Office of Inspector General
Corporation for National and Community Service

Audit of

Corporation for National and Community Service
Grant Number 97LHEDC001
to
American Association of Community Colleges
Washington, D.C.

OIG Audit Report Number 02-03
July 3, 2001

Financial Schedules and
Independent Auditor's Reports

For the Period
September 1, 1997 to August 31, 2000

Delivery Order S-OPRAQ-99-D-0020-CNS-07
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This report was issued to Corporation management on December 27, 2001. 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 June 28, 2002, and complete its corrective actions by December 27, 2002. Consequently, the report's findings do not necessarily represent the final resolution of the issues presented.

CORPORATION
FOR NATIONAL
SERVICE

Office of Inspector General
Corporation for National and Community Service

Audit of Corporation for National Service Grant Number 97LHEDC001
To the American Association of Community Colleges, Washington, D. C.

OIG Audit Report Number 02-03

The Office of Inspector General engaged L. G. Birnbaum and Company, LLP to audit costs claimed by the American Association of Community Colleges under CNCS grant number 97LHEDC001. The audit covered the period July 1, 1997 through June 30, 2000 and included procedures to determine if costs claimed in financial reports prepared by the Association were allowable, internal controls were adequate to safeguard Federal funds, and whether the Association had policies and procedures adequate to ensure compliance with Federal laws, applicable regulations and award conditions.

As a result of the work performed, the auditors are questioning $72,542 (9 percent) of the $769,500 costs claimed over the three year period; $52 thousand of the questioned costs results from inadequate documentation. The report discusses this condition in detail and provides information on other compliance issues as well as other questioned costs.

CNCS OIG reviewed the report and the work papers supporting its conclusions. We agree with the findings and recommendations presented. The Corporation's and American Association of Community Colleges' responses to this report, which disagree with certain of the findings and recommendations, are discussed within the report and included in their entirety as Appendices A and B, respectively.

Inspector General
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Office of Inspector General
Corporation for National and Community Service
Audit of Corporation for National and Community Service
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to
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REPORT SUMMARY AND HIGHLIGHTS

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This report is issued under an engagement to audit the costs claimed by the American Association of Community Colleges from September 1, 1997 through August 31, 2000.

Our audit covered the funds awarded by the Corporation under Grant No. 97LHEDC001 to the American Association of Community Colleges for the period September 1, 1997 through August 31, 2000 for its Learn and Serve America program. Our audit focused on claimed costs, compliance with Federal laws, applicable regulations and award conditions and internal controls and disclosed the following:

	Period	Amount	Percentage Of Total
Award Budget	09/97 - 08/00	$ 769,500	-
Claimed Costs	09/97 - 08/00	$ 769,500	100%
Questioned Costs	09/97 - 08/00	$ 72,542	9%

SUMMARY OF AUDIT RESULTS

As a result of our audit of the aforementioned award, we are questioning costs totaling $72,542, which are summarized below and detailed in Exhibit B of the Independent Auditor's report. Questioned costs are costs for which there is documentation that the recorded costs 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 of allowability by the Corporation.

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

Explanation	Federal
Subgrantees	
▪ Inadequately documented costs	$ 52,556
▪ Costs charged to incorrect program year	13,390
▪ Excess costs claimed	5,016
▪ Indirect costs	1,202
American Association of Community Colleges	
▪ Excess Retirement fringe benefits	780
▪ Inadequately documented direct costs	891
▪ Unreasonable hotel charges	410
▪ Cost claimed in incorrect program year	489
▪ Indirect costs	(2,192)
Total Questioned Costs	$ 72,542

For a complete discussion of these questioned costs, refer to the Independent Auditor's Report and Financial Schedules.

Our audit disclosed no material weaknesses in the American Association of Community Colleges' internal controls. However, we found several instances of noncompliance with Federal laws, applicable regulations and award conditions, including:

- American Association of Community Colleges was unable to provide adequate supporting documentation for $ 52,556 of subgrantee costs claimed.

- American Association of Community Colleges claimed $13,390 for subgrantee costs incurred in the wrong period, and

- American Association of Community Colleges claimed $5,016 of subgrantee costs in excess of the costs claimed by the subgrantee.

These and other findings are reported in our Report on Compliance and Internal Controls over Financial Reporting (page 22).

PURPOSE AND SCOPE OF AUDIT

Our audit covered the costs claimed under Grant No. 97LHEDC001 during the period September 1, 1997 through August 31, 2000, the award period. The objectives of our audit were to determine whether:

1. Financial reports prepared by American Association of Community Colleges presented fairly the financial condition of the award;

2. The internal controls were adequate to safeguard Federal funds;

3. American Association of Community Colleges had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations and award conditions;

4. The award costs reported to the Corporation were documented and allowable in accordance with the award terms and conditions; and

5. American Association of Community Colleges had adequate procedures and controls to track and report progress toward achievement of the program objectives.

We performed the 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 amounts claimed against the 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's Office of Grants Management and to American Association of Community Colleges. Their responses, included in their entirety as Appendices A and B, respectively, and summarized within the body of this report, take issue with some of the report's findings and recommendations.

BACKGROUND

The Corporation awarded Grant Number 97LHEDC001 in the amount of $769,500 for the period September 1, 1997 through August 31, 2000, to the American Association of Community Colleges for its Learn and Serve America: Higher Education program to increase the number, quality and sustainability of service learning programs in several community colleges around the country. The program features model programs, national data collection and dissemination, and an information clearinghouse. Professional development opportunities are also provided as well as technical assistance through regional workshops, mentoring, presentations, publications, a Web site and a consultant referral service.

