

**Office of the Inspector General  
Corporation for National Service**

**Audit of  
Commission on National and Community Service  
Award Number 92NMSTNJ0005  
Urban Schools Service Corps**

**Report Number 98-05  
February 20, 1997**

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This report was issued to Corporation management on January 9, 1998. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than July 10, 1998, and complete its corrective action by January 8, 1999. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented or the amount of disallowed costs.

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

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Office of the Inspector General  
Audit of the  
Urban Schools Service Corps  
Commission on National and Community Service  
Award Number 92NMSTNJ0005



Leonard G. Birnbaum and Company, under contract to the Office of the Inspector General, performed an audit of the funds awarded by the Commission on National and Community Service to the State of New Jersey to establish the Urban Schools Service Corps (USSC) under Grant No. 92NMSTNJ0005. The audit covered the costs (\$2,654,297) claimed during the grant period from August 1, 1992 through December 31, 1995.

The audit included an examination to determine whether financial reports prepared by the auditee presented fairly the financial condition of the award and the award costs reported to the Corporation were documented and allowable in accordance with the terms and conditions of the award. We have reviewed the report and work papers supporting its conclusions and agree with the findings and recommendations presented.

The firm found that

- USSC did not submit financial reports as required by the Common Rule under OMB Circular A-102.
- USSC and its subrecipients lacked adequate controls over their financial management systems.
- USSC did not maintain adequate records for in-kind contributions.
- Administrative costs charged to the grant exceeded the maximum Federal share.
- USSC did not effectively monitor the hours of service performed by the participants.

Based on the audit, we are questioning \$87,055 (three percent) of the costs claimed under the award. These and other matters are discussed in greater detail in the report. The State of New Jersey's response to a draft of this report is summarized after each finding and included as Appendix A. The Corporation did not respond.

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AmeriCorps, National Service  
Learn and Serve America  
National Senior Service Corps

Corporation for National Service  
Office of Inspector General  
Report Number 98-05

Commission on National and Community Service Grant Number 92NMSTNJ0005  
to  
The State of New Jersey (Urban Schools Service Corps)  
Trenton, NJ 08625

Financial Schedules  
and  
Independent Auditor's Reports

For the Period  
August 1, 1992 to December 31, 1995

Leonard G. Birnbaum and Company  
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Corporation for National Service  
Office of Inspector General  
Audit of The State of New Jersey  
Urban Schools Service Corps

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Corporation for National Service  
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Urban Schools Service Corps

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REPORT SUMMARY AND HIGHLIGHTS

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Inspector General  
Corporation for National Service

We have performed an audit of the funds awarded by the Commission on National and Community Service<sup>1</sup> (Commission) to the State of New Jersey for the National Demonstration Models operational program under Grant No. 92NMSTNJ0005. The grant established the Urban Schools Service Corps (USSC) in which the New Jersey Department of Higher Education was designated as the lead agency. Effective July 1, 1994, the New Jersey Department of Higher Education was dissolved and the New Jersey Department of Education was designated as the lead agency for this grant. Our audit covered the costs claimed during the period August 1, 1992 through December 31, 1995.

## SUMMARY OF AUDIT RESULTS

Our audit of the costs claimed by USSC for its National Demonstration Models operational program disclosed the following:

Award Budget	\$ 3,950,000
Claimed Costs	2,654,297
Incurred Costs	2,942,816
Questioned Costs	87,055

As a result of our audit of the aforementioned award, we are questioning costs totaling \$87,055 as summarized below and detailed in Exhibit A to the Independent Auditor's Report. Questioned costs are costs which were expended in violation of the law, regulations or specific conditions of the award or those costs which require additional support by the grantee or which require interpretation as to allowability by the Corporation.

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1. On December 14, 1993, the Corporation for National and Community Service established audit responsibility for all programs administered by the Corporation as well as grants awarded by the former Commission on National and Community Service in its Office of Inspector General.

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The following summarizes the costs questioned on the above award by reason:

<u>Explanation</u>	Amount
• Costs were not adequately supported by source documentation.	\$ 11,228
• Costs claimed exceeded the amount incurred.	38,382
• Administrative costs exceeded the maximum Federal share.	26,803
• Costs were not allocable to the grant.	6,142
• A mathematical error was made in allocating an administrative employee's salary.	2,037
• Costs were unnecessary and unreasonable.	1,740
• Other	<u>723</u>
Total Questioned Costs	<u>\$ 87,055</u>

We used a judgmental sampling method to test the costs claimed by the auditee. Based upon this sampling plan, questioned costs in this report may not represent total costs that may have been questioned had all expenditures been tested. In addition, we have made no attempt to project such costs to total expenditures claimed, based on the relationship of costs tested to total costs. For a complete discussion of these questioned costs, refer to the Independent Auditor's Report.

COMPLIANCE FINDINGS

Our audit disclosed the following material instances of noncompliance:

- USSC did not submit financial reports as required by the Common Rule under OMB Circular A-102. (Independent Auditor's Report on Compliance, Finding No. 1)
- Neither USSC nor its subrecipients met standards for financial management systems which require that systems maintain sufficient detail and provide for comparison of actual to budgeted amounts. (Independent Auditor's Report on Compliance, Finding No. 2)



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- USSC did not maintain adequate records for in-kind contributions. (Independent Auditor's Report on Compliance, Finding No. 3)
- Administrative costs charged to the grant exceeded the maximum Federal share. (Independent Auditor's Report on Compliance, Finding No. 4)

#### INTERNAL CONTROL STRUCTURE

Our audit disclosed the following matters which we consider to be material weaknesses in the internal control structure and its operation:

- USSC lacks adequate controls for monitoring subrecipients. (Independent Auditor's Report on Internal Control Structure, Finding No. 1)
- USSC and its subrecipients lack adequate controls over their financial management systems. (Independent Auditor's Report on Internal Control Structure, Finding No. 2)
- USSC did not effectively monitor the hours of service performed by the participants. (Independent Auditor's Report on Internal Control Structure, Finding No. 3)

#### PURPOSE AND SCOPE OF AUDIT

Our audit covered the costs during the period August 1, 1992 through December 31, 1995, under Grant No. 92NMSTNJ0005 which was the award period.

The objectives of our audit were to determine whether:

1. financial reports prepared by the USSC presented fairly the financial condition of the award;
2. the system of internal control structure was adequate to safeguard Federal funds;
3. USSC had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations and award conditions; and
4. the award costs reported to the Corporation were documented and allowable in accordance with the award terms and conditions.

We performed the audit in accordance with generally accepted auditing standards, and *Government*

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*Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed against the grant award as presented in the schedule of award costs (Exhibit A), are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in Exhibit A. An audit also includes assessing the accounting principles used and significant estimates made by the auditee, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

We provided a draft of this report to the Corporation and the State of New Jersey for comments. The Corporation did not respond. The State of New Jersey's comments (excluding attachments) are presented as Appendix A. Unless noted otherwise after each finding, the State of New Jersey concurred with the finding and indicated corrective actions that either have been taken or will be taken. We provided the Corporation's Office of Grants Management copies of the attachments for their consideration during the resolution process.

#### MATTER REQUIRING RESOLUTION

USSC acquired equipment, at a cost of \$40,110, during its performance of the grant. The terms of the grant provide that title to the equipment vests with USSC, but that the Corporation has a reversionary interest in the equipment and the right to direct the disposition upon completion of grant performance. As of the date of our audit, USSC had not received any direction from the Corporation as to the disposition of the equipment. We observe that USSC, prior to the conclusion of this grant, has been awarded other grants by the Corporation.

#### OTHER MATTERS

When an AmeriCorps grant was awarded to USSC by the Corporation, which was essentially an extension of the grant awarded by the Commission, virtually all costs, except previously earned post service benefits and a few previously incurred program costs, were charged to the AmeriCorps grant. With the exception of the costs mentioned above, all costs after August 31, 1994, were charged against the AmeriCorps grant. As a result, USSC incurred and claimed costs significantly less than the amount that was budgeted for this grant.

#### BACKGROUND

The Commission on National and Community Service awarded \$3,950,000 under Subtitle D of the National Community Service Act of 1990 to the State of New Jersey. The grant contained funding for a planning and operational phase. The grant was made to support the National

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Demonstration Models program in which the Urban Schools Service Corps would be established. Originally the New Jersey Department of Higher Education was designated as the lead agency, however, when this agency was dissolved on July 1, 1994, the New Jersey Department of Education was designated as the lead agency for this grant.

REPORT RELEASE

This report is intended for the information and use of the Corporation's Office of Inspector General, as well as the management of the Corporation and USSC's management and its subrecipients. However, this report is a matter of public record and its distribution is not limited.

