

Report No. 97-16

October 4, 1996

CORPORATION

FOR NATIONAL



S E R V I C E

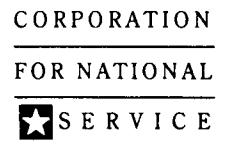
OFFICE OF THE INSPECTOR GENERAL

Review of the
United States Catholic Conference
Award Number 95ADNDC016

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 4, 1998. 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.

Office of the Inspector General
Review of the
United States Catholic Conference
Award Number 95ADNDC016



Tichenor and Associates, under contract to the Office of the Inspector General, performed a limited review of the United States Catholic Conference's (USCC) accounting systems and management controls to determine whether they are adequate for managing the award in accordance with Federal and grant requirements and for safeguarding Federal funds. We have reviewed the report and workpapers supporting its conclusions and agree with the findings and recommendations presented.

Tichenor and Associates found that the accounting systems and management controls of the United States Catholic Conference and its subgrantees were inadequate to report grant expenditures and to safeguard Federal funds. The conditions leading to this conclusion were:

- USCC claimed costs as reimbursable by CNS when the amounts were charged as matching on the books of account;
- USCC claimed direct program costs for salaries and benefits that were administrative in nature, and as a result, exceeded the Corporation's five percent limitation on such costs;
- USCC and its subgrantees claimed costs that were unsupported or unallocable to the grant;
- USCC did not adequately monitor the financial activity of its subgrantees;
- USCC subgrantees assigned AmeriCorps Members to inappropriate activities;
- A USCC subgrantee lacked procedures to accumulate and approve Member service hours.

As a result, we are questioning \$62,360 in costs claimed under the award and recommending that USCC report an increase of \$7,640 (net) in related matching funds. These and other matters are discussed in greater detail in the report.

In its comments on a draft of this report, USCC generally disagreed with the findings and provided additional information and documentation. Tichenor and Associates considered this information and revised their report accordingly. USCC's comments (excluding attachments) are included as Appendix I and summarized in the report with the auditor's comments, as appropriate.

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Inspector General
Corporation for National Service

We performed a limited review, as described in the Scope and Methodology section of this report, of the United States Catholic Conference's (USCC) accounting system and management controls. Our objective was to determine whether the controls are adequate and suitable to report grant expenditures in accordance with Federal requirements and to safeguard Federal funds. Our review covered Corporation for National Service (CNS) award number 95ADNDC016 under the AmeriCorps program in the amount of \$458,001 for the period August 1, 1995 through October 4, 1996. On August 26, 1996, CNS renewed this grant increasing the award by \$468,924 to \$926,925 and extending the expiration date of the award to December 31, 1997.

RESULTS IN BRIEF

We found that the accounting systems and management control procedures of USCC and its subgrantees were inadequate to report grant expenditures and to safeguard Federal funds for the grant. We based our conclusion on the following conditions:

- USCC claimed \$28,293 as reimbursable by CNS on the June 30, 1996 Financial Status Report when the amount was actually charged as matching on the books of account.
- USCC claimed direct program costs for salaries and benefits that were administrative in nature. As a result, USCC claimed administrative costs in excess of five percent of the awarded Federal share of project costs.
- USCC and two subgrantees, Catholic Charities of Orange County (Orange County affiliate) and Catholic Charities, Diocese of Fresno (Fresno affiliate), claimed costs that were unsupported or unallocable to the grant.

- USCC did not adequately monitor the financial activity of the subgrantees to determine whether their accounting systems could produce accurate financial reports or prevent unallowable costs from being claimed.
- The Orange County and Fresno affiliates assigned an AmeriCorps Member to duties which were not included in the approved grant application. Additionally, two AmeriCorps Members inappropriately charged lobbying activities as service hours.
- The Fresno affiliate had no procedures to accumulate Member service hours or to obtain supervisory approval of Member time sheets.

As a result, we are questioning a total of \$62,360 of the costs claimed and recommending a net increase of \$7,640 in related matching as follows:

Summary of Awarded, Recorded and Questioned Costs For the 11 months ending June 30, 1996				
<u>Budget Categories</u>	<u>Approved Budget</u>	<u>Total Outlays</u>	<u>Questioned ¹ Costs</u>	<u>Finding</u>
Section A - Member Support Costs	\$263,179	\$175,295	\$ 2,692	III
Section B to F - Operating Costs	<u>194,822</u>	<u>158,508</u>	<u>59,668</u>	I, II, III
Total Award Costs ²	<u>\$458,001</u>	<u>\$333,803</u>	<u>\$62,360</u>	
USCC Matching	<u>\$169,700</u>	<u>\$106,683</u>	<u>\$(7,640)</u>	I, III
Total Project Costs	<u>\$627,701</u>	<u>\$440,486</u>		

These matters are discussed in greater detail in the Findings and Recommendations section of this report.