INDEPENDENT AUDITOR'S REPORT

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Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITOR'S REPORT

We have audited the costs incurred by American Association of Community Colleges under Corporation for National and Community Service award number 97LHEDC001 for the period September 1, 1997 through August 31, 2000. These costs, as presented in the schedule of award costs (Exhibit A), are the responsibility of American Association of Community Colleges' management. Our responsibility is to express an opinion on Exhibit A based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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.

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 of the United States.

In our opinion, except for $72,542 in questioned costs, the Schedule of Award Costs referred to above presents fairly, in all material respects, the costs claimed for the period September 1, 1997 to August 31, 2000, in conformity with the award agreements.

MEMBERS OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Inspector General
Corporation for National and Community Service

In addition to this report on our audit of the accompanying financial schedules, we are also issuing a separate Report on Compliance and on Internal Control Over Financial Reporting. The Report on Compliance and on Internal Control Over Financial Reporting is an integral part of an audit conducted in accordance with *Government auditing Standards* and, in considering the results of this audit, should be read along with the auditor's report on the financial schedules.

This report is intended for the information and use of the Corporation for National and Community Service's Office of the Inspector General, as well as the management of the Corporation for National and Community Service, and the American Association of Community Colleges 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
July 3, 2001

FINANCIAL SCHEDULES

Exhibit A

American Association of Community Colleges
Corporation for National and Community Service Award No. 97LHEDC001
Schedule of Award Costs
From September 1, 1997 to August 31, 2000

Cost Category	Approved Budget	Claimed Costs	Questioned Costs	Exhibit B Note Reference
Personnel Services	$ 118,505	$ 123,010	$ -	
Fringe Benefits	29,626	33,615	780	1
Subtotal	148,131	156,625	780	
Training	106,445	112,978	435	2
Monitoring	49,600	48,287	-	
Dissemination	39,940	40,189	410	2
Postage and Printing	18,430	19,607	-	
Publishing Services	23,530	15,026	-	
Recruitment	5,391	4,486	-	
Computer Equipment	6,255	5,307	-	
Evaluation	8,675	11,580	-	
Travel	6,000	2,409	945	2
Supplies and Telephone	3,960	4,178	-	
Indirect Costs	36,643	32,783	(2,192)	3
Subtotal	304,869	296,830	(402)	
Subgrantee Costs	316,500	316,045	72,164	4
TOTAL FEDERAL FUNDS	$ 769,500	$ 769,500	$ 72,542	

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

Schedule A-1

American Association of Community Colleges
Corporation for National and Community Service Award No. 97LHEDC001
Schedule of Award Costs
From September 1, 1997 to August 31, 1998

Cost Category	Approved Budget	Claimed Costs	Questioned Costs	Exhibit B Note Reference
Personnel Services	$ 39,083	$ 36,937	$ -	
Fringe Benefits	9,771	8,418	-	
Subtotal	48,854	45,355	-	
Training	47,650	56,103	-	
Monitoring	21,200	22,088	-	
Dissemination	8,800	9,598	-	
Postage and Printing	6,480	7,331	-	
Publishing Services	10,675	5,887	-	
Recruitment	4,491	4,486	-	
Computer Equipment	2,955	2,620	-	
Evaluation	2,000	1,830	-	
Travel	2,000	923	456	2
Supplies and Telephone	1,800	1,428	-	
Indirect Costs	14,095	13,806	624	3
Subtotal	122,146	126,100	1,080	
Subgrantee Costs	125,000	124,545	35,627	4
TOTAL FEDERAL FUNDS	$ 296,000	$ 296,000	$ 36,707	

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

Schedule A-2

American Association of Community Colleges
Corporation for National and Community Service Award No. 97LHEDC001
Schedule of Award Costs
From September 1, 1998 to August 31, 1999

Cost Category	Approved Budget	Claimed Costs	Questioned Costs	Exhibit B Note Reference
Personnel Services	$ 38,997	$ 42,663	$ -	
Fringe Benefits	9,749	11,964	232	1
Subtotal	48,746	54,627	232	
Training	33,495	31,601	435	
Monitoring	15,100	14,865	-	
Dissemination	10,140	9,363	-	
Postage and Printing	5,370	5,768	-	
Publishing Services	5,505	5,451	-	
Recruitment	900	0	-	
Computer Equipment	3,300	2,687	-	
Evaluation	2,400	2,000	-	
Travel	2,000	444	-	2
Supplies and Telephone	1,020	1,170	-	
Indirect Costs	11,274	11,274	431	3
Subtotal	90,504	84,623	866	
Subgrantee Costs	97,500	97,500	19,233	4
TOTAL FEDERAL FUNDS	$ 236,750	$ 236,750	$ 20,331	

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

Schedule A-3

American Association of Community Colleges
Corporation for National and Community Service Award No. 97LHEDC001
Schedule of Award Costs
From September 1, 1999 to August 31, 2000