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

We have audited the costs claimed by Urban Schools Service Corps (USSC) to the Corporation for National Service and its predecessor, the Commission on National and Community Service, on the Federal Cash Transactions Report for the period August 1, 1992 through September 30, 1995, and the post service benefits recorded on USSC's books of account as being paid between October 1, 1995 and December 31, 1995, for the grant number listed below. Neither an aggregate Federal Cash Transactions Report nor an aggregate Financial Status Report was submitted for the quarter ended December 31, 1995. The incurred costs, as presented in the schedule of award costs, is the responsibility of the Grantee's management. Our responsibility is to express an opinion on Exhibit A based on our audit.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
92NMSTNJ0005	August 1, 1992 to December 31, 1995	August 1, 1992 to December 31, 1995

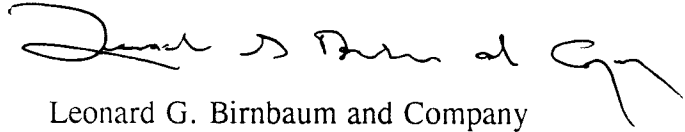
We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

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The accompanying financial schedules were prepared for the purpose of complying with the requirements of the award agreement as described in Note 1, and are not intended to be a complete presentation of financial position in conformity with generally accepted accounting principles.

In our opinion, except for \$87,055 of questioned costs, the schedule of award costs (Exhibit A) referred to above presents fairly, in all material respects, the claimed costs for the period August 1, 1992 to December 31, 1995, in conformity with the award agreement.

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



Leonard G. Birnbaum and Company

Alexandria, Virginia  
February 20, 1997

FINANCIAL SCHEDULES

Urban Schools Service Corps  
Commission on National and Community Service Award No. 92NMSTNJ0005  
Schedule of Award Costs  
From August 1, 1992 to December 31, 1995  
Final

<u>Cost Category</u>	<u>Approved Budget</u>	<u>(A)(B) Claimed Costs</u>	<u>(A)(C) Incurred Costs</u>	<u>Reclassified Costs</u>	<u>Incurred as Reclassified</u>	<u>Questioned Costs</u>	<u>Exhibit B Note Reference</u>
Participant support costs -							
Full-time participants:							
Living allowances and benefits	\$1,038,470	\$ 855,258	\$1,011,700		\$1,011,700	\$ 110	1
Health insurance	248,600	230,661	230,661		230,661		
Post-service benefits	282,500	83,303	83,303		83,303		
Other	<u>85,880</u>						
Subtotal	<u>1,655,450</u>	<u>1,169,222</u>	<u>1,325,664</u>	<u>-</u>	<u>1,325,664</u>	<u>110</u>	
Participant support costs-							
Part-time participants:							
Living allowances and benefits	55,140						
Post-service benefits	<u>108,000</u>	<u>23,045</u>	<u>23,045</u>		<u>23,045</u>	<u>-</u>	
Subtotal	<u>163,140</u>	<u>23,045</u>	<u>23,045</u>	<u>-</u>	<u>23,045</u>	<u>-</u>	
Training of supervisors and participants							
	<u>255,582</u>	<u>227,505</u>	<u>231,053</u>	<u>\$ 780</u>	<u>231,833</u>	<u>224</u>	2
Evaluation							
	<u>191,953</u>	<u>190,845</u>	<u>204,500</u>	<u>-</u>	<u>204,500</u>	<u>-</u>	
Other program costs							
Operating	1,298,375	723,448	822,815	(3,305)	819,510	19,499	3
Capital	<u>45,500</u>	<u>31,773</u>	<u>37,585</u>	<u>2,525</u>	<u>40,110</u>		
Subtotal	<u>1,343,875</u>	<u>755,221</u>	<u>860,400</u>	<u>(780)</u>	<u>859,620</u>	<u>19,499</u>	
Administration							
	<u>190,000</u>	<u>156,560</u>	<u>166,255</u>	<u>-</u>	<u>166,255</u>	<u>28,840</u>	4
Excess advanced over incurred							
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,382</u>	5
Other							
	<u>-</u>	<u>27,136</u>	<u>27,136</u>	<u>(27,136)</u>	<u>-</u>	<u>-</u>	6
Total Operating Phase							
	3,800,000	2,549,534	2,838,053	(27,136)	2,810,917	87,055	
Total Planning Phase							
	<u>150,000</u>	<u>104,763</u>	<u>104,763</u>	<u>27,136</u>	<u>131,899</u>	<u>-</u>	
TOTAL CORPORATION FUNDS							
	3,950,000	2,654,297	2,942,816	-	2,942,816	-	
Matching Funds							
	<u>1,218,500</u>	<u>179,348</u>	<u>179,348</u>	<u>-</u>	<u>179,348</u>	<u>-</u>	
Total Funds							
	<u>\$5,168,500</u>	<u>\$2,833,645</u>	<u>\$3,122,164</u>	<u>\$ -</u>	<u>\$3,122,164</u>	<u>\$ 87,055</u>	

The accompanying notes are an integral part of this financial schedule.



Urban Schools Service Corps  
Commission on National and Community Service Award No. 92NMSTNJ0005  
Schedule of Award Costs  
From August 1, 1992 to December 31, 1995  
Final

- (A) Neither USSC nor its subrecipients accumulated grant costs by budget line item. For presentation and analysis purposes, we allocated the costs. We accomplished the allocation by either account analysis or proration of costs based on the budgeted amounts. USSC agreed that our redistribution of costs was reasonable.
- (B) The total representing costs claimed was taken directly from USSC's books of account as of November 12, 1996. Since USSC did not submit Financial Status Reports or Federal Cash Transactions Reports on a Quarterly basis (see Finding No. 1 in the Independent Auditor's Report on Compliance), we were unable to reconcile the amounts recorded on USSC's books of accounts with the financial reports. We did note, however, that the amounts reported were not accurate since the Federal Cash Transactions Report submitted for the quarter ended September 30, 1995, reflected total Federal Share of Net Disbursements as \$2,657,624.57 which is higher than the amount recorded on USSC's books as of November 12, 1996.
- (C) The total costs incurred represents a combination of the total amount recorded on USSC's books of accounts and the differences between the amount reported on the final Financial Status Reports submitted by the subrecipients and the amount of the subrecipient expenses that were reimbursed.

The accompanying notes are an integral part of this financial schedule.

Urban Schools Service Corps  
 Commission on National and Community Service Award No. 92NMSTNJ0005  
 Elizabeth Board of Education (George Washington School No. 1)  
 Schedule of Incurred Costs  
 From August 1, 1992 to December 31, 1995  
 Final

	(A)				Schedule B-1
	Incurred	Reclassified	Incurred as	Questioned	Note
<u>Budget</u>	<u>Costs</u>	<u>Costs</u>	<u>Reclassified</u>	<u>Costs</u>	<u>Reference</u>
Participant Support Costs-					
Full-time participants:					
Living allowances	\$ 91,900	\$ 79,875		\$ 79,875	
Fringe benefits	<u>7,600</u>				
	<u>99,500</u>	<u>79,875</u>	<u>-</u>	<u>79,875</u>	<u>-</u>
Operating:					
Staff salary	35,000	35,292		35,292	
Fringe benefits	10,000	10,000		10,000	1
Professional Services	5,000	475	\$ (225)	250	2
Travel	4,000	1,860		1,860	
Miscellaneous	<u>2,720</u>	<u>2,648</u>		<u>2,648</u>	3
	<u>56,720</u>	<u>50,275</u>	<u>(225)</u>	<u>50,050</u>	<u>10,906</u>
Equipment	<u>4,000</u>	<u>2,500</u>	<u>-</u>	<u>2,500</u>	<u>-</u>
Training	<u>3,000</u>	<u>2,515</u>	<u>225</u>	<u>2,740</u>	<u>224</u>
Administrative	<u>6,000</u>	<u>7,893</u>	<u>-</u>	<u>7,893</u>	<u>-</u>
Total Costs	<u>\$ 169,220</u>	<u>\$ 143,058</u>	<u>\$ -</u>	<u>\$ 143,058</u>	<u>\$ 11,130</u>

(A) The total representing costs incurred was taken directly from the auditee's books of account and does not agree with the Financial Status Report. The Financial Status Report reflects expenditures of \$150,531.

The accompanying notes are an integral part of this financial schedule.