¹ The amounts shown as questioned in this column are the totals of the individual amounts questioned in each of the findings shown in the corresponding Finding column. An amount in parenthesis represents a net increase in the amount for the corresponding Budget Category.

² Total Award Costs does not include Child Care costs for 8 Members because they are paid directly to the child care providers from CNS through the National Association of Child Care Resource and Referral Agencies (NACCRRRA). Also, educational awards of \$151,201 for 31 full time and 2 part time corps Members were approved in the award budget but not included as part of Total Award Costs because they are paid through the National Service Trust.

We provided CNS and USCC officials with a draft of this report on June 27, 1997, for review and comment. CNS did not provide a response. USCC generally disagreed with our findings and provided additional information and documentation to support their position. We reviewed their comments and generally found that the explanations offered were not sufficient to require that we revise our findings. USCC's response is included as Appendix I and summarized after each finding where appropriate.

BACKGROUND

The United States Catholic Conference (USCC) is one of the largest resettlement agencies in the country. Through its network of more than 140 local diocesan affiliates, USCC resettles 25,000 to 30,000 refugees annually and provides transitional services to thousands of newcomers. USCC's Office of Migration and Refugee Services, located in New York, NY, is responsible for managing the AmeriCorps grant program. USCC's Office of Accounting Services, located in Washington, D.C., is responsible for providing financial administration, disbursing CNS grant funds and compiling financial reports.

Under its AmeriCorps grant, USCC established the "Fostering Citizenship" program to provide transitional services for helping newcomers to participate in their communities and to become United States citizens. The subgrantees recruited 33 Members at eight nationwide operating sites: Boston, MA, Hartford, CT, Syracuse, NY, Fresno, CA, Honolulu, HI, Los Angeles, CA, Santa Ana, CA and Portland, OR.

SCOPE AND METHODOLOGY

We performed our review at the USCC Office of Accounting Services in Washington, D.C., and the offices of two subgrantees: Catholic Charities of Orange County, Santa Ana, California (Orange County affiliate) and Catholic Charities, Diocese of Fresno, Fresno, California (Fresno affiliate). We performed the procedures listed below in evaluating management's assertion about the effectiveness of USCC's accounting system and management controls over compliance with laws and regulations applicable to the grant during the period August 1, 1995, to the end of our fieldwork, October 4, 1996. We selected the June 30, 1996 Financial Status Report (FSR) for our review as the most current FSR submitted as of the beginning of our fieldwork. Consequently, we reviewed transactions and identified questioned costs associated with the June 30, 1996 FSR. However, our findings and recommendations address the accounting and management controls of USCC and its subgrantees as they existed at the end of our fieldwork, October 4, 1996.

Our procedures included:

- interviewing key management, accounting, and program personnel;
- reviewing USCC's and the subgrantees' organization charts, policies and procedures manuals and charts of accounts;

- reviewing audit reports on USCC's and the subgrantees' financial statements and management controls;
- testing a judgmental sample of financial transactions related to the grant; and
- reviewing USCC's oversight and monitoring of the subgrantees participating in the grant.

We performed our review in accordance with *Government Auditing Standards* (1994 Revision) 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 procedures had been performed, other matters might have come to our attention that would have been reported. Also, projections of any evaluation of the management control structure may become inadequate because of changes in conditions or because the degree of compliance with policies and procedures may deteriorate.

We could not assess the extent to which USCC monitored the AmeriCorps program for determining whether program objectives were met. As part of our review procedures, we requested monthly progress reports that detailed all USCC program performance measures, including AmeriCorps projects. USCC officials declined to provide these reports explaining that they are documents containing confidential information that is outside the scope of our review. As a result, we are unable to report whether USCC adequately monitors performance of the AmeriCorps project.

In their response, USCC stated that they did not provide this documentation because it was not relevant to our review. We disagree with USCC's position because we should have been permitted to independently determine the relevance of the information.

FINDINGS AND RECOMMENDATIONS

- I. USCC claimed \$28,293 as reimbursable by CNS on the June 30, 1996 Financial Status Report when the amount was actually charged as matching on the books of account.

CNS regulations (45 CFR 2543.21 (b) (1)) require USCC's financial management systems to provide for accurate, current and complete disclosure of the financial results of each federally-sponsored project or program.