Cost Category	Approved Budget	Claimed Costs	Questioned Costs	Exhibit B Note Reference
Personnel Services	$ 40,425	$ 43,410	$ -	
Fringe Benefits	10,106	13,233	548	1
Subtotal	50,531	56,643	548	
Training	25,300	25,274	-	
Monitoring	13,300	11,334	-	2
Dissemination	21,000	21,228	410	
Postage and Printing	6,580	6,508	-	
Publishing Services	7,350	3,688	-	
Recruitment	0	0	-	
Computer Equipment	0	0	-	
Evaluation	4,275	7,750	-	
Travel	2,000	1,042	489	2
Supplies and Telephone	1,140	1,580	-	
Indirect Costs	11,274	7,703	(3,247)	3
Subtotal	92,219	86,107	(2,348)	
Subgrantee Costs	94,000	94,000	17,304	4
TOTAL FEDERAL FUNDS	$ 236,750	$ 236,750	$ 15,504	

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

American Association of Community Colleges
Corporation for National and Community Service Award No. 97LHEDC001
Notes to Financial Schedules

1. Summary of Significant Accounting Policies

Accounting Basis

The accompanying financial schedules, Exhibit A, Schedule A-1, A-2 and A-3, have been prepared from the books of account of the American Association of Community Colleges. The Association, a non-profit organization, was founded in 1920 to provide leadership and services in support of community, junior and technical colleges. The accompanying financial schedules are not a full set of financial statements of the Association but rather a special report compiled to present costs claimed under Corporation for National and Community Service award number 97LHEDC001. The basis of accounting utilized 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, American Association of Community Colleges does not maintain any equity in the award and any excess of cash received from the Corporation over final expenditures, excluding any interest retained in accordance with OMB Circular A-110, 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.

Title to equipment acquired under Federal grants rests in American Association of Community Colleges while used in the program for which it is purchased or in other future authorized programs. However, the Corporation has a reversionary interest in the equipment. Its disposition, as well as the ownership of any proceeds therefrom, is subject to Federal regulations.

C. Supplies

Minor materials and supplies are charged to expense when purchased.

American Association of Community Colleges
Corporation for National and Community Service Award No. 97LHEDC001
Explanation of Questioned Costs
From September 1, 1997 to August 31, 2000

Costs Questioned at the Grantee, AACC

We have questioned the following costs incurred by the grantee, American Association of Community Colleges.

DESCRIPTION	FY 1998	FY 1999	FY 2000	SUMMARY
Fringe benefits	$ -	$ 232	$ 548	$ 780
Non-personnel costs				
Direct				
Inadequate Documentation	456	435	-	891
Cost claimed in incorrect program year	-	-	489	489
Unreasonable hotel charges	-	-	410	410
Indirect costs	624	431	(3,247)	(2,192)
Subtotal	1,080	866	(2,348)	(402)
Questioned costs	**$ 1,080**	**$ 1,098**	**$ (1,800)**	**$ 378**

1. Fringe Benefits

AACC claimed excess Retirement Benefits costs of $232 and $548 in grant fiscal years 1999 and 2000. Retirement Benefits were computed by the payroll system on 100 percent of the Project Coordinator's salary rather than the 80 percent that was allocated to the program. Other employee retirement costs that could have been allocated to the grant were excluded. The Grant Award Provisions for Learn and Serve America: Higher Education Programs,

Section B.22.a. states that "financial management systems must be capable of distinguishing expenditures attributable to this grant from expenditures not attributable to this grant." We recomputed retirement costs based on allocable salaries to determine the amounts chargeable to the program and noted excess costs claimed of $780 for fiscal years 1999 and 2000.

2. Direct Costs

Inadequate Documentation - Fiscal Year's 1998 and 1999

Travel and Training costs of $456 and $435 in grant fiscal years 1998 and 1999 were unsupported by adequate documentation. AACC was unable to locate the documentation requested and suggested that it may have been misfiled. The Grant Award Provisions for Learn and Serve America: Higher Education Programs, Section B.22.b. states that "the Grantee must maintain adequate supporting documents for every expenditure (Federal and non-Federal) and in-kind contributions made under this Grant. Costs must be shown in books or record, and must be supported by a source document, such as receipt, travel voucher, invoice, bill, affidavit, in-kind voucher or similar document." OMB Circular A-122, Attachment A, General Principles, A.2.g. states that "to be allowable under an award, costs must ...be adequately documented." Accordingly, we have questioned these amounts.

American Association of Community Colleges' Response

AACC does not contest that it does not have documentation in support of $456 questioned hotel accommodation costs. AACC takes exception to $435 of questioned travel costs, asserting that confirmation that the mentor did visit his mentee is available and that no single expense of the $166 for meals, taxi, tips and parking exceeded $25 and, hence, no receipts were required.

Auditor's Comment

We do not understand how AACC can reach this conclusion since it was unable to produce a travel voucher. Our position on these questioned costs is unchanged.

Cost Charged to Incorrect Program Year - Fiscal Year 2000

AACC purchased an airline ticket and claimed travel expense of $489 in grant fiscal year 2000 and later applied the cost to travel taken in fiscal year 2001. The trip originally scheduled in 2000 was canceled and the funds were used in the following grant fiscal year for other travel. AACC did not reprogram the funds from the year 2000 to 2001. The Grant

Award Provisions for Learn and Serve America: Higher Education Programs, Section B.22.a. states that the financial management system must be able to identify costs by programmatic year... Consequently, travel costs claimed in grant fiscal year 2000 are overstated by $489.

On numerous occasions AACC charged prepaid travel costs such as airline tickets and hotel reservations to the grant when payment was submitted, rather that when the trip was actually taken. Travel vouchers submitted later would include only the balance of costs incurred. When the trip is canceled and the cost applied to another trip in a different fiscal year, as noted above, costs are overstated in one year and understated in the next.