Urban Schools Service Corps  
 Commission on National and Community Service Award No. 92NMSTNJ0005  
 Roselle Board of Education (Harrison Elementary School)  
 Schedule of Incurred Costs  
 From August 1, 1992 to December 31, 1995  
 Final

	(A)				Schedule B-2	
	Incurred	Reclassified	Incurred as	Questioned	Note	
<u>Budget</u>	<u>Costs</u>	<u>Costs</u>	<u>Reclassified</u>	<u>Costs</u>	<u>Reference</u>	
Participant Support Costs-						
Full-time participants:						
Living allowances	\$ 91,900	\$ 92,755		\$ 92,755	\$ 110	1
Fringe benefits	<u>7,600</u>	<u>7,600</u>		<u>7,600</u>		
	<u>99,500</u>	<u>100,355</u>	<u>-</u>	<u>100,355</u>	<u>110</u>	
Operating:						
Staff salary	30,728	34,066		34,066		
Fringe benefits	4,272	5,953		5,953		
Stipend	1,843					
Supplies/Materials	11,300	12,359	\$ (2,861)	9,498		2
Travel	5,800	4,121	336	4,457	98	3
Professional Services		4,383	(555)	3,828		4
Miscellaneous	<u>1,157</u>	<u>759</u>		<u>759</u>		
	<u>55,100</u>	<u>61,641</u>	<u>(3,080)</u>	<u>58,561</u>	<u>98</u>	
Equipment	<u>2,900</u>	<u>-</u>	<u>2,525</u>	<u>2,525</u>	<u>-</u>	
Training	<u>8,000</u>	<u>35</u>	<u>555</u>	<u>590</u>	<u>-</u>	
Administrative	<u>4,000</u>	<u>5,951</u>	<u>-</u>	<u>5,951</u>	<u>-</u>	
Total Costs	<u>\$ 169,500</u>	<u>\$167,982</u>	<u>\$ -</u>	<u>\$ 167,982</u>	<u>\$ 208</u>	

(A) The total representing incurred costs agrees with the expenditures reported on the Financial Status Report. Incurred Costs reported above were taken directly from the auditee's books of account.

The accompanying notes are an integral part of this financial schedule.

Urban Schools Service Corps  
 Commission on National and Community Service Award No. 92NMSTNJ0005  
 Urban League of Metropolitan Trenton, Inc (Gregory School)  
 Schedule of Incurred Costs  
 From August 1, 1992 to December 31, 1995  
 Final

	(A)				Schedule B-3
	Incurred	Reclassified	Incurred as	Questioned	Note
<u>Budget</u>	<u>Costs</u>	<u>Costs</u>	<u>Reclassified</u>	<u>Costs</u>	<u>Reference</u>
Participant Support Costs-					
Full-time participants:					
Living allowances	\$ 91,900	\$ 79,257	\$ 79,257		
Fringe benefits	<u>7,600</u>	<u>3,507</u>	<u>3,507</u>	-	
	<u>99,500</u>	<u>82,764</u>	<u>-</u>	<u>-</u>	
Operating:					
Staff salary	35,000	30,204	30,204		
Fringe benefits	10,000	4,272	4,272		
Travel	5,000	3,713	3,713		
Supplies	2,000	1,058	1,058		
Miscellaneous	<u>2,000</u>	<u>7,237</u>	<u>7,237</u>	\$ 2,353	1
	<u>54,000</u>	<u>46,484</u>	<u>-</u>	<u>2,353</u>	
Equipment	<u>5,000</u>	<u>3,490</u>	<u>-</u>	<u>-</u>	
Training	<u>5,000</u>	<u>913</u>	<u>-</u>	<u>-</u>	
Administrative	<u>6,000</u>	<u>1,858</u>	<u>-</u>	<u>-</u>	
Total Costs	<u>\$ 169,500</u>	<u>\$135,509</u>	<u>\$ -</u>	<u>\$ 2,353</u>	
Total Reimbursement by USSC		<u>167,051</u>			
Reimbursements in Excess of Costs		<u>\$ 31,542</u>		<u>\$ 31,542</u>	2
Total Questioned Costs				<u>\$ 33,895</u>	

(A) The total representing costs incurred was taken directly from the auditee's books of account and does not agree with the Financial Status Report. The Financial Status Report reflects expenditures of \$135,391.

The accompanying notes are an integral part of this financial schedule.

Urban Schools Service Corps  
Commission on National and Community Service Award No. 92NMSTNJ0005  
Explanation of Reclassified and Questioned Costs  
From August 1, 1992 to December 31, 1995  
Final

1. Participant Support Costs - Living Allowances

We questioned \$110 which represents the amount paid to a participant in excess of the maximum living allotment of \$9,180.

2. Training

We have questioned \$224 of the amount incurred by Elizabeth Board of Education due to the lack of adequate supporting documentation (see Schedule A-1).

3. Other Program Costs: Operating

We have questioned \$6,142 of the amount claimed by USSC since these costs represent consultant fees which were not allocable to this program.

<u>Document No.</u>	<u>Amount</u>
070835	\$ 669
070839	638
081554	300
109108	150
111410	715
111449	810
111454	373
111461	334
120522	620
270522	<u>1,533</u>
	<u>\$6,142</u>

The accompanying notes are an integral part of this financial schedule.

Urban Schools Service Corps  
Commission on National and Community Service Award No. 92NMSTNJ0005  
Explanation of Reclassified and Questioned Costs  
From August 1, 1992 to December 31, 1995  
Final

3. Other Program Costs: Operating - continued

In addition, we have questioned \$13,357 of the amount incurred as operating costs by the Elizabeth Board of Education, the Roselle Board of Education and the Urban League of Metropolitan Trenton, Inc.; \$11,004 of which was questioned due to a lack of adequate support. We questioned \$1,740 for being unnecessary and unreasonable since the costs were for a group excursion to a theme park. Lastly \$613 was questioned since some participants were paid as consultants in order to circumvent the maximum living allowance.

<u>Subrecipient</u>	<u>Amount</u>	<u>Schedule</u>
Elizabeth Board of Education	\$10,906	A-1
Roselle Board of Education	98	A-2
Urban League of Metropolitan Trenton, Inc.	<u>2,353</u>	A-3
	<u>\$13,357</u>	

4. Administration

We have questioned \$2,037 of the amount claimed by USSC. A mathematical error was made in June 1994 when USSC allocated a portion of a secretary's salary to this grant based on the effort expended by the secretary on this program.

The accompanying notes are an integral part of this financial schedule.

Urban Schools Service Corps  
Commission on National and Community Service Award No. 92NMSTNJ0005  
Schedule of Reclassified and Questioned Costs  
From August 1, 1992 to December 31, 1995  
Final

4. Administration - continued

In addition, we have questioned \$26,803 of the amount incurred for administration because the amount exceeded the maximum Federal share. Under the terms of the National and Community Service Act, no more than five percent of funds made available under National and Community Service grants could be used for grantee administrative expenses. The amount questioned was calculated as follows:

Total Administration Costs Incurred	\$ 166,255	A
Total Incurred Costs	2,810,917	
Questioned Costs:		
Living Allowances and Benefits	\$ 110	
Operating	19,499	
Training	224	
Administration	<u>2,037</u>	
Total Questioned Costs	<u>21,870</u>	
Total Incurred Less Questioned Costs	\$ 2,789,047	
Five Percent Limitation	139,452	B
Excess Cost Over Limitation (A-B)	\$ 26,803	

The accompanying notes are an integral part of this financial schedule.

Urban Schools Service Corps  
Commission on National and Community Service Award No. 92NMSTNJ0005  
Schedule of Reclassified and Questioned Costs  
From August 1, 1992 to December 31, 1995  
Final

5. Excess Of Advanced Over Incurred

Our comparison of the final Financial Status Reports submitted by the subrecipients to USSC and USSC's books of account disclosed that two subrecipients had been advanced funds in excess of costs incurred. We have, therefore, questioned the total excess which amounted to \$38,382.

<u>Subrecipient</u>	<u>Amount</u>	<u>Exhibit/ Schedule</u>
Newark County Board of Education William H. Brown Jr. Academy	\$ 6,840	Exhibit C
Urban League of Metropolitan Trenton Gregory School	<u>31,542</u>	Schedule B-3
	<u>\$ 38,382</u>	

6. Other

We have reclassified the entire amount (\$27,136) paid to the New Jersey Institute of Technology, since these costs were expended in connection with the planning phase of the grant.

The accompanying notes are an integral part of this financial schedule.



Urban Schools Service Corps  
Commission on National and Community Service Award No. 92NMSTNJ0005  
Elizabeth Board of Education (George Washington School No. 1)  
Schedule of Reclassified and Questioned Costs  
From August 1, 1992 to December 31, 1995  
Final

1. Operating - Fringe Benefits

We have questioned the entire amount (\$10,000) for the fringe benefits related to staff salaries since we were not provided with any documentation to support this cost.

2. Operating - Professional Services

We have reclassified \$225 (check no. 69472) to Training since the cost represents conference registration fees for three participants.

3. Operating - Miscellaneous

We have questioned \$906 (check nos. 3328 and 72624) for lack of adequate support.

4. Training

We have questioned \$224 (check no. 69472) for lack of adequate support.

The accompanying notes are an integral part of this financial schedule.

Urban Schools Service Corps  
Commission on National and Community Service Award No. 92NMSTNJ0005  
Roselle Board of Education (Harrison Elementary School)  
Schedule of Incurred Costs  
From August 1, 1992 to December 31, 1995  
Final

1. Participant Support Costs - Living Allowances

We have questioned \$110 which represents the amount paid to a participant (Siwicki) in excess of the maximum living allowance of \$9,180.