USCC did not accurately report costs incurred on its June 30, 1996 Financial Status Report (FSR). As a result, we are questioning \$28,293 of the Federal Share of claimed costs and recommending an upward adjustment of \$12,969 in related matching as follows:

**Summary of Unsupported USCC Costs
For the 11 months ending June 30, 1996**

	Questioned Costs		Notes
	<u>Federal Share</u>	<u>Matching</u>	
Staff Salaries and Benefits	\$ 2,000	\$ (2,000)	1
Operating Costs	19,669	(19,669)	1
Matching Claimed as Federal share of Administrative Costs	\$6,624	\$(6,624)	1
Unclaimed Matching	<u>0</u>	<u>(2,997)</u>	2
Total Administrative Costs	<u>6,624</u>	(9,621)	1
Total Matching Reported on June 30, 1996 FSR		<u>18,321</u>	1
Total Questioned Costs	<u>\$28,293</u>	<u>\$(12,969)</u>	

Notes:

1. USCC claimed Federal share of \$100,280 and \$18,321 in related matching on its June 30, 1996 parent organization FSR. However, USCC personnel stated that total costs of \$100,280 were incurred under the grant and that the amounts reported on its June 30, 1996 FSR were in error. Further, USCC records indicated that the actual amounts incurred were \$71,987 in Federal share and \$28,293 in related matching. Matching claimed as Federal share consisted of \$2,000 in staff salaries and benefits, \$19,669 in operating costs, and \$6,624 in administrative costs.
2. USCC incurred administrative costs of \$2,997 that were not reported on its June 30, 1996 FSR. As a result, we are recommending an upward adjustment of \$2,997 in matching.

We recommend that CNS require USCC to submit a corrected June 30, 1996 FSR that shows the accurate amounts for CNS and USCC share of costs. Further, CNS should require USCC to submit corrected versions of any subsequent FSRs that are misstated because of the reported error.

In their response, USCC agreed that the error had been made and stated that it had been corrected on a subsequent FSR. We further recommend that CNS confirm that the appropriate corrections have been made to FSRs submitted after June 30, 1996.

II. USCC claimed direct program costs for salaries and benefits that were administrative in nature. As a result, USCC claimed administrative costs in excess of five percent of the awarded Federal share of project costs.

CNS regulations (45 CFR 2510.20) define administrative costs as 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 program objectives. Specific program objectives are defined by CNS regulations as recruiting, training, placing or supervising participants. Based on discussion with the USCC staff and a review of the position descriptions identified in the grant application, we found that no USCC staff were directly involved in recruiting, training, placing or supervising Members. Further, USCC staff members did not distinguish between administrative and program duties when completing their time sheets or when otherwise allocating staff salaries and benefits to the grant. As a result, we reclassified \$44,630 of claimed staff salaries and benefits as administrative costs.

After reclassifying these program costs as administrative costs, we found that USCC exceeded the five percent cap on the Federal share of administrative costs as of June 30, 1996, although the total grant award had not yet been expended. CNS regulations (45 CFR 2540.110) limit the use of CNS funds for administrative costs to not more than five percent of the amount of federal assistance provided. As a result, we are questioning \$21,730 in excess administrative costs as shown in the following schedule:

Summary of Questioned Administrative Costs		
For the 11 months ending June 30, 1996		
Total Award - Federal Share ¹	\$458,001	
Administrative Cap - Five Percent	<u>x 0.05</u>	
Maximum Allowable Administrative Costs		\$22,900
Administrative Costs Reported	\$ 6,624	
Less: Administrative Costs Adjusted (See Finding I)	(6,624)	
USCC Staff Salaries Reclassified as Administrative Costs	<u>44,630</u>	
Total Administrative Costs Incurred		<u>44,630</u>
Questioned Administrative Costs - Net of Allowable and Incurred Costs		<u>\$21,730</u>

¹The total amount awarded was used to calculate the maximum allowable administrative costs for comparison to the amount incurred, which had already exceeded the maximum possible amount under the grant.

We recommend that CNS require USCC to reimburse \$21,730 for questioned administrative costs and any additional excess administrative costs claimed during the period June 30, 1996 through December 31, 1996, the expiration date of the award.

In their response, USCC did not agree that the costs claimed for the salary and benefits of the Program Coordinator were administrative costs. We do not agree with USCC's interpretation of CNS regulations. Although the position is described as a direct cost in the budget narrative, we determined that the duties and responsibilities of the position are administrative as specified in CNS regulations. However, we removed our recommendation to improve the time keeping system to accommodate administrative hours because USCC demonstrated that their labor charging system could accumulate administrative hours charged.

III. USCC and two subgrantees, Catholic Charities of Orange County and Catholic Charities, Diocese of Fresno, claimed costs that were unsupported or unallocable to the grant.