American Association of Community Colleges' Response

AACC disagrees with the $489 of costs which were questioned because the cost was claimed in a grant year earlier than when the costs were incurred. AACC feels that use of funds, available as a result of a canceled trip, in a future period is appropriate because such did "not waste CNCS funds."

Auditor's Comment

While not wasting CNCS funds is commendable, AACC lacked the authority to reprogram unused funds to the following grant year. Our position on these questioned costs is unchanged.

Unreasonable Hotel Charges - Fiscal Year 2000

Hotel charges of $410 claimed as Dissemination were incurred by the Learn and Serve Project Coordinator while assisting with the AACC 2000 annual convention as part of the Learn and Serve program and presentation. The convention was held locally and the Project Coordinator was not on official travel status. OMB Circular A-122; Attachment A, General Principles; Section A.(2)(a.) states that to be allowable under an award, costs must meet the following general criteria: be reasonable for the performance of the award and be allocable thereto under these principles. In Section 3.(a) the Circular states that in determining the reasonableness of a given cost, consideration shall be given to: whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award. We do not consider the incurrence of hotel expense while not on official travel status to meet the above standard for reasonableness. As a result, we have questioned this $410 charge against Federal funds.

American Association of Community Colleges' Response

AACC disagrees with the $410 of costs which were questioned as unreasonable asserting that AACC staff are not federal employees and that AACC had prior approval of these costs since they were included in the CNCS-approved budget.

Auditor's Comment

We disagree. Neither the budget submitted by AACC nor that approved by CNCS identifies hotel costs for AACC staff while attending the convention in Washington, DC. Our position on these costs questioned is unchanged.

3. Indirect Costs

We calculated allowable indirect costs by reducing claimed costs by the amount of questioned costs and then applying the grant limit of 5 percent to the reduced amount. For fiscal years 1998 and 1999 this resulted in questioned costs of $624 and $431, respectively. For fiscal year 2000, however, AACC had claimed approximately 3.25 percent. Application of the 5 percent factor to claimed costs net of questioned costs resulted in an upward adjustment of $3,247, or net underclaimed indirect costs of $2,192 ($3,247 - $624 - $431).

Costs Questioned at Subgrantees

4. Our review of the $316,045 claimed by AACC s sixteen Learn and Serve subgrantees resulted in $72,164 of questioned costs for the three grant fiscal years. Costs of $52,556 were not supported by adequate documentation and $13,390 were claimed in the incorrect fiscal year. Subgrantee administrative costs questioned were $1,202 and an additional $2,096 was claimed by AACC in excess of costs reported by the subgrantees.

Description	FY 1998	FY 1999	FY 2000	Total
Unsupported costs	$ 27,027	$ 15,985	$ 9,544	$ 52,556
Incorrect program year	5,832	2,520	5,038	13,390
Related administrative costs claimed	278	728	196	1,202
Excess costs claimed	2,490	-	2,526	5,016
Questioned costs	**$ 35,627**	**$ 19,233**	**$ 17,304**	**$ 72,164**

a. Unsupported Costs

AACC program management did not require or request that subgrantees submit documentation supporting amounts claimed. Consequently, it was not possible to monitor or determine that costs claimed on the subgrantee quarterly cost reports were allowable, accurate or reasonable from the information at AACC. OMB Circular A-110, Subpart A, 51(a) states that recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Subpart B, 21(b)(2) requires that recipients financial management systems provide for records that identify accurately the source and application of funds for federally-sponsored activities. Subpart B, 21(b)(7) requires accounting records including cost accounting records that are supported by source documents. Moreover, much of the documentation provided in response to audit requests (including information provided by the subgrantees) was either inadequate or missing. As a result, we have questioned $52,556 in costs that were unsupported.

American Association of Community Colleges' Response

AACC disagrees with the $52,556 of costs which were questioned because they were unsupported. AACC acknowledges that the audit did identify potential weaknesses at a number of the subgrantees and that AACC has taken steps to further enhance its subgrantee monitoring plan.

Auditor's Comment

AACC does not dispute the audit conclusion that these costs were not supported. Nor does AACC present any documentation which would support allowability of the amounts questioned. Our position on these questioned costs is unchanged.

Corporation for National and Community Service s Response

The Corporation disagrees with the recommendation that AACC require its subgrantees to submit documentation is support of costs claimed on their periodic reports because submission of all back-up documentation is not required by Federal grant management guidelines. The Corporation does, however, acknowledge that the grantee is responsible for ensuring that its subgrantees maintain that documentation and for periodically reviewing these records for adequacy.

Auditor's Comment

Our point is that the grantee was not fulfilling its responsibility and that, consequently, over $52,000 of claimed subrecipient costs were not properly supported and now must be recovered from the

grantee, a situation which could have been avoided had the grantee required submission of supporting documentation or otherwise complied effectively with its responsibility under OMB Circular A-110 to ensure that the subrecipient maintained documentation.

b. Incorrect Fiscal Year

The following table summarizes costs claimed in a fiscal year other than the one in which the costs were incurred, by year, by school.

College	FY 1998	FY 1998	FY 1998	Totals
Nunez	$4,466	$2,520	$5,038	$12,024
Johnson County	1,366	-	-	1,366
Totals	$5,832	$2,520	$5,038	**$13,390**

American Association of Community Colleges' Response

AACC disagrees with $13,390 of costs which were questioned because they were claimed in a grant year other than the one in which they were incurred, asserting that the subgrantees followed their respective institutional policies on encumbering funds, thereby making plans for and using grant funds according to their approved and audited policies.

