several responsibilities within NCEOA. He was responsible for development and was also responsible for directing a grant which NCEOA receives from the U.S. Department of Education to provide management training for new directors. Mr. Meza had recently relocated to Washington from the San Antonio area and was familiar with many of the projects in the Texas Operating Site which is centered in South Texas. Moreover, Mr. Meza was the only member of the NCEOA staff who was fluent in Spanish.

Given the time constraints involved in starting up Americorps College Bound, management sought to utilize Mr. Meza's knowledge and experience with Texas projects. On at least two occasions, Mr. Meza was sent to South Texas to assist in recruitment and training of Members, to explain NCEOA and Corporation requirements, and to assist in solving problems that may have arisen. We were aware that on at least one of these visits, Host Site Supervisors shared with Mr. Meza some suggestions as to where he might solicit funds to meet cost-sharing requirements in the Americorps grant. However, the purpose of the trip was not fundraising.

During your review, Mr. Meza was questioned regarding his activities during his time in Texas. Apparently some misunderstanding arose in those discussions. It was and continues to be management's understanding that the percentage of time for Mr. Meza and his assistant which was allocated to Americorps was for allowable activities. Time he spent in development for NCEOA as a whole was charged to development. We established a separate account for Americorps cost-sharing, and time spent in development for Americorps was charged to this account. In our view, the \$4,508 was charged in an appropriate fashion.

5. Charges for the Americorps Project Assistant

Your review questioned \$748 in salary and benefits for the Americorps College Bound Project Assistant. NCEOA has established a separate functional account for an event which it hosts each year--the Policy Seminar. To minimize burden on Site Supervisors attending, NCEOA scheduled meetings with these individuals in conjunction with this event. Since these meetings were at the same hotel as the Policy Seminar, the Project Assistant erroneously reported on his timesheet that he was working at the Policy Seminar.

NCEOA currently has a system of checks and balances wherein the Americorps Accountant calculates and logs in the time sheets and the Director of Business and Finance reviews and makes corrections, as needed. During the allocation process, an

adjustment was made to reflect the error made by the Project Assistant, but his timesheet was not corrected. The amount charged is not an error and does not reflect an overcharge to the grant.

We appreciate the opportunity to respond to your review. Should you have any questions, please feel free to contact me.

Sincerely,



Maureen Hoyler
Deputy Director

cc: Dr. Arnold Mitchem
Ms. Susan Dorsey
Mr. Richard Frye