2. Operating - Supplies/Materials

We have reclassified \$2,525 (purchase order no. 403167) to equipment since the cost represents the purchase of a laptop computer and \$336 (purchase order no. 401755) to Operating - Travel since the cost represents mileage reimbursement according to the description included in the project general ledger.

3. Operating - Travel

We have questioned \$98. Of this amount \$65 (purchase order no. 402284) was not adequately supported and \$33 was paid twice (purchase order nos. 402608 and 402697).

4. Operating - Professional Services

We have reclassified \$555 (purchase order nos. 401399, 401401, 401687, 401829, 401843, 401868 and 402406) to Training since these cost appear to represent stipends paid to instructors at workshops based on the description included in the project general ledger.

The accompanying notes are an integral part of this financial schedule.

Urban Schools Service Corps  
Commission on National and Community Service Award No. 92NMSTNJ0005  
Urban League of Metropolitan Trenton, Inc (Gregory School)  
Schedule of Incurred Costs  
From August 1, 1992 to December 31, 1995  
Final

1. Operating - Miscellaneous

We have questioned \$2,353 of the amount incurred for miscellaneous. Of this amount, \$613 (check nos. 3044, 3084 and 3273) was questioned since some participants were paid as consultants in order to circumvent the maximum living allowance for participants and \$1,740 (check nos. 3192 and 3193) was questioned for being unnecessary and unreasonable since the costs were for a group excursion to a theme park.

2. Excess Of Payments over Costs

Although the books of account of the Urban League of Metropolitan Trenton, Inc, reflect incurred costs of \$135,509, USSC recorded expenditures totaling \$167,051 for a difference of \$31,542. We have, therefore, questioned this amount.

The accompanying notes are an integral part of this financial schedule.

Urban Schools Service Corps  
Commission on National and Community Service Award No. 92NMSTNJ0005  
Schedule of Incurred Costs by Subrecipient

	<u>Reimbursed By USSC</u>	<u>Incurred Costs</u>	<u>Questioned Costs</u>	<u>Note/ Schedule Reference</u>
Atlantic City Board of Education Indiana Avenue School of Science and Technology	\$ 121,376	\$ 150,808		Note 1
Atlantic City Board of Education Dr. Martin Luther King Jr. School of the Arts	117,913	143,346		Note 1
Camden Board of Education Rafael Cordero Molina School	101,592	133,367		Note 1
Camden Board of Education Whittier School	124,519	165,528		Note 1
Elizabeth Board of Education Benjamin Franklin No. 13	78,140	131,593		Note 1
Elizabeth Board of Education George Washington No. 1	143,058	143,058		Schedule A-1
Paterson Board of Education Dale Avenue School	123,145	154,662		Note 1
Paterson Board of Education Elementary School No. 28	105,609	134,439		Note 1
Red Bank Public Schools Red Bank Middle School	152,550	164,528		Note 1
Roselle Board of Education Harrison Elementary School	167,982	167,982		Schedule A-2
Newark County Board of Education William H. Brown Jr. Academy	159,550	152,710	\$ 6,840	Note 2
Urban League of Metropolitan Trenton Gregory School	167,051	135,509	33,895	Schedule A-3
Rutgers University	<u>304,048</u>	<u>317,703</u>		Note 1
	<u>\$ 1,866,533</u>	<u>\$ 2,095,233</u>	<u>\$ 40,735</u>	

The accompanying notes are an integral part of this financial schedule.

Urban Schools Service Corps  
Commission on National and Community Service Award No. 92NMSTNJ0005  
Schedule of Incurred Costs by Subrecipients

1. According to the final Financial Status Reports submitted by the subrecipients to USSC, the subrecipients have incurred costs in excess of the amounts reimbursed by USSC as of the date of our audit. USSC has, however, recorded an encumbrance of the full subgrant amounts on its books.
2. According to the final Financial Status Report submitted by the Newark Board of Education, the total costs incurred were less than the amount that it had received from USSC. Therefore, we have questioned the excess of claimed costs over incurred of \$6,840.

The accompanying notes are an integral part of this financial schedule.

Urban Schools Service Corps  
Commission on National and Community Service Award No. 92NMSTNJ0005  
Notes to Financial Schedules

1. Summary of Significant Accounting Policies

Accounting Basis

The accompanying financial schedules, Exhibits A and B, have been prepared from the reports submitted to the Corporation and the Commission. The basis of accounting utilized in preparation of these reports differs from generally accepted accounting principles. The following information summarizes these differences.

A. Equity

Under the terms of the award, all funds not expended according to the award agreement and budget at the end of the award period are to be returned to the Corporation. Therefore, the auditee does not maintain any equity in the award and any excess of cash received from the Corporation over final expenditures is due back to the Corporation.

B. Equipment

Equipment is charged to expense in the period during which it is purchased instead of being recognized as an asset and depreciated over its useful life. As a result, the expenses reflected in the statement of award costs include the cost of equipment purchased during the period rather than a provision for depreciation.

The equipment acquired is owned by Urban Schools Service Corps while used in the program for which it is purchased or in other future authorized programs. However, the Corporation has the reversionary interest in the equipment. Its disposition, as well as the ownership of any proceeds therefrom, is subject to Federal regulations.

C. Inventory

Minor materials and supplies are charged to expense during the period of purchase. As a result, no inventory is recognized for these items in the financial schedules.

2. Income Taxes

Urban Schools Service Corps is a component of a state government and is exempt from income taxes.

INDEPENDENT AUDITOR'S REPORTS

ON

COMPLIANCE AND INTERNAL CONTROL STRUCTURE

**LEONARD G. BIRNBAUM AND COMPANY, LLP**

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Corporation for National Service

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

We have audited the schedule of award costs, as presented in Exhibit A, which summarizes the financial reports submitted by Urban Schools Service Corps (USSC) to the Corporation for National Service and its predecessor, the Commission on National and Community Service (Commission) for the award listed below, and have issued our report thereon dated February 20, 1997.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
92NMSTNJ0005	August 1, 1992 to December 31, 1995	August 1, 1992 to December 31, 1995

We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement.

Compliance with laws, regulations, and the provisions of the award is the responsibility of USSC's management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and the terms and conditions of the award. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, and the provisions of the award that cause us to



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conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial schedules. The results of our tests of compliance disclosed the following material instances of noncompliance.

Finding No. 1

USSC did not submit financial reports in accordance with the requirements of the Common Rule under OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments.<sup>2</sup> Section .41(b)(1) of the Common Rule stipulates that grantees are to submit a Financial Status Report to report the status of funds and Amendment No. 1 of the grant stipulated that these reports are to be submitted on a quarterly basis. In addition, section .41(c)(1) of the Common Rule stipulates that a Federal Cash Transactions Report will be submitted for grants that are paid by letter, or credit, Treasury check advances or electronic transfer of funds. Furthermore, section .41(c)(4) of the Common Rule states that these reports must be submitted no later than 15 working days following the end of the quarter. The last Financial Status Report submitted by USSC was for the quarter ended December 31, 1993 and, at the start of our audit, the last Federal Cash Transactions Report submitted by USSC was for the quarter ended September 30, 1995. A Federal Cash Transactions Report for the quarter ended December 31, 1996, was submitted on February 7, 1997.

Recommendation

We recommend that USSC implement policies and procedures to submit the required financial reports on a timely basis for all existing and future grants. Furthermore, we recommend the Corporation perform adequate oversight to preclude recurrence of this finding.

Finding No. 2

Neither USSC nor the subrecipients met all of the standards for financial management systems as stipulated in the provisions of the Common Rule under OMB Circular A-102. Section .20(a) states that a State's fiscal control and accounting procedures must be sufficient to "permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes," and paragraph (b) states that the financial management systems of subgrantees must provide for the comparison of actual expenditures with budgeted amounts for each subgrant. Our audit disclosed that the majority of

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2. In general, Federal agencies adopt the provisions of the OMB Circular A-102 Common Rule as part of their own regulations. The Commission on National and Community Service did not adopt the Common Rule as a regulation. However, the terms of the Commission's grant to the State of New Jersey required USSC to comply with the circular.

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Corporation for National Service

the subrecipients either combined costs for budget line items, or did not provide any breakdown of costs by budget line item. In fact, Roselle Board of Education's audit report issued in accordance with OMB Circular A-133 for the year ended June 30, 1994, included a finding that stated that the encumbrance accounting system or, in effect, the budgetary control mechanism that minimizes the possibility of over expenditures, was not in operation. As a result, numerous line items were over expended. Furthermore, USSC did not accumulate costs by budget line item. Such lack of accumulation of costs by budget line item would preclude the subrecipients from comparing budget versus actual expenditures and would preclude USSC from determining whether administrative costs have exceeded the maximum Federal share, or determining whether budget changes requiring prior approval such as cumulative transfers among direct cost categories exceeding ten percent of the total approved budget are necessary (A-102 Common Rule Section .30).

Recommendation

We recommend that USSC and its subrecipients implement policies and procedures which would satisfy the standards for financial management systems as stipulated in the A-102 Common Rule in order to properly monitor their budget status and establish that expenditures are not in violation of applicable statutes.