Catholic Charities of Orange County (Orange County affiliate) and Catholic Charities, Diocese of Fresno (Fresno affiliate), claimed costs which were unallocable to the grant or not supported by adequate source documentation. In addition, costs reported on the June 30, 1996 FSRs of USCC and both the Orange County and Fresno affiliates did not include all costs allocable to the grant. As a result, we are questioning \$12,337 in claimed costs and \$5,329 in related matching as follows:

Schedule of Questioned Subgrantees' Costs For the 11 months ending June 30, 1996			
<u>Budget Category</u>	<u>Questioned Costs</u>	<u>Criteria: OMB Circular A-122, Attachment A</u>	<u>Notes</u>
Stipends	\$ 5,428	A 4a(1) and (2)	1
Health Care	<u>(2,736)</u>	A 4a(1) and (2)	2
Member Support Costs	\$ 2,692		
Staff Salaries and Benefits	\$ 8,074	B 6 (1) (2) (a)	3
Transportation	<u>1,571</u>	A 4a (1) and (2)	4
Operating Costs	<u>9,645</u>		
Total Questioned Costs	<u>\$12,337</u>		
Related Matching	<u>\$ 5,329</u>	45 CFR 2543.23 (a) (1)	5
Notes:			
1. The Fresno affiliate assigned one Member to serve in an unrelated non-profit organization, the Fresno Interdenominational Refugee Ministries (FIRM). Officials of the Fresno affiliate			

Notes to Table Continued

described the work performed for FIRM as AmeriCorps service. However, a staff member of FIRM stated that, in addition to helping newly arrived refugees learn English, obtain community services and gain United States citizenship, one of FIRM's other purposes was to assist in establishing small businesses. He further stated that the Member assisted in all of FIRM's functions. The scope of the AmeriCorps grant does not include assisting small businesses. We are questioning \$5,428 of stipends and benefits paid to the Member through June 30, 1996, as unallocable because personnel activity reports of the Member did not differentiate between the small business support activity and the AmeriCorps service.

2. The Fresno affiliate incurred health insurance premium costs for eligible Members. However, these costs were not claimed on monthly reimbursement requests to USCC. As of June 30, 1996, we found that \$3,219 of health insurance premium costs were not claimed but are allocable to the grant. We included the Federal share (85 percent) of this amount, \$2,736, as an adjustment to questioned costs.
3. Staff of the Fresno affiliate worked on several other projects in addition to the AmeriCorps program. However, time sheets completed by the staff did not adequately document the distribution of time among these activities. Consequently, we were unable to determine from source documentation whether costs for staff salaries and benefits were properly allocated among the AmeriCorps program and other projects. Additionally, Fresno affiliate officials were unable to support the methodology used in calculating the claimed costs for fringe benefits. As a result, we are questioning \$8,074 in staff salaries and benefits as unsupported.
4. The Orange County affiliate classified Member local travel costs as Transportation. We found that \$1,890 for Members' automobile insurance was claimed in this category. However, the approved budget indicated that automobile insurance was to be allocated as matching by the Orange County affiliate. We also found that the Orange County affiliate did not claim \$319 for Member travel mileage which is allocable to the Federal share under the approved budget. We are questioning claimed automobile insurance costs of \$1,890 as unallocable to the Federal share and reclassifying this amount as matching. We also are reporting unclaimed mileage costs of \$319 as an adjustment to questioned costs. Therefore, the net amount of Transportation costs we are questioning is \$1,571.
5. We are questioning a net amount of \$5,329 of matching contributions related to the questioned claimed costs in Notes 1 through 4 above as follows:
 - We are questioning unallocable matching of \$7,702, which consists of Member stipends of \$958 (Note 1) and staff salaries and benefits of \$6,744 (Note 3).
 - We are increasing matching by \$2,373, which consists of \$483 of Members' health insurance premiums (Note 2) and \$1,890 of automobile insurance premiums (Note 4) that are unallocable as Federal share but allocable as part of USCC's matching.

We recommend that CNS require USCC to reimburse \$12,337 of questioned costs and exclude \$5,329 from the amounts of matching reported through the expiration of the grant.

In their response, USCC disagreed that the Member assigned to FIRM performed work outside of the scope of the grant. We revised the finding to clarify that the Member assisted in all functions of the organization, which included helping start businesses and other activities outside the scope of the award. Additionally, USCC disagreed with our questioning of the transfer of costs for Transportation, citing regulations that permit limited transfers between budget categories. We do not agree with USCC's interpretation of CNS regulations. The costs were transferred from USCC's share to CNS's share and not between the CNS funded budget categories.

IV. USCC did not adequately monitor the financial activity of the subgrantees to determine whether their accounting systems could produce accurate financial reports or prevent unallowable costs from being claimed.