Auditor's Comment

We disagree. Accrual basis accounting is the preferred method of accounting under OMB Circular A-110. Implicit in the use of accrual accounting is the presumption that the amounts to be recorded as expenditures will be those for which materials or services have been received and used as of the balance sheet date. Encumbrance accounting is not acceptable and such amounts should not be reported either as expenditures or as liabilities in the balance sheet.[1]

[1]Audit Guide for Colleges and Universities, American Institute of Certified Public Accountants.

c. Related Administrative Costs Claimed

Allowable administrative costs were recomputed for schools with questioned costs. Based on this recomputation, we have also questioned administrative costs of $1,202 as scheduled in the table below.

College	FY 1998	FY 1999	FY 2000	Totals
Iowa Western	$125	$371	$131	$627
Oakton	-	59	25	84
Albuquerque TVI	36	32	40	108
Tidewater	117	266	-	383
Totals	$278	$728	$196	**$1,202**

Details related to subgrantee costs questioned are presented at Exhibit A-2 and Schedules A-1-B, A-2-B and A-3-B.

5. Costs in Excess of Actual

An excess of $2,096 of subgrantee costs over those claimed by the subgrantees was charged to the grant. OMB Circular A-110, Subpart A, 51(a) states that recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Subpart B, 21(b)(2) requires that recipients financial management systems provide for records that identify accurately the source and application of funds for federally-sponsored activities. The following table presents the differences between costs reported by subgrantees and costs claimed by AACC for program fiscal years 1998 and 2000.

College	1998 Claimed Per G/L	1998 Reported Per Sub	1998 Totals	2000 Claimed Per G/L	2000 Reported Per Sub	2000 Totals
NW Arkansas	-	-	-	$8,000	$7,703	$297
Albuquerque TVI	$5,000	$5,500	$(500)	-	-	-
C C Rhode Island	5,000	2,510	2,490	-	-	-
Glendale	5,000	5,500	(500)	3,500	4,000	(500)
Johnson County	5,000	5,500	(500)	3,500	4,000	(500)
Miami-Dade	5,000	5,420	(420)	3,500	1,271	2,229
Totals	$25,000	$24,430	**$570**	$18,500	$16,974	**$1,526**

AACC provided advances to its subgrantees, recorded them as grant disbursements when disbursed, and did not adjust the Detailed General Ledger to the actual costs that were later reported by the subgrantees. As a result, we have questioned the excess subgrantee costs claimed of $570 and $1,526 in fiscal years 1998 and 2000 for a total of $2,096.

American Association of Community Colleges' Response

AACC disagrees with $2,096 of costs which were questioned because the amounts claimed by AACC were in excess of those reported by subgrantees. AACC notes that mentors were not required to submit reports for individual awards of $500 for honoraria, and alludes to these honoraria being charged, on AACC's records, to a different account. As a result, the amounts presented as negative questioned costs should be eliminated, increasing the amount of questioned costs to $5,016 (NW Arkansas - $297; CC Rhode Island - $2,490; Miami-Dade - $2,229). We have corrected the amounts presented as costs questioned to reflect $5,016 of questioned costs.

AACC acknowledges that it claimed $5,000 for the Community College of Rhode Island (CCRI) and that CCRI only spent $2,510. AACC asserts that the difference, $2,490, was returned to AACC in 1999 and used to produce AACC service learning publications.

Auditor's Comment

Since we cannot verify whether these publications were or were not claimed under the grant, we cannot accept AACC's explanation. Accordingly, our position on these questioned costs is unchanged. AACC has not challenged the costs questioned as excess related to Miami-Dade.

INDEPENDENT AUDITOR'S REPORT

ON

COMPLIANCE AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

We have audited the Schedule of Award Costs which summarizes the claimed costs of the American Association of Community Colleges under the Corporation for National and Community Service award number 97LHEDC001 for the period September 1, 1997 to August 31, 2000, and have issued our report thereon dated July 3, 2001.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the American Association of Community Colleges' financial schedules are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and terms and conditions of the grant award, noncompliance with which could have a direct and material effect on the determination of allowable amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed several instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described below.

MEMBERS OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

1. Questioned Subgrantee Costs

Our review of documentation submitted by subgrantees disclosed $52,556 that was not properly supported and $13,390 that was incurred in a fiscal year other than the one in which the costs were claimed. Administrative costs claimed related to these costs, in the amount of $1,202 were also questioned. OMB Circular A-110, Subpart A, 51(a) states that recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Subpart B, 21(b)(2) requires that recipients financial management systems provide for records that identify accurately the source and application of funds for federally-sponsored activities. Subpart B, 21(b)(7) requires accounting records including cost accounting records that are supported by source documents. Please refer to Exhibit B, Note 4. for detail.

Recommendation

AACC is responsible for the funds provided to operate the Learn and Serve program including the amounts allocated to subgrantees. In order to adequately monitor the use of these funds, subgrantees should be required to submit documentation in support of costs claimed on their periodic reports and this documentation should be reviewed to verify its accuracy, allowability and relevance to the program.

American Association of Community Colleges Response

AACC Learn and Serve project staff will review subgrantee financial systems and documentation during site visits to its subgrantee colleges, and conduct periodic testing of backup documentation. Cognizant of the federal Paperwork Reduction Act, AACC will continue to require and review quarterly and semi-annual financial reports from its subgrantees, as well as OMB Circular A-133 audits and Financial Status Reports, for accuracy, allowability, and relevance to the program.

