

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

**Letter Report on Review of ETR Audits
that Cover Corporation for National Service
Cooperative Agreement Number CA95-06**

**Report Number 99-19
May 25, 1999**

Prepared by:
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Under Department of State OIG
Contract # S-OPRAQ-99-D-0021

May 25, 1999

Chief Operating Officer
Corporation for National Service:

Under its fiscal year 1999 Audit Plan, the Office of the Inspector General engaged Cotton & Company, LLP to audit costs claimed under the terms of a cooperative agreement between the Corporation and Education, Training, and Research Associates (Cooperative Agreement CA95-06). The cooperative agreement was effective for the period February 1, 1995 through April 30, 1998. Under the cooperative agreement, ETR Associates provides training and technical assistance to the Corporation by developing, operating, and managing its "National Service Resource Center."

In planning the audit of the Corporation's cooperative agreement, Cotton & Company was required to review and consider the audits of ETR Associates performed by its independent accountants, Coopers & Lybrand LLP for fiscal years 1995 through 1997 and PricewaterhouseCoopers LLP for fiscal year 1998. The audits were conducted in accordance with *Government Auditing Standards* and Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.

Cotton & Company's review indicates that the Corporation's cooperative agreement with ETR Associates was considered and tested as a major program under the Circular's requirements and that direct costs related to the agreement were also tested. The auditors reported no findings or questioned costs related to the Corporation's cooperative agreement as defined by Circular A-133 in any of the four fiscal years.

Based on their review of the audit reports and supporting workpapers, Cotton & Company recommends that we rely on the reports rather than conduct a separate audit of the costs claimed under the agreement. OIG has reviewed the audit reports and the workpapers documenting Cotton & Company's review. We concur with the conclusion reached and recommend that the Corporation use the Circular A-133 audit reports as the basis for closing out agreement CA95-06.¹



Luise S. Jordan
Inspector General

Attachment

¹ The Corporation awarded ETR Associates a second cooperative agreement (98CACA0011), which was covered in part by the fiscal year 1998 Circular A-133 audit. However, the review and recommendation does not extend to that agreement.

COTTON & COMPANY

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May 4, 1999

Inspector General
Corporation for National and Community Service

The Office of Inspector General (OIG) engaged Cotton & Company to audit costs claimed under terms of a cooperative agreement between the Corporation for National and Community Service and ETR Associates under Cooperative Agreement No. CA95-06. This cooperative agreement was effective on February 1, 1995, and was extended through April 30, 1998, at which time a new contract (98CACA0011) was entered for the same services. As part of our preliminary evaluation, we obtained and reviewed audits of ETR performed under Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for Fiscal Years (FYs) 1995-1998.

Coopers & Lybrand, LLP, performed the audits for FYs 1995-1997. Coopers & Lybrand merged with PriceWaterhouse, LLP, in 1997, and the firm of PriceWaterhouseCoopers (PwC) performed the FY 1998 audit. This single audit of ETR combines a full financial statement audit with tests of Federal and state grants, contracts, and cooperative agreements. ETR was subject to OMB Circular A-133 audits in all 4 fiscal years covering its cooperative agreement with the Corporation. Additionally, we noted that ETR had negotiated indirect cost rate agreements with Department of Health and Human Services (DHHS) over the same periods.

Cotton & Company reviewed audit workpapers prepared by PwC for FYs 1995-1998 to assess the level of review performed related to Cooperative Agreement No. CA95-06. Because sample sizes and tests performed in an OMB Circular A-133 audit rely on auditor assessment of control risk from the financial statement audit, we also reviewed PwC's control risk workpapers for FYs 1997 and 1998. Expenditures reported on ETR's OMB Circular A-133 audit reports are as follows:

Fiscal Year	Expenditures
1995	\$ 97,954
1996	305,978
1997	547,138
1998	628,316*

* Of this amount, \$75,058 was reported under the new contract

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We noted from our review of the OMB Circular A-133 reports that ETR's cooperative agreement with the Corporation was selected as a "major program" in all 4 fiscal years, thereby requiring that direct costs be tested. PwC reported no findings as defined by OMB Circular A-133 in any of the 4 fiscal years, but it did find small amounts of questioned costs primarily resulting from accounting errors. None of these questioned costs relate to the CNS cooperative agreement as shown in the following tables. The only systemic problem reported by PwC was ETR's overcharging of certain programs for inhouse publications; ETR should have charged these expenses to applicable Federal and state programs at the same discount available to commercial buyers. This issue is not, however, applicable to the Corporation project.