Finding No. 3

USSC did not maintain adequate records for in-kind contributions in accordance with the provisions of the A-102 Common Rule. Section\_24(b)(6) states, in part, that "costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived." USSC was unable to provide any documentation which would support the in-kind contribution match in the planning phase of the grant.

Recommendation

We recommend that USSC implement policies and procedures to maintain adequate records of matching or cost sharing.

Auditee's Comments

USSC agreed with the finding but stated that the required matching for the planning phase was not only met but exceeded. USSC provided documentation as an attachment to its comments to support the in-kind matching amount claimed.

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Corporation for National Service

Auditor's Response

Although the USSC was able to provide documentation subsequent to our field work to support the amount questioned, this does not negate the fact that adequate records for in-kind contributions were not maintained in accordance with the provisions of the A-102 Common Rule.

Finding No. 4

USSC charged excessive administrative costs to the grant. Under the terms of the National and Community Service Act, no more than five percent of funds made available under National and Community Service grants could be used for grantee administrative expenses.

Recommendation

We recommend that the claimed costs for administration be limited to the rate specified by the provisions. We further recommend that USSC develop and implement policies and procedures to ensure compliance with the grant provisions related to administrative costs for existing programs and any future programs.

Auditee's Comments

USSC disagreed with the finding and stated that the "administration costs for this grant were based on the total amount awarded by CNCS, not on the amount expended by USSC, as interpreted by the auditor. The budget allotted for administrative costs for this grant is \$190,000, which represents 5% of the grant award of \$3,800,000. The amount of administrative costs identified by the auditor is \$166,255 which does not exceed the 5% limitation of \$190,000."

Auditor's Response

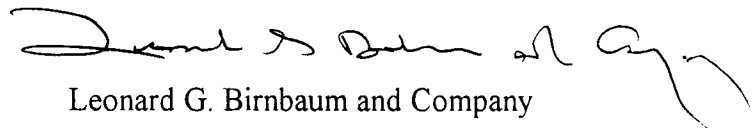
The regulations state that the five percent ceiling applies to the funds received in any fiscal year. Thus the five percent limit is to be applied to the allowable federal share of costs incurred, not the maximum amount of the award. Had USSC expended the full amount of the award, it would have been entitled to the amount claimed. Total expenditures, however, were less than the amount awarded.

We considered these material instances of noncompliance in forming our opinion on whether Exhibit A is presented fairly in all material respects, in conformity with Corporation for National Service policies and procedures, and this report does not affect our report dated February 20, 1997, on those financial schedules.

Inspector General  
Corporation for National Service

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the grantee has complied in all material respects, with the provisions referred to in the third paragraph of this report.

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



Leonard G. Birnbaum and Company

Alexandria, Virginia  
February 20, 1997

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

We have audited the schedule of award costs, as presented in Exhibit A, which summarizes the financial reports submitted by Urban Schools Service Corps (USSC) to the Corporation for National Service and its predecessor, the Commission on National and Community Service, for the grant listed below, and have issued our report thereon dated February 20, 1997.

<u>Award Number</u>	<u>Award Period</u>	<u>Audit Period</u>
92NMSTNJ0005	August 1, 1992 to December 31, 1995	August 1, 1992 to December 31, 1995

We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement.

In planning and performing our audit of Exhibit A for the period August 1, 1992 to December 31, 1995, we considered the grantee's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control structure.

The grantee's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs on internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and

Inspector General  
Corporation for National Service

that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial schedules in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Cash Disbursements
- Cash Receipts
- Payroll/timekeeping
- Recordkeeping

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we have assessed control risk.

We noted the following matters involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure, that, in our judgment, could adversely affect the entity's ability to record, possess, summarize and report financial data consistent with the assertions of management in the financial schedules.

Finding No. 1

USSC lacks adequate controls for monitoring subrecipients. Our review of USSC's and the subrecipients' records and discussions disclosed that USSC provided very little oversight or guidance of a financial nature. For instance, USSC accepted subrecipients' Financial Status Reports in insufficient detail to permit any budgetary analysis by line item. The Financial Status Reports from the subrecipients varied widely in their detailed content. In our visits to selected subrecipients, we found no written instructions providing guidance for financial management responsibilities, no accumulated hours to support post-service benefit awards, many conflicts between timesheets and attendance records, and poorly organized files.

Inspector General  
Corporation for National Service

Recommendation

We recommend that USSC develop and implement policies and procedures to adequately monitor subrecipients on any existing and future grants or cooperative agreements from Federal agencies.

Finding No. 2

USSC and its subrecipients lack adequate controls over their financial management systems as required by Section 20 of the Common Rule under OMB Circular A-102. Our testing and review of the incurred and claimed costs and the audit reports issued in accordance with OMB Circular A-133 disclosed that the lack of adequate controls over the financial management systems resulted in the following:

- expenditures in certain cost categories exceeded the approved budget,
- the amount charged for administrative costs exceeded the maximum Federal share, and
- the total expenditures reported on the Financial Status Reports and the Federal Cash Transactions Reports did not agree with the books of account.

For complete details refer to Finding No. 2 in the Independent Auditor's Report on Compliance.

Finding No. 3

USSC did not effectively monitor the hours of service performed by the participants. Accordingly, there is no assurance that the awards were based on having completed a reasonable number of hours of service. Our audit revealed an unreasonable variance between service hours reported for the participants receiving educational awards. Full educational awards were provided to full-time participants whose service hours completed ranged from a high of 1,815 to a low of 257. Full educational awards were provided to part-time participants whose service hours ranged from a high of 456 to a low of 344. The provisions of the National and Community Service Act, the former Commission's regulations, and the terms of the grant required full-time participants to serve not less than 40 hours (less holidays and vacations) per week for a year and part-time participants to serve an average of 9 hours per week for a year in order to receive an educational award, respectively. Providing full educational awards to the full and part-time participants who completed 257 and 344 service hours, respectively, represents only 6.4 weeks of service for the full-time participant and 38 weeks of service for the part-time participant.

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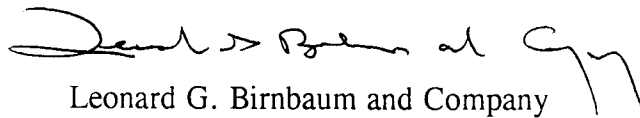
Recommendation

We recommend that USSC develop and implement policies and procedures to effectively monitor the hours of service performed by participants to ensure that full educational awards are only awarded to those participants who have successfully completed a term of service for any existing or future grants.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts which would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe the reportable conditions described above are material weaknesses.

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

  
Leonard G. Birnbaum and Company

Alexandria, Virginia  
February 20, 1997



## **Appendix A**

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### **Response of the State of New Jersey, Department of Education**



State of New Jersey

DEPARTMENT OF EDUCATION  
CN 500  
TRENTON NJ 08625-0500

CHRISTINE TODD WHITMAN  
Governor

LEO KLAGHOLZ  
Commissioner

**Departmental Response**

December 1, 1997

Mr. Leslie A. Leiper  
Leonard G. Birnbaum and Company, LLP  
Certified Public Accountants  
Washington Office  
6285 Franconia Road  
Alexandria, VA 22310-2510

Dear Mr. Leiper:

SUBJECT: Draft Report on the Audit of Grant Number 92 NMSTNJ0005 awarded to the State of New Jersey for Urban School Service Corps by the Commission on National and Community Service.

The New Jersey Department of Education (DOE) has received and reviewed the findings and recommendations of the above mentioned audit. As noted in the draft audit report, this program was transferred to the DOE from the New Jersey Department of Higher Education, which was dissolved in July 1994, during the third year of the grant program. Our responses to the findings and recommendations were gathered using available personnel from the former Department of Higher Education and the DOE. These responses are presented in the following sections - General Findings, Elizabeth Board of Education, Roselle Board of Education, Urban League of Metropolitan Trenton, Inc., Newark Board of Education, Report on Compliance and Report on Internal Control Structure. Our responses are as follows:

**General Findings - Pages 15 through 18**

**Finding No. 1 - Participant Support Costs- Living Allowances**

We questioned \$110 which represents the amount paid to a participant in excess of the maximum living allotment of \$ 9,180.

**Department Response**

Following a conversation with Mr. Kenneth Hardy, Site Manager for the Roselle Board of Education, regarding the questioned cost of \$110, this figure may represent a calculation error at the district level. Mr. Hardy is researching the situation with the business administrator and will

Mr. Leslie Leiper  
December 1, 1997  
Page 2

provide supporting documentation to our office as soon as possible.

Auditor's Comments

Finding No. 2 - Participant Support Costs - Post Service Benefits

We have questioned \$472 of the amount claimed by Urban School Service Corps (USSC) for post-service benefits related to part-time participants. In all instances except one, the grantee matched post service benefits as required in the terms of the grant. We have calculated the amount not matched as \$472.