CNS regulations (45 CFR 2520.20) and (45 CFR 2543.51 (a)) require USCC to manage and monitor its subgrantees and to submit accurate and complete Financial Status Reports (FSRs). USCC submitted FSRs compiled from monthly reimbursement requests submitted by the affiliates. We found that the reimbursement requests of the Orange County and Fresno affiliates included unallowable and unallocable costs. We also found that USCC's Office of Accounting Services did not require the subgrantees to submit supporting documentation with their reimbursement requests. Further, USCC did not periodically assess the allowability of costs reported in subgrantee reimbursement requests. Instead, USCC accepted the amounts requested by the affiliates as current, accurate and complete, and submitted FSRs on this basis.

CNS regulations (45 CFR 2543.21 (b) (6) and (7)) require recipients of Federal funds to have financial management systems that properly support accounting records by source documentation and that also include written procedures to determine the reasonableness, allocability, and allowability of costs claimed. We found that the Fresno affiliate did not maintain a general ledger that properly collected, classified and summarized grant expenditures to support costs reported on USCC's FSRs. Additionally, the Fresno affiliate did not establish accounting policies and procedures to standardize the reporting of claimed costs. Further, personnel at the Fresno affiliate responsible for accounting for grant costs did not have adequate knowledge of generally accepted accounting principles, OMB Circulars or CNS grant provisions. As a result, the Fresno affiliate claimed unallocable costs that were not supported by adequate documentation and did not claim some costs that were allocable to the grant.

We recommend CNS require USCC to:

- Develop and implement financial management controls for monitoring financial activity among the subgrantees, including the determination of the adequacy of subgrantee accounting systems and screening of subgrantee monthly reimbursement requests for unallowable, unallocable and unreasonable costs.
- Require the Fresno affiliate to establish and maintain a general ledger that properly collects, classifies and summarizes grant expenditures to support claimed costs.

In their response, USCC disagreed that their financial monitoring was not adequate citing periodic site visits and review of annual audit reports. However, USCC does not assess the adequacy of accounting systems in accordance with OMB financial management standards prior to entrusting subgrantees with federal funds. Additionally, USCC agreed that improvements to the Fresno affiliate's accounting system were needed.

- V. The Orange County and Fresno affiliates assigned an AmeriCorps Member to duties which were not included in the approved grant application. Additionally, two AmeriCorps Members inappropriately charged lobbying activities as service hours.

The AmeriCorps Cooperative Agreement, Paragraph I, Program Description, requires USCC to conduct the grant project in accordance with the approved grant application, which defines the scope of the service of the AmeriCorps Members. We found that the Fresno affiliate assigned a Member to work with another non-profit organization, the Fresno Interdenominational Refugees Ministry (FIRM), which provides outreach services to the surrounding communities *and start-up services for small businesses*. The Project Director at the Fresno affiliate characterized the work performed as AmeriCorps service. However, the purpose of the AmeriCorps grant was to help newcomers become United States citizens.

We found that the Member working on the FIRM project accumulated 1,391 service hours. Thirty-two of the hours were allocable to training and education; the remaining 1,359 service hours were credited to the Member for work performed on the FIRM project through June 30, 1996. Additionally, the Member's living allowance and benefits were claimed under the AmeriCorps grant.

We also found that two Members from the Orange County affiliate charged lobbying activities as service hours. The Members attended and spoke at a city council meeting to urge the mayor and city council to provide local government funding for a tutoring center. Special grant provision 5a prohibits any effort by Members to influence legislation. We determined that seven service hours were recorded by each Member on their time sheets for attending and speaking at the city council meeting.

We recommend that CNS require USCC to:

- Reimburse CNS for the living allowances and benefits paid to Members for service outside the purpose of the AmeriCorps project.
- Reimburse the National Service Trust for any educational award paid on behalf of Members for service outside the purpose of the AmeriCorps project.
- Instruct all subgrantees to restrict activities of Members to those that are described in the approved grant application and permitted under CNS grant provisions. Further, CNS should periodically review USCC Members' activities to determine that they conform to the purpose of the grant.

VI. The Fresno affiliate had no procedures to accumulate Member service hours or to obtain supervisory approval of Member time sheets.

We found that the Fresno affiliate did not maintain a system to summarize Member service hours. We also found that Member time sheets were not approved by a supervisor for the period March 31 through September 30, 1996. Consequently, we could not determine if hours recorded on time sheets by the Members represented actual hours of service. Further, we were unable to determine if total hours credited towards eligibility for educational awards were accurate. AmeriCorps grant provision 23 c (ii) requires the Fresno affiliate to maintain documentation of all Members' eligibility for in-service and post-service benefits. These grant provisions also require that time and attendance records be signed by both Members and an individual with oversight responsibility.