Auditor s Comment

AACC's response is considered adequate if it ensures that amounts claimed by subrecipients are accurate, allowable and allocable.

2. Excess Subgrantee Costs Claimed

An excess of $2,096 over that which was claimed by the subgrantees was charged to the grant. OMB Circular A-110, Subpart A, 51(a) states that recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported

by the award. Subpart B, 21(b)(2) requires that recipients financial management systems provide for records that identify accurately the source and application of funds for federally-sponsored activities. Please refer to Exhibit B, Note 5 for detail.

Recommendation

We recommend that AACC charge subgrantee payments to an advance account until subgrantee cost reports have been submitted. Charges to the grant should be limited to the amounts claimed by the subgrantees.

American Association of Community Colleges Response

AACC is investigating how to charge subgrantee payments to an advance account, as recommended, to make for more accurate reconciliation with actual subgrantee expenditures.

Auditor s Comment

AACC's response is inadequate since it does not commit to using an advance account.

3. Other Direct Costs - Inadequate Documentation

Our review of other direct costs claimed by AACC, excluding subgrantees, disclosed that Travel and Training costs of $456 and $435 in grant fiscal years 1998 and 1999 were not supported by adequate documentation. The Grant Award Provisions for Learn and Serve America: Higher Education Programs, Section B.22.b. states that the Grantee must maintain adequate supporting documents for every expenditure (Federal and non-Federal) and in-kind contributions made under this Grant. Costs must be shown in books or record, and must be supported by a source document, such as receipt, travel voucher, invoice, bill, affidavit, in-kind voucher or similar document. OMB Circular A-122, Attachment A, General Principles, A.2.g. states that to be allowable under an award, costs must ...be adequately documented. Please refer to Exhibit B, Note 2 for detail.

Recommendation

Although the missing documentation requested for audit may have been isolated incidents, we recommend that AACC make an effort to ensure all documentation in support of federal programs be retained as required by OMB Circular A-122.

American Association of Community Colleges' Response

AACC will make every effort to ensure all expenses are appropriately documented and that such documentation is retained.

Auditor's Comment

AACC's response is considered adequate.

3. Other Direct Costs- continued - Cost Charged to Incorrect Fiscal Year

AACC purchased airline tickets and claimed travel costs of $489 in grant fiscal year 2000 and later applied the cost to travel taken in fiscal year 2001. On numerous occasions AACC charged prepaid travel costs such as airline tickets and hotel reservations to the grant when payment was submitted, rather that when the trip was actually taken. Travel vouchers submitted later would include only the balance of costs incurred. In this instance, when the trip was canceled and the cost applied to another trip in a subsequent fiscal year, costs were overstated in one year and understated in the next. The Grant Award Provisions for Learn and Serve America: Higher Education Programs, Section B.22.a. states that the financial management system "must be able to identify costs by programmatic year..." We also noted that it was not unusual for different cost elements of a single trip to be charged to two or more accounts in the general ledger. Please refer to Exhibit B, Note 2. for detail.

Recommendation

We recommend that all travel costs for each trip be included on the travel voucher, that no costs are charged to the grant prior to conclusion of the trip, and that an effort is made to ensure that the costs are posted to the correct accounts.

American Association of Community Colleges' Response

AACC cannot postpone paying for airline and train tickets charged to its corporate charge accounts. AACC staff are instructed to purchase airline tickets well in advance of travel to obtain the most cost-effective fares. AACC will make every effort to indicate all travel costs on travel reimbursement forms, to ensure costs are posted to the correct accounts.

Auditor's Comment

AACC's response is considered adequate.

4. Employee Fringe Benefits

AACC claimed excess retirement benefits costs of $232 and $548 in grant fiscal years 1999 and 2000. The Grant Award Provisions for Learn and Serve America: Higher Education Programs, Section B.22.a. states that ...financial management systems must be capable of distinguishing expenditures attributable to this grant from expenditures not attributable to this grant. Please refer to Exhibit B, Note 1 for detail.

Recommendation

We recommend that AACC reconcile retirement charges to payroll allocations on a periodic basis and make any necessary adjustments to ensure that retirement costs are allocated at similar rates and for the correct employees.

American Association of Community Colleges Response

AACC will reconcile retirement charges and make any necessary adjustments to payroll allocations as recommended.

Auditor s Comment

AACC's response is considered adequate.

5. Unreasonable Hotel Charges

Hotel charges of $410 claimed as Dissemination were incurred by the Learn and Serve Project Coordinator while assisting with the AACC 2000 annual convention. The convention was held locally and the Project Coordinator was not on official travel status. OMB Circular A-122, Attachment A, General Principles, A.(2)(a.) states that to be allowable under an award, costs must meet the following general criteria: be reasonable for the performance of the award and be allocable thereto under these principles. In Section 3.(a) the Circular states that in determining the reasonableness of a given cost, consideration shall be given to: whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award. Please refer to Exhibit B, Note 2 for detail.

Recommendation

We recommend that AACC program and accounting personnel obtain and become familiar with the cost principles of Circular A-122 to ensure that all travel related costs charged to the grant are reasonable and necessary.

American Association of Community Colleges' Response

For the reasons discussed in note 2 to Exhibit b, AACC disagrees that these costs are unallowable. AACC, however, has stated that its program and accounting personnel will obtain and become familiar with the cost principles of OMB Circular A-122 as recommended.

Auditor's Comment

AACC's response is considered adequate.