Department Response

We disagree with the finding. The questioned costs for post service benefits related to a payment received by Wanda Williams Sudersan. The \$472 in questioned costs represent 50% of a post service benefit payment from state matching funds (see Attachment A-1) which represented the remaining balance of this recipient's benefit. When the preceding payment to this recipient is taken into account, a total of \$2,000 in post service benefits were paid to Ms. Sudersan, \$1,000 or 50% from the federal USSC grant and \$1,000 or 50% from state matching funds in accordance with the grant terms (see Attachments A-2 and A-3).

Upon reviewing the referenced attachments, we have not questioned the amount claimed for post service benefits.

Finding No. 3 - Training

We have questioned \$224 of the amount incurred by Elizabeth Board of Education due to the lack of adequate supporting documentation (see Schedule A-1).

Department Response

We have contacted Mr. Peter Voeseller, Accountant for the Elizabeth Board of Education, regarding the questioned cost of \$224. Mr. Voeseller is researching the costs and will respond to our office as soon as possible.

Because no additional documentation was provided to support this cost, the questioned amount remains.

Finding No. 4 - Other Program Costs: Operating

We have questioned \$6,142 of the amount claimed by USSC since these costs represent consultant fees which were not allocable to this program.

<u>Document No.</u>	<u>Amount</u>
070835	\$ 669
070839	638
081554	300
109108	150
111410	715
111449	810
111454	373
111461	334
120522	620
270522	<u>1,533</u>
	<u>\$6,142</u>

Mr. Leslie Leiper  
December 1, 1997  
Page 3

Finding No. 4 (Continued)

In addition, we have questioned \$13,357 of the amount incurred as operating by the Elizabeth Board of Education, the Roselle Board of Education and the Urban League of Metropolitan Trenton, Inc.; \$11,004 of which was questioned due to a lack of adequate support. We questioned \$1,740 for being unnecessary and unreasonable since the costs were for a group excursion to a theme park. Lastly \$613 was questioned since some participants were paid as consultants in order to circumvent the maximum living allowance.

Auditor's Comments

<u>Subrecipient</u>	<u>Amount</u>	<u>Schedule</u>
Elizabeth	\$10,906	A-1
Roselle	98	A-2
Urban League	<u>2,353</u>	A-3
	<u>\$13,357</u>	

Department Response - Part One

We do not dispute that the \$6,142 in consultant costs were not allocable to the USSC Program or that the \$2,037 in secretarial salaries in Finding No. 5 were charged to the grant in error. These costs were charged to the USSC grant through mathematical and coding errors during the first year of the New Jersey Comprehensive Financial System. However, as discussed with the auditor during his visit, there are additional charges allocable to the USSC that have not been charged to the USSC grant to date and are required adjustments to the grant expenditure records as documented on Attachments B-1 through B-7. Therefore, the \$6,142 of questioned consultant costs and \$2,037 of questioned administration costs are offset by the additional costs as detailed below.

The first adjustment relates to the salary charges for the salary of Barbara Wagner-Melnikov. Attachment B-1 details the salary of Ms. Wagner-Melnikov by pay period. The state's payroll system allows for a person's salary to be charged to only one account in any given pay period. Allocation of salaries among accounts are made through adjusting entries based upon time and effort. The schedule shows the change of funding from the state grants administration account to the USSC grant account for payroll 20.

Attachment B-2 documents the allocation of Ms. Wagner-Melnikov's salary among state funds and the four Corporation for National and Community Service grants administered by the Department of Higher Education during fiscal year 1994. This schedule restates the total charges recorded on the payroll system and the fringe benefits charges assessed the USSC grant account for the payrolls that Ms. Wagner-Melnikov's salary is charged to the USSC grant.

The charges to the USSC grant are first modified by adjusting entries that allocate salary and fringe benefit charges to the other Corporation grants via UAs 050-54007000338, 339 and 340 (see Attachment B-2a).

We reviewed these documents and are not persuaded that they adequately support the amounts claimed.

The schedule then distributes salary and benefit charges based on time and effort (see Attachments B-3 and B-4) and discloses the amounts due from the Corporation grants. In processing the time and effort adjusting charges between the state and federal accounts, the Department of Higher Education accountant failed to recognize the salary funding provided by the state through the payroll system from payroll 14.3 to payroll 19. As a result, a total of \$6,467.43 in salary and fringe benefit reimbursements were made to the federal grant accounts in error (see Attachments B-5 and B-6).

To correct these entries and appropriately charge the grant would require \$13,707.01 salary and fringe benefit charges to the Corporation grants. However, the administrative allotments for the Serve America, Youth Corps, and Innovative Programs were fully expended on grant implementation activities related to each grant. Therefore, the \$2,709.86 assumed by the state is deducted from the amount due.

The state also assumes 75% of the vacation time payout for Ms. Wagner-Melnikov initially charged to the USSC grant via payroll O with 25% charged to the USSC grant as allowed by A-87.

The net additional amount due from the USSC grant for Ms. Wagner-Melnikov's salary and benefits to the state, net of the secretarial salary charges questioned in Finding 5, is \$5,793.02 as detailed on Attachment B-2.

The second adjustment results from indirect costs allocable to the USSC grant. As summarized on Attachment B-7, total direct costs incurred by the grant adjusted for the corrections to Barbara Wagner-Melnikov's salary and fringe benefits and for the questioned consultant costs were \$541,622.71. The total indirect costs due to the state under the Department of Higher Education's negotiated indirect cost rate of 8.3% was \$44,954.68. Only \$36,777.12 of this amount had been collected by the state as of the audit field visit with an additional \$8,177.56 due from the USSC grant.

Following agreement with the Corporation staff, adjustments will be made to the grant expenditure records prior to final grant closeout.

Department Response - Part Two

\$10,906 is questioned in Elizabeth. This figure represents \$10,000 in fringe benefits and \$906 in miscellaneous cost. Mr. Peter Voeseiler, Elizabeth Board of Education Accountant, will provide supporting documentation as soon as possible.

\$98 is questioned in Roselle. This figure represents travel reimbursement for Corpsmembers. We have requested that supporting documentation be provided as soon as possible.

Because no additional documentation was provided to support this cost, the questioned amount remains.

Because no additional documentation was provided to support this cost, the questioned amount remains.

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Of the \$2,353 questioned in Trenton (Urban League), \$1,740 represents a field trip to Hershey Park as part of close out exercises to the USSC Summer Program at Gregory School. This was an allowable cost as outlined in the Gregory School program application under line item "Field Trips".

In addition, the questioned costs of \$613 represents travel reimbursement payments to Corpsmembers. Corpsmembers were required to attend statewide training sessions as part of their service requirement.

Finding No. 5 - Administration

We have questioned \$2,037 of the amount claimed by USSC. A mathematical error was made in June 1994 when USSC allocated a portion of a secretary's salary to this grant based on the effort expended by the secretary on this program.

In addition, we have questioned \$26,826 of the amount incurred for administration because the amount exceeded the maximum Federal share. Under the terms of the National and Community Service Act, no more than 5 percent of the funds made available under National and Community Service grants could be used for grantee administrative expenses. The amount questioned was calculated as follows:

Total Administration Costs Incurred		\$ 166,255	A
Total Incurred Costs		2,810,917	
Questioned Costs:			
Living Allowance and Benefits	\$ 110		
Post-Service Benefits (PT)	472		
Operating	19,499		
Training	224		
Administration	<u>2,037</u>		
Total Questioned Costs		<u>22,342</u>	
Total Incurred Less Questioned Costs		\$2,788,575	
Five Percent Limitation		139,429	B
Excess Cost Over Limitation ( A-B )		\$ 26,826	

Auditor's Comments

We still consider the trip to a theme park to be unnecessary and unreasonable; therefore, the questioned amount remains unchanged.

Because no additional documentation was provided to support the statement that the payments were for travel, the questioned amount remains.

Auditor's Comments

Department Response - Part One

As detailed in the Department Response - Part One to General Finding No. 4 - Other Program Costs - Operating, we have provided additional allowable costs to offset the \$2,037 of questioned administration costs.

Department Response - Part Two

We disagree with the finding because the auditor's calculation of Total Administration Costs Incurred is incorrect. The Total Administration Costs Incurred of \$166,255 includes \$62,700 of subrecipient costs (as shown below) that the auditor classified as administration costs. The USSC's budget proposal details \$190,000 of administration costs, but does not include any subrecipient costs as administrative costs.

The regulations state that the five percent ceiling applies to the funds received in any fiscal year. Thus the five percent limit is to be applied to the allowable federal share of costs incurred, not the maximum amount of the award. Had USSC expended the full amount of the award, it would have been entitled to the amount claimed. Total expenditures, however, were less than the amount awarded.