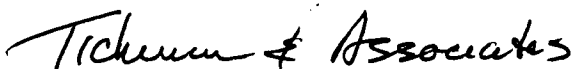
We recommend CNS require USCC to:

- Require all affiliates to establish and maintain a system to accumulate and report Member service hours. USCC should also periodically review subgrantee reports and supporting documentation for accuracy.
- Develop and implement procedures to verify that Member time sheets are accurate and approved by a supervisor.

In their response, USCC disagreed with our finding providing time sheets of the Members as evidence that the service hours were accumulated and monitored. However, no summary or other record that the hours were being monitored were provided.

This report is intended solely for the information and use of the CNS Office of Inspector General and CNS management. However, this report is a matter of public record and its distribution is not limited.

TICHENOR & ASSOCIATES
Woodbridge, Virginia
October 4, 1996



Appendix I

Response of the United States Catholic Conference



Office of Accounting Services

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July 30, 1997

Mr. Brian Skadowski
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12531 Clipper Drive
Suite 202
Woodbridge, VA 22192

**RE: Review of USCC AmeriCorps Program
Grant No. 95ADNDC016**

Dear Mr. Skadowski:

We have received your fax of June 30, 1997 transmitting the draft report of your firm's review findings relative to the referenced grant awarded to USCC by the Corporation for National Service (CNS). The results of this report formed the basis of the follow-up meeting we requested with you on July 14, 1997 to discuss the issues and findings raised.

We appreciated your willingness to meet with us on relatively short notice and the spirit of cooperation and attentiveness with which you received our comments at that meeting. In partnership with its diocesan subgrantees, USCC is wholly committed to achieving excellence in all of its programs and maintaining sound management controls for the effective stewardship of government funds. We welcome opportunities such as this review to evaluate the success of our joint efforts at periodic intervals.

This letter will serve to summarize our comments made to you and provide additional information and clarity regarding certain sections of the report. Specific findings will be addressed in the order that they appear in the report.

Finding #1: USCC claimed \$28,293 as reimbursable by CNS on the June 30, 1996 Financial Status Report when the amount was actually charged as matching on the books of account.

USCC Response: We acknowledge the error made in the 6/30/96 report and, in fact, called this oversight to the attention of the auditors. At that time, we informed the auditors that a correction would be made to the 9/30/96 financial report, consistent with procedures used to make corrections to financial reports for other federal grants. There was no monetary impact to the grant since no funds were drawn down as a result of this error (see Attachment 1). Attachments 2 and 3 are copies of the original and revised parent organization and aggregate financial reports that illustrate the actions taken in this regard.

Since there were no financial implications to this error, the exhibit on page 5 of the report is inconsequential and there are no matching considerations except for the upward adjustment of \$2,997 mentioned in note 2. We therefore request that the exhibit be deleted from the report.

Response to Tichenor & Associates Audit Report
Page 2

Finding #2: USCC claimed direct program costs for salaries and benefits that were administrative in nature. As a result, USCC claimed administrative costs in excess of five percent of the awarded Federal share of project costs.

USCC Response: Attachment 4 shows the parent organization (USCC) budget and narrative approved by CNS as part of the grant award. At no time during the budget discussion or approval process were we informed by CNS officials that salary and benefit costs were incorrectly allocated and would have to be revised in the budget. Rather, based on the approved budget we treated the Program Coordinator's actual salary and benefits as fully chargeable direct program costs, not administrative costs under the five percent cap. As such, we question the need to reimburse CNS \$21,730 as recommended by the auditors.

Concerning the matter of time reporting, USCC has for several years maintained a time and activity reporting system that enables us to properly allocate salary and benefit expenses to the various Federal grants in accordance with OMB Circular A-122 provisions. This system allows us to differentiate between administrative and program activities. Again, had we been informed by CNS that this segregation was required, a simple adjustment could have been made to the activity codes used in the system in order to track time spent by cost category. Attachment 5 is an example of an actual time and activity report from a prior period which demonstrates our past and present ability to comply with this requirement.

Finding #3: USCC and two subgrantees, Catholic Charities of Orange County and Catholic Charities, Diocese of Fresno, claimed costs that were unsupported or unallocable to the grant.

USCC Response: The matter of the Fresno Catholic Charities member assigned to the Fresno Interdenominational Refugee Ministries (FIRM) is more fully addressed under Finding #5 later in this letter. Suffice it to say here that we consider all member service hours performed under the auspices of FIRM to be consistent with the stated purpose of the project and therefore fully allocable to the AmeriCorps grant. Regarding unclaimed health insurance costs in Fresno, a billing delay on the part of the health insurance provider resulted in Fresno Catholic Charities not claiming the full amount of member premiums paid during the review period. Nevertheless, USCC does not intend to submit a retroactive reimbursement request for the amount (\$2,736) shown in the report schedule even though the auditors have deemed this to be an allocable expense to the grant.