We reviewed PwC's workpapers to determine the amount of testing performed on ETR's cooperative agreement with the Corporation. Because the cooperative agreement with ETR was a major program in all 4 fiscal years, direct labor and other direct costs charged to the Corporation were selected for sampling. PwC examined client documentation including employee timesheets and personnel action notices. Conclusions as a result of that review included (but were not limited to):

Direct Labor

- Compensation appears allowable (reasonable for the services rendered, conforms to the established policy of the organization) and reasonable (consistent with that for similar work).
- Compensation is supported by timesheets, which show the distribution of effort or hours between government (direct and indirect) and non-government activities. The reports reflect after-the fact determination of the actual activity of each employee. Each report accounts for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.
- Compensation is supported by a personnel action notice supporting salary or hourly wage and is properly authorized by a responsible official.
- Timesheets are signed by the individual employee and/or by a responsible supervisory official.

Other Direct Costs

- Charge is necessary and reasonable for the performance and administration of the Federal or State program and allocable under the provisions of the cost principles.
- Charge is authorized or not prohibited under State, Federal, or local laws or regulations and approved by the awarding agency, if appropriate. Cost has specific agency approval, if so required, and is allowed as set forth in A-122 cost principles.
- Charge is given consistent treatment with policies, regulations, and procedure applied uniformly to Federal and non-Federal (State and non-State) activities of the organization, as well as consistent treatment between accounting periods.

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- Charge is part of original approved budget.
- Charge is in accordance with generally accepted accounting principles.
- Charge is not included as cost sharing requirements of other Federally-supported activities

Sample sizes for OMB Circular A-133 testing were determined based upon control risk assessed in a financial statement audit and a risk analysis assessment of ETR's organization-wide risk over Federal and state awards. The risk analysis included assessing knowledge of cost principles, use of a proper accounting system, and many other factors. Overall sample sizes and samples of Cooperative Agreement No. CA95-06 for each of the 4 fiscal years follows:

Direct Labor Testing

Fiscal Year	Total Sample Size	Items Sampled from CA95-06	Amount Tested from CA95-06	Amount of Findings Applicable to CA95-06
1995	30	2	\$ 2,319.68	\$0
1996	30	2	2,528.56	0
1997	25	8	9,418.02	0
1998	15	3	3,361.40	0

Other Direct Cost Testing

Fiscal Year	Total Sample Size	Items Sampled from CA95-06	Amount Tested from CA95-06	Amount of Findings Applicable to CA95-06
1995	30	3	\$ 3,161.00	\$0
1996	30	3	2,393.77	0
1997	15	*	*	0
1998	24	7	25,229.55	0

* Detailed workpapers were missing from the file and could not be located for our review. While we could determine that there were no findings applicable to the CNS cooperative agreement, we could not determine the number of items or dollar amounts sampled from this cooperative agreement.

In addition to direct labor and other direct cost testing, PwC performed additional tests including (but not limited to):

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- PwC selected a sample of five accounting transfers each year. Accounting transfers primarily represent corrections of errors or inhouse charges. The sample was tested for the same attributes as other direct costs. One sample in 1997 (for \$359.80) related to the Corporation project. It was determined that the charge was appropriate to the Corporation project, but it was erroneously charged to another project. While the error was corrected, the correction did not get credited to the original project, which had already been closed out.
- PwC tested procedures followed for subrecipient costs, assuring that ETR performed proper monitoring and review of expenditures. No subrecipients were associated with Cooperative Agreement No. CA95-06.
- PwC reviewed contracts and tested specific contract/grant provisions. PwC selected between six and nine contracts/grants each year and tested for compliance with any specific provisions noted. The Corporation project was selected for this test in FY 1998. PwC tested three conditions with no exceptions (Quarterly Financial Reports, Key Personnel, and Prior Approval of Major Equipment Purchases). Cotton & Company's review of Cooperative Agreement No. 95-06 did not identify any additional specific provisions that required testing.

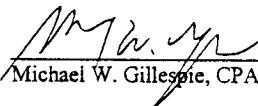
Based on the review summarized above, we recommend that the Corporation rely on the OMB Circular A-133 audits performed on ETR and the negotiated indirect cost rate agreements with DHHS.

Please call if you have questions or would like to discuss this further.

Very truly yours,

COTTON & COMPANY, LLP

By:


Michael W. Gillespie, CPA