<u>Subrecipient</u>	<u>Amount</u>
Urban League - Trenton	\$ 1,858
Camden BOE - Whittier	5,860
Camden BOE - Molina	4,721
Paterson BOE - Dale	5,905
Paterson BOE - #28	1,240
Atlantic City BOE - Indiana	5,146
Atlantic City BOE - ML King, Jr.	6,000
Red Bank Public Schools	6,061
Roselle BOE	5,951
Newark BOE	6,401
Elizabeth BOE - GW#1	7,892
Elizabeth BOE - Ben Franklin	<u>5,665</u>
Total	<u>\$ 62,700</u>

Further, the level of administrative costs (all resulting from costs budgeted at the state level) to be supported by the grant was linked to the total grant award or \$190,000, not to the amount expended as noted in the finding. Therefore, total administration costs incurred were \$103,555; well within the prescribed and allowable 5% limitation.

Finding No. 6 - Excess of Advance Over Incurred

Our comparison of the final Financial Status Reports submitted by the subrecipients to USSC and USSC's books of account disclosed that two subrecipients had been advanced funds in excess of costs incurred. We have, therefore, questioned the total excess which amounted to \$38,382.

<u>Subrecipient</u>	<u>Amount</u>	<u>Exhibit/Schedule</u>
Newark County Board of Education		
William H. Brown Jr. Academy	\$ 6,480	Exhibit C
Urban League of Metropolitan Trenton		
Gregory School	<u>31,542</u>	Exhibit B-3
	<u>\$38,382</u>	

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Auditor's Comments

Department Response

We have contacted the Newark County Board of Education and the Urban League of Metropolitan Trenton and are awaiting their responses. As a result of a conversation with the district and Urban League representatives, we are of the opinion that the total amount questioned, represents an error in fiscal reporting. The district and Urban League have been requested to provide additional documentation as soon as possible.

Because no additional documentation was provided to support this cost, the questioned amount remains unchanged.

Finding No. 7 - Other

We have reclassified the entire amount (\$27,136) paid to the New Jersey Institute of Technology, since these costs were expended in connection with the planning phase of the grant.

Department Response

No response necessary.

Finding No. 8 - Matching Costs

The budget attached to the planning phase portion of the grant indicated that \$73,000 had been estimated as in-kind contribution from the State. Although USSC claimed this total amount, USSC was unable to provide any documentation to support this amount.

Department Response

We disagree with the finding. As part of its in-kind match, the USSC received the services of a Loaned Executive from AT&T on a full-time basis during the program year 1993-94. The Loaned Executive, Richard Tilden, recruited corporate volunteers into the USSC locations and supported the site managers with the necessary resources from AT&T. AT&T funded his full salary and fringe benefits, as well as the contribution and installation of several computers at USSC sites. The total amount of \$196,500 far exceeds the \$73,000 of in-kind contributions (see Attachment D-1).

Upon reviewing the referenced attachment, we have not questioned the amount claimed as matching.

Elizabeth Board of Education (George Washington School No. 1) - Page 19

Finding No. 1 - Operating - Fringe Benefits

We have questioned the entire amount (\$10,000) for the fringe benefits related to staff salary since we were not provided with any documentation to support this cost.

Department Response

The district has been contacted and we are awaiting their response along with additional documentation to support the costs.

Because no additional documentation was provided to support this cost, the questioned amount remains unchanged.

Finding No. 2 - Operating - Professional Services

We have reclassified \$225 (check no. 69472) to Training since the cost represents conference registration fees for three participants.



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Department Response

The district has been contacted and we are awaiting their response along with additional documentation to support the costs.

Finding No. 3 - Operating - Miscellaneous

We have questioned \$906 (check nos. 3328 and 72664) for lack of adequate support.

Department Response

The district has been contacted and we are awaiting their response along with additional documentation to support the costs.

Finding No. 4 - Training

We have questioned \$224 (check no. 69472) for lack of adequate support.

Department Response

The district has been contacted and we are awaiting their response along with additional documentation to support the costs.

Finding No. 5 - Excess Costs over Payments

Although the books of account of Elizabeth Board of Education (Elizabeth BOE) reflect incurred costs of \$143,508 for this grant, USSC has only recorded expenditures totaling \$98,673 for a difference of \$44,385. Assuming the total amount of the difference is not subsequently paid by USSC to Elizabeth BOE and claimed by USSC to the Corporation, the questioned costs can be offset by a portion of the difference.

Department Response

The balance was subsequently paid to the Elizabeth Board of Education on May 30, 1997.

Roselle Board of Education (Harrison Elementary School) - Page 20

Finding No. 1 - Participant Support Costs - Living Allowances

We have questioned \$110 which represents the amount paid to a participant (Siwicki) in excess of the maximum living allowance of \$9,180.

Department Response

The district has been contacted and we are awaiting their response along with additional documentation to support the costs.

Auditor's Comments

Because no additional documentation was provided to support this cost, the questioned amount remains.

Because no additional documentation was provided to support this cost, the questioned amount remains.

Because no additional documentation was provided to support this cost, the questioned amount remains.

We have revised the report to reflect the total amount reimbursed.

Because no additional documentation was provided to support this cost, the questioned amount remains.

Finding No. 2 - Operating - Supplies/Materials

We have reclassified \$2,525 (purchase order no. 403167 to equipment since the cost represents the purchase of a laptop computer and \$336 (purchase order no. 401755) to Operating - Travel since the cost represents mileage reimbursement according to the description included in the project general ledger.

Department Response

The district has been contacted and we are awaiting their response along with additional documentation to support the costs.

Because no additional documentation was provided to support this cost, the reclassification remains unchanged.

Finding No. 3 - Operating - Travel

We have questioned \$98. Of this amount \$65 (purchase order no. 402284) was not adequately supported and \$33 was paid twice (purchase order nos. 402608 and 402697).

Department Response

The district has been contacted and we are awaiting their response along with additional documentation to support the costs.

Because no additional documentation was provided to support this cost, the questioned amount remains unchanged.

Finding No. 4 - Operating - Professional Services

We have reclassified \$555 (purchase order nos. 401399,401401,401687,401829,401843,401868 and 402406) to Training since these costs appear to represent stipends paid to instructors at workshops based on the description included in the project general ledger.

Department Response

The district has been contacted and we are awaiting their response along with additional documentation to support the costs.

Because no additional documentation was provided to support this cost, the reclassification remains unchanged.

Finding No. 5 - Excess of Costs over Payments

Although the books of account of Roselle Board of Education (Roselle BOE) reflect incurred costs of \$167,982 for this grant, USSC has only recorded expenditures totaling \$152,550 for a difference of \$15,432. Assuming the total amount of the difference is not subsequently paid by USSC to Roselle BOE and claimed by USSC to the Corporation, the questioned costs can be offset by a portion of this difference.

Department Response

The balance was subsequently paid to the Roselle Board of Education on August 26, 1997.

We have revised the report to reflect the total amount reimbursed.

Urban League of Metropolitan Trenton, Inc. (Gregory School) - Page 21

Finding No. 1 - Operating - Miscellaneous

We have questioned \$2,353 of the amount incurred for miscellaneous. Of this amount, \$613 (check nos. 3044, 3084 and 3273) was questioned since some participants were paid as consultants in order to circumvent the maximum living allowance for participants and \$1,740 (check nos. 3192 and 3193) was questioned for being unnecessary and unreasonable since the costs were for a group excursion to a theme park.

Department Response

We disagree with the finding. The questioned costs of \$2,353 represents \$613 for travel reimbursement payments to Corpsmembers. Corpsmembers were required to attend statewide training sessions as part of their service requirement. In addition, \$1,740 represents a field trip to Hershey Park as part of close out exercises to the USSC Summer Program at Gregory School. This was an allowable cost as outlined in the Gregory School program application under the line item "Field Trips".

Because no additional documentation was provided to support the statement that the payments were for travel, the \$613 questioned amount remains unchanged. Further, we still consider the trip to a theme park to be unreasonable and unnecessary.

Finding No. 2 - Excess of Payment over Costs

Although the books of account of the Urban League of Metropolitan Trenton, Inc. reflect incurred costs of \$135,509, USSC recorded expenditures totaling \$167,051 for a difference of \$31,542. We have, therefore, questioned this amount.

Department Response

The district has been contacted and we are awaiting their response along with additional documentation to support the costs.

Because no additional documentation was provided to support this cost, the questioned amount remains unchanged.

Newark Board of Education - Page 23

Finding No. 2

According to the final Financial Status Report submitted by the Newark Board of Education, the total costs incurred were less than the amount that it had received from USSC. Therefore, we have questioned the excess of claimed costs over incurred of \$6,840.

Department Response

The district has been contacted and we are awaiting their response along with additional documentation to support the costs.

Because no additional documentation was provided to support this cost, the questioned amount remains unchanged.