The auditors also noted that the time sheets completed by Fresno Catholic Charities staff who engaged in other program activities besides AmeriCorps did not adequately document the distribution of time among these activities. While we concur with this finding and are planning to assist Catholic Charities to develop a time reporting system consistent with A-122 guidelines, we question the auditors' recommendation to disallow claimed salary and benefit expenses totalling \$8,074. At a minimum, the agency's budget and job descriptions indicate that a predetermined portion of certain staff members' activities will be devoted to AmeriCorps. Regular reports from Catholic Charities concerning program services provided and resulting outcomes suggests a level of activity commensurate with the amount of claimed expenses.

Response to Tichenor & Associates Audit Report
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We understand that Catholic Charities of Orange County claimed an automobile insurance expense, originally a cost sharing item under their approved budget, to the Transportation cost category. CNS budget guidelines allow the transfer of direct costs from one line item of the budget to another if (1) the amount transferred doesn't exceed ten percent (10%) of the total budget and, (2) the overall budget amount and required CNS/grantee cost sharing agreements are maintained. We believe that Catholic Charities met these requirements while utilizing the authorized budget management discretion. The amount of unclaimed mileage costs (\$319) discovered by the auditors will not be billed to CNS.

In summary, we do not consider any of the costs questioned by the auditors to be unsupported or unallocable.

Finding #4: USCC did not adequately monitor the financial activity of the subgrantees to determine whether their accounting systems could produce accurate financial reports or prevent unallowable costs from being claimed.

USCC Response: Both of the diocesan subgrantees reviewed are subject to the Single Audit requirements of OMB Circular A-133. USCC has an extensive compliance monitoring system in place to review the audit reports and financial statements received from over 100 subgrantees and respond to any adverse audit findings in a timely manner, including corrective action where indicated. These annual audits provide "reasonable but not absolute assurance" that financial transactions are executed in accordance with generally accepted accounting principles and that federal programs are managed in compliance with applicable laws and regulations. This system is supplemented by internal program and financial review procedures including on-site visits on a scheduled basis. Subgrantees are likewise provided with written directives through the issuance of program instructions/guidelines, policy and procedure updates to program operating manuals, and regular correspondence.

It is not USCC policy to require subgrantees to submit supporting documentation with their monthly reimbursement requests in any of the federal programs it administers. On the contrary, subgrantees are instructed to retain individual receipts or invoices on file for accounting and audit purposes. Further, all claimed expenses must be reported in one or more of the accounts established for each program per the approved budget and identified on the program-specific billing form. A sample of the AmeriCorps administrative reimbursement request form is included as Attachment 6 to this letter. The allowability and allocability of claimed expenses are examined as part of the annual A-133 audit and through the other methods mentioned in the preceding paragraph.

We recognize with the auditors the reported deficiencies in the Fresno Catholic Charities accounting system at the time of the review. As mentioned to you at our meeting, USCC has worked and will continue to work closely with agency management to help facilitate the constructive developments taking place in the diocese to improve financial accountability. Over the past year, Catholic Charities has brought all refugee programs under the automated fund accounting system of the diocesan financial office. Program funds are deposited into a general operating account with separate cost centers and corresponding ledger. All subsidiary checking accounts have been closed. Check requests are centralized and processed through the diocese and complete records are maintained concerning grant revenues and expenses.

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Finding #5: The Orange County and Fresno affiliates assigned an AmeriCorps member to duties which were not included in the approved grant application. Additionally, two AmeriCorps members inappropriately charged lobbying activities as service hours.

USCC Response: The AmeriCorps member assigned by Fresno Catholic Charities to the Fresno Interdenominational Refugee Ministry (FIRM) was acting in the capacity of a Community Educator as described in Attachment 7. This job description was included in the grant application that was approved by the Corporation. FIRM, like many other community-based organizations, provides a multitude of services including some unrelated to activities funded by the grant. The duties performed by the Community Educator are consistent with that element of FIRM's mission dealing with community outreach services and are in keeping with the project's primary goal of fostering citizenship. Attachment 8 attests to the validity of services performed by the member in question based on on-site and other monitoring activities conducted by the Program Coordinator. As stated previously, we consider all of the Fresno member's reported service hours and related costs to be allowable and allocable to the grant.

USCC also differs with the auditors' assessment of the activities of the two members from Catholic Charities of Orange County. Their attendance at the city council meeting was authorized as a means to promote the mission of AmeriCorps and communicate the important contribution being made by the members within the community. While the issue of local government funding for a tutoring center may have been on the meeting agenda, the Catholic Charities members were not there to lobby or otherwise engage in activities outside the purpose of the AmeriCorps project. Again, we consider all of the Orange County members' service hours and related costs to be allowable and allocable to the grant.