6. Unrecorded Match Costs

AACC did not record all match costs that were chargeable to the grant in its detailed general ledger. Unrecorded match expenditures consisted of indirect costs in excess of the 5 percent limitation in grant years 1998 and 2000 and costs incurred and claimed by subgrantees in grant year 2000. OMB Circular A-110, Subpart B, 21(b)(2) requires that recipients' financial management systems provide for "records that identify accurately the source and application of funds for federally-sponsored activities." The accounting department was provided the cost matching data by the Program Coordinator but did not properly post the information to the detailed general ledger. The failure to record all allowable match costs to the general ledger resulted in an understatement, and if not properly accounted for in future periods, could result in a deficiency and additional questioned costs. Please refer to Exhibit B for detail.

Recommendation

We recommend that AACC accounting personnel ensure that cost matching data is posted to the Detailed General Ledger.

American Association of Community Colleges' Response

AACC accounting personnel are posting all cost matching data to the detailed general ledger.

Auditor's Comment

AACC's response is considered adequate.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered American Association of Community Colleges' internal control over financial reporting 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 over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Other Matters

7. The Corporation's Monitoring Policies and Procedures for Learn and Serve Program

The Corporation is responsible for monitoring grants in order to reduce the risk that the grantees may be unable to properly manage, safeguard, and account for grant funds in accordance with federal law and grant provisions. The Corporation has not implemented specific Learn and Serve monitoring policies, procedures and guidelines nor does it require that documentation be maintained that would provide evidence of ongoing monitoring activity or procedures performed.

Interviews of the Corporation's grants management and program staff disclosed that while site visits are not required, procedures performed by the Corporation's staff included review and evaluation of AACC's Semi-Annual Progress Reports and annual renewal applications, and that issues that are identified are discussed with grantee personnel. The grants management and program staff also stated that the Service-Learning program staff prefer awarding grants to established entities with prior experience running Federal programs so as to minimize potential problems, and that program staff are aware of the less experienced Learn and Serve programs and tend to monitor them more closely than those with greater program familiarity. They also indicated that grantee staff changes must be reported to the Corporation, and that grantee management turnover can result in greater scrutiny.

Program and grantee personnel reported that contacts were frequent, but documentation of visits and communication was minimal.

In our view, the current lack of procedures and guidelines can result in inconsistent monitoring coverage of grantees and reduce the ability to effectively evaluate the quality and extent of monitoring.

Recommendation

We recommend that the Corporation establish monitoring policies and procedures for its Learn and Serve program and require documentation of the procedures performed and results obtained from monitoring and site visits to grantees.

Corporation for National and Community Service's Response

The Corporation disagrees with the recommendation that the Corporation establish monitoring policies and procedures for its Learn and Serve grants. The Corporation does, however, acknowledge that its Learn and Serve staff is strengthening its procedures for site visits and other components of grantee monitoring to ensure that monitoring is documented and issues specific to their grantees are addressed in Corporation monitoring procedures.

Auditor's Comment

Our point is that the Corporation does not now have *any* policies and procedures for monitoring its Learn and Serve grants. We commend the Corporation for its commitment to strengthening its procedures in this regard.

This report is intended for the information and use of the Corporation for National and Community Service's Office of the Inspector General, as well as management of the Corporation for National an Community Service and the American Association of Community Colleges 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
July 3, 2001

Appendix A

Response of the Corporation for National and Community Service

CORPORATION
FOR NATIONAL
SERVICE

DATE: December 7, 2001

TO: Luise S. Jordan, Inspector General

THRU: William Anderson, Deputy Chief Financial Officer

FROM: Margaret Rosenberry, Director, Office of Grants Management

SUBJECT: Response to OIG Draft Audit Report 02-03, *Audit of Corporation's Grant to the American Association of Community Colleges*

We have reviewed the draft audit report of the American Association of Community Colleges (AACC) grant. Due to the limited timeframe for response, our comments do not address all of the recommendations. In some cases, we will need to review the work papers supporting the finding before we can determine appropriate corrective action. We will respond to all findings and recommendations once the audit is issued.

The auditors recommend that subgrantees be required to submit documentation in support of costs claimed on their periodic reports to the prime grantee. The Corporation disagrees. The submission of all back-up documentation is not required by federal grant management guidelines. We believe that it is not reasonable or practical for all supporting documentation to be submitted with reports on grant expenditures. The grantee is responsible for ensuring that its subgrantees maintain that documentation and for periodically reviewing it for adequacy. As noted by AACC, they are reviewing their monitoring procedures to ensure they are adequately assessing their subgrantees' financial management systems and reviewing documentation that supports costs.

The auditors also recommended that the Corporation establish monitoring policies and procedures for its Learn and Serve grants. The Corporation's policy is to employ a risk-based approach to monitoring all of its grantees. The Learn and Serve grantees generally fall into a low risk category due to their relatively low dollar amount and because they are usually made to established entities with prior experience running federal programs. The Learn and Serve America staff is strengthening its procedures for site visits and other components of grantee monitoring to ensure that monitoring is documented and issues specific to their grantees are addressed in Corporation monitoring procedures.

Cc: Amy Cohen, Director, Learn and Serve America
Wendy Zenker, Chief Operating Officer

Appendix B

Response of American Association of Community Colleges

AMERICAN ASSOCIATION OF COMMUNITY COLLEGES

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Washington, DC 20036

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[T] 202.728.0200
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December 7, 2001

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

Dear Ms. Jordan:

Enclosed is the American Association of Community Colleges' response to the draft report resulting from the Office of Inspector General's audit of AACC's grant number 97LHEDC001 from the Corporation for National and Community Service.