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**Report on Compliance -Pages 27 through 30**

**Finding No. 1**

USSC did not submit financial reports in accordance with the requirements of the Common Rule under OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments. Section\_ .41(b)(1) of the Common Rule stipulates that grantees are to submit a Financial Status Report to report the status of funds and Amendment No. 1 of the grant stipulated that these reports are to be submitted on a quarterly basis. In addition, section\_ .41(c)(1) of the Common Rule stipulates that a Federal Cash Transactions Report will be submitted for grants that are paid by letter, or credit, Treasury check advances or electronic transfer of funds. Furthermore, Section\_ .41(c)(4) of the Common Rule states that these reports must be submitted no later than 15 working days following the end of the quarter. The last Financial Status Report submitted by USSC was for the quarter ended December 31, 1993 and, at the start of our audit, the last Federal Cash Transactions Report submitted by USSC was for the quarter ended September 30, 1995. A Federal Cash Transaction Report for the quarter ended December 31, 1996, was submitted on February 7, 1997.

**Recommendation**

We recommend that USSC implement policies and procedures to submit the required financial reports on a timely basis for all existing and future grants. Furthermore, we recommend the Corporation perform adequate oversight to preclude recurrence of this finding.

**Department Response**

We agree with the finding. To assure that program and fiscal reports are submitted in a timely manner in accordance with established timelines, the Urban Schools Service Corps has implemented the following process:

- Sub-recipient program staff receive fiscal and program reporting training at the beginning of the contract year.
- All sub-recipient fiscal officers, along with program officers, are brought together for a state-wide training session to receive guidance in completing the fiscal reports. The training session is led by a CNS fiscal/grants officer.
- The Program Officer provides technical assistance to the program managers and fiscal officers on a regular basis to assure that program reports submitted are in compliance with CNS requirements.
- A submission schedule for both program and fiscal reports has been established and is published as part of the RFP.
- A reminder is sent to all program managers one week before the scheduled report due date, with telephone follow-up if necessary.

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#### Finding No. 2

Neither USSC nor the subrecipients meet all of the standards for financial management systems as stipulated in the provisions of the Common Rule under OMB Circular A-102. Section\_ .20(a) states that a State's fiscal control and accounting procedures must be sufficient to "permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes," and paragraph (b) states that the financial management systems of subgrantees must provide for the comparison of actual expenditures with budgeted amounts for each subgrant. Our audit disclosed that the majority of the subrecipients either combined costs for budget line items, or did not provide any breakdown of costs by budget line item. In fact, Roselle Board of Education's audit report issued in accordance with OMB Circular A-133 for the year ended June 30, 1994, included a finding that stated that the encumbrance accounting system or, in effect, the budgetary control mechanism that minimizes the possibility of over expenditures, was not in operation. As a result, numerous line items were over expended. Furthermore, USSC did not accumulate costs by budget line item. Such lack of accumulation of costs by budget line item would preclude the subrecipients from comparing budget versus actual expenditures and would preclude USSC from determining whether administrative costs have exceeded the maximum Federal share, or determining whether budget changes requiring prior approval are necessary, i.e., cumulative transfers among direct cost categories which exceed ten percent of the total approved budget or transfer of funds allotted for training allowances (A-102 Common Rule Section\_ .30).

#### Recommendation

We recommend that USSC and its subrecipients implement policies and procedures which would satisfy the standards for financial management systems as stipulated in the A-102 Common Rule in order to properly monitor their budget status and establish that expenditures, are not in violation of applicable statutes.

#### Department Response

We agree with the finding. In addition to fiscal procedures established to ensure timely submission of reports, the USSC has developed a process to track expenditures versus actual budget line item amounts as part of the Monitoring Process (see Attachments C-1 and C-2). These procedures are in accordance with the requirements of the Corporation for National Service (CNS) and The New Jersey Department of Education.

#### Finding No. 3

USSC did not maintain adequate records for in-kind contributions in accordance with the provisions of the A-102 Common Rule. Section\_24(b)(6) states, in part, that "costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived."

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USSC was unable to provide any documentation which would support the in-kind contribution match in the planning phase of the grant.

Recommendation

We recommend that USSC implement policies and procedures to maintain adequate records of matching or cost sharing.

Department Response

We agree with the finding. However, as part of its in-kind match, the USSC received the services of a Loaned Executive from AT&T on a full-time basis during the program year 1993-94. The Loaned Executive, Richard Tilden, recruited corporate volunteers into the USSC locations and supported the site managers with the necessary resources from AT&T. AT&T funded his full salary and fringe benefits, as well as the contribution and installation of several computers at USSC sites. The total amount of \$196,500 far exceeds the \$73,000 of in-kind contributions (see Attachment D-1). In addition, the USSC has developed, as part of the Monitoring document (Attachment C-1 and C-2) a procedure to track sub-recipient match.

Finding No. 4

USSC charged excessive administrative costs to the grant. Under the terms of the National and Community Service Act, no more than 5 percent of funds made available under National and Community Service grants could be used for grantee administrative expenses.

Recommendation

We recommend that the claimed costs for administration be limited to the rate specified by the provisions. We further recommend that USSC develop and implement policies and procedures to ensure compliance with the grant provisions related to administrative costs for existing programs and any future programs.

Department Response

We disagree with the finding. As noted in Department Response - Part Two to Finding No. 5 on page 6, Administration costs for this grant were based on the total amount awarded by CNCS, not on the total amount expended by USSC, as interpreted by the auditor. The budget allotted for administrative costs for this grant is \$190,000, which represents 5% of the grant award of \$3,800,000. The amount of administrative costs identified by the auditor is \$166,255 which does not exceed the 5% limitation of \$190,000. In addition, the auditor classified program support costs at the subrecipient level as administrative costs, even though these costs were not included in the grant budget.

Report on Internal Control Structure - Pages 32 through 34

Finding No. 1

USSC lacks adequate controls for monitoring subrecipients. Our review of USSC's and the subrecipients' records and discussions disclosed that USSC provided very little oversight or guidance of a financial nature. For instance, USSC accepted subrecipients' Financial Status Reports in insufficient detail to permit any budgetary analysis by line item. The Financial Status Reports from the subrecipients varied widely in their detailed content. In our visits to selected subrecipients, we found no written instructions providing guidance for financial management responsibilities, no accumulated hours to support post-service benefit awards, many conflicts between timesheets and attendance records, and poorly organized files.

Recommendation

We recommend that USSC develop and implement policies and procedures to adequately monitor subrecipients on any existing and future grants or cooperative agreements from Federal agencies.

Department Response

The USSC has implemented procedures to track both program and fiscal activity as well as Member service hours. These procedures are in accordance with the requirements of the Corporation for National Service (CNS) and The New Jersey Department of Education.

Finding No. 2

USSC and its subrecipients lack adequate controls over their financial management systems as required by Section 20 of the Common Rule under OMB Circular A-102. Our testing and review of the incurred and claimed costs and the audit reports issued in accordance with OMB Circular A-133 disclosed that the lack of adequate controls over the financial management systems resulted in the following:

- . expenditures in certain cost categories exceeded the approved budget,
- . the amount charged for administrative costs exceeded the maximum Federal share, and
- . the total expenditures reported on the Financial Status Reports and the Federal Cash Transactions Reports did not agree with the books of account.

For complete details refer to Finding No. 2 in the Independent Auditor's Report on Compliance.

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Department Response

The USSC has implemented procedures to track both program and fiscal activity as well as Member service hours. These procedures are in accordance with the requirements of the Corporation for National Service (CNS) and The New Jersey Department of Education.

Finding No. 3

USSC did not effectively monitor the hours of service performed by the participants. Accordingly, there is no assurance that the awards were based on having completed a reasonable number of hours of service. Our audit revealed an unreasonable variance between service hours reported for the participants receiving educational awards. Full educational awards were provided to full-time participants whose service hours completed ranged from a high of 1815 to a low of 257. Full educational awards were provided to part-time participants whose service hours ranged from a high of 456 to a low of 344. The provisions of the National and Community Service Act, the former Commission's regulations, and the terms of the grant required full-time participants to serve not less than 40 hours (less holidays and vacations) per week for a year and part-time participants to serve an average of 9 hours per week for a year in order to receive an educational award, respectively. Providing full educational awards to the full and part-time participants who completed 257 and 344 service hours, respectively, represents only 6.4 weeks of service for the full-time participant and 38 weeks of service for the part-time participant.

Recommendation

We recommend that USSC develop and implement policies and procedures to effectively monitor the hours of service performed by participants to ensure that full educational awards are only awarded to those participants who have successfully completed a term of service for any existing or future grants.

Department Response

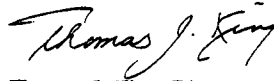
The USSC has implemented procedures to track both program and fiscal activity as well as Member service hours. These procedures are in accordance with the requirements of the Corporation for National Service (CNS) and The New Jersey Department of Education.



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We trust that our responses satisfy the concerns raised in the report. Should you have any questions or need additional information, please contact me at (609) 984-5593.

Sincerely,



Thomas J. King, Director  
Office of Compliance

TJK/cncs1

c: Leo Klaghoiz  
John Sherry  
R. Stephen Blaustein  
Rowena Madden  
Barbara Breeden  
Richard Hargrove  
Eugene Hutchins