Finding #6: The Fresno affiliate had no procedures to accumulate member service hours or to obtain supervisory approval of member time sheets.

USCC Response: Fresno Catholic Charities clearly does have a system and procedures in place to document member service hours. You'll recall that a complete set of member time sheets for the March 31 - September 30, 1996 period was provided to you at our recent meeting and was available for examination at the time of the review. USCC maintains and reviews all member time sheets as required and consults with subgrantees concerning any discrepancies. We have noted those few time sheets lacking supervisory approval signatures and will redouble our efforts to ensure full compliance with this important procedure.

General Comments and Concerns:

In addition to the several findings responded to above, the auditors make certain statements in the "Results In Brief" and "Scope and Methodology" sections of the report that USCC deems worthy of further comment and clarification as follows --

1. USCC and Subgrantee Accounting Systems/Management Control Procedures

We object to the strong and overstated language used by the auditors on page 1 of the report to describe the adequacy of USCC and subgrantee accounting systems and

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management control procedures and their ability to safeguard federal grant funds. Quoting from page 1 of the report, the auditors indicate,

"We found that the accounting systems and management control procedures of USCC and its subgrantees were inadequate to report grant expenditures and to safeguard Federal funds for the grant."

It is quite relevant to note in this context the auditors' own comments in the first paragraph on page 4 which states,

"... 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."

As a limited scope engagement, this review consisted of approximately one week of field work, performed primarily at two subgrantee sites. It is our opinion that the scope and methodology of procedures as defined on page 3 were not extensive enough to offer an opinion as far-reaching as that presented on page 1 of the report. We believe more extensive discussion with appropriate USCC representatives (discussed in detail below) and a fuller examination of the activities of the other USCC subgrantees funded by this grant would have rendered more positive factual information in many cases and would likely have caused the auditors to offer a more favorable review assessment.

Since the final report is a matter of public record, we request that the auditors' language in this regard be modified to more accurately reflect the adequacy of the USCC and subgrantee accounting and internal control systems relative to this grant.

2. Review Procedures and Protocol

The draft report was received by our office on June 30, 1997 and is based on procedures performed in September 1996, with a report date of October 4, 1996. The period from the initial review to issuance of the draft report represents a large lapse of time, particularly given the significance of many of the preliminary findings. Additionally, standard audit procedures were not followed in this review such as discussion and clarification of preliminary findings during and after the review and an exit conference by the audit team with key USCC accounting and program staff. USCC was essentially denied the opportunity to receive timely feedback from the auditors enabling us to clarify or correct any factual errors that subsequently appeared in the report and, more importantly, to make any necessary program adjustments or corrections in an expeditious manner.

Another key concern and, we believe, critical breakdown in the review procedures was the complete absence of any discussion between the audit team and the USCC Program Coordinator. Although the Program Coordinator was unable to travel from his New York office to meet the auditors at the USCC Washington office, he indicated to the auditors on

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more than one occasion his desire and expectation to be interviewed and briefed by phone at critical stages of the review. Assurances were given by the auditors that this would occur but, in fact, there were no such meetings. Important facts and insights concerning many aspects of the program were apparently lost in the review process by this omission.

A good example of this situation involved the auditors' request for the required monthly progress reports that detailed AmeriCorps program performance measures. This information was promptly provided to the auditors by the Program Coordinator in response to their initial review notification letter dated August 23, 1996. The auditors' report incorrectly states that USCC declined to provide these progress reports thereby preventing the auditors from determining whether program objectives were met. In fact, USCC provided relevant reports and only "declined" to provide the auditors access to an internal monthly program and financial management report. Our concerns were three-fold; (1) issues of confidentiality (the report covers a wide range of programs, including AmeriCorps), (2) it is not a report required under the grant and therefore not subject to outside review or audit, and (3) the report information dealing with the AmeriCorps Program is quite general and not very germane to the objectives of the review (see Attachment 9).

We suggest that CNS, and the Office of the Inspector General in particular, reexamine their review procedures and protocol with the goal of ensuring that standard audit procedures are followed, especially in the area of interviewing and briefing key management, accounting and program staff during the course of such reviews. We further request that the second paragraph on page 4 be entirely omitted since it is both inaccurate and inconsequential.

Thank you for the opportunity to comment on the draft report and offer clarification as necessary. I can be reached at (202) 541-3026 should you wish to further discuss any of these issues. We look forward to receiving your final report in the near future.

Sincerely,


Jennifer L. McGowan
Director of Accounting Services

cc: Bill Anderson/CNS
Mark Franken
Chris Rutledge
Wendell Smith

Attachments (9)