We appreciate the support CNCS has given to AACC and its member colleges for the past seven years, and look forward to a continued, mutually beneficial working relationship with CNCS. If you have any questions, please contact Gail Robinson, AACC's coordinator of service learning, at 202/728-0200, ext. 254, or *grobinson@aacc.nche.edu*.

Sincerely,

George R. Boggs

George R. Boggs
President

Enclosure

cc: Lynn Barnett
Mary K. Latif
Gail Robinson

RECEIVED
DEC - 7 2001
OFFICE OF THE INSPECTOR GENERAL

American Association of Community Colleges

Response to Draft Audit Report
Corporation for National and Community Service
Grant Number 97LHEDC001

December 7, 2001

Following are the American Association of Community Colleges' (AACC) responses to the October 29, 2001, draft audit report by Leonard G. Birnbaum and Company to the Office of Inspector General of the Corporation for National and Community Service (CNCS), for the period September 1, 1997, through August 31, 2000.

Costs Questioned at the Grantee, AACC

1. *Excess retirement fringe benefits*

AACC will reallocate excess costs from the CNCS grant to its general fund.

2. *Inadequately documented direct costs*

One of the costs in question, $456, was for the AACC Learn and Serve project coordinator's hotel accommodations at the AACC national convention in April 1998 in Miami. The project coordinator presented on AACC's project and CNCS programs at the convention. AACC was unable to locate a copy of the hotel bill in its files (the rest of the project coordinator's documented expenses were and are on file at AACC). AACC contacted the Fontainebleau Hilton Hotel to obtain a copy of the bill and was told that, during a recent hurricane, its records from the April 1998 period were damaged and irretrievable. AACC has twice requested a letter from the hotel confirming this fact, but has not received it. AACC makes every effort to keep its documentation in proper files and will continue to do so.

The other costs in question, totaling $435, consisted of $269 for airfare and $166 in expenses for an AACC project mentor's site visit to his mentee, Oakton Community College, in April 1999. Even after several telephone and e-mail requests, the mentor never submitted his airline ticket stubs (the airfare had been prepaid on AACC's American Express account, per AACC policy). Confirmation that the mentor did in fact visit his mentee is available. No single expense of the $166 (meals, tips, taxi, parking) exceeded $25, and therefore no receipts were required nor was documentation missing, per AACC policy. AACC takes exception to the auditor's opinion in this case.

3. *Cost claimed in incorrect program year*

The cost in question was for an airline ticket to a national service learning conference. The AACC Learn and Serve project coordinator had to cancel the trip after the ticket was

purchased. AACC applied the credit for the cancelled flight to the next appropriate project travel event, in order not to waste CNCS funds.

4. *Unreasonable hotel charges*

AACC staff are not federal employees. AACC's Learn and Serve project coordinator presented on service learning and CNCS programs at the AACC national convention in April 2000 in Washington, DC, as planned in AACC's CNCS-approved budget, and as such was on official travel status. Further, per 45CFR2541, prior approval is defined as documentation evidencing consent prior to incurring specific cost. Inclusion in the CNCS-approved budget represents prior approval and thus such cost is allowable.

Costs Questioned at Subgrantees

1. *Inadequately documented or unsupported costs*

AACC takes exception to the auditor's opinion that "it was not possible to monitor or determine that costs claimed on the subgrantee quarterly cost reports were allowable, accurate, or reasonable" as a result of AACC not requiring or requesting that subgrantees submit documentation supporting amounts claimed. As a matter of regulation, there is no requirement for AACC, as the prime grantee, to require or request the subgrantee to submit documentation supporting the amounts claimed. The auditor was incorrect in assuming that AACC had the responsibility to maintain all the documentation for the subgrantees' expenditures.

Similarly, the auditor cites financial management and record-keeping responsibilities, which are that of the prime and subgrantees. AACC concurs that these are responsibilities of itself as the prime grantee and its subgrantees. However, the auditor implies that AACC's failure to require or request supporting documentation of subgrantees inhibits AACC's ability to properly report on the use of federal funds. Making such an implication is incorrect. AACC's ability to monitor subgrantees and determine allowability of costs subsequently claimed by subgrantees is dependent upon having an adequate subgrantee monitoring plan that may include, but is not required to include, submission of supporting documentation for amounts claimed. Both OMB Circular A-110 and 45CFR2541 were incorporated into AACC's agreement with CNCS. As the auditor notes, per OMB Circular A-110 as well as 45CFR2541.400, "recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award." AACC did have a subgrantee monitoring system in place to meet the requirements of OMB Circular A-110 and 45CFR2541, as well as OMB Circular A-133.

AACC's subgrantee monitoring plan consisted of making responsibility determinations of prospective awardees, providing funds on an incremental basis to subgrantees based upon reporting of activity milestones, reporting of costs, periodic field visits, and the requirement for each subgrantee to submit a copy of its OMB Circular A-133 audit on an annual basis. This plan is consistent with OMB's view of subgrantee monitoring as expressed in the Comments and Responses to the 1996 revision to OMB Circular A-133, which states, "OMB believes that this

approach to designing subgrantee monitoring procedures should result in cost-effective monitoring and minimize the return to grant-by-grant auditing . . . ."

AACC's service learning grant program provided two types of subgrants: mentee and mentor grants. Mentee subgrants were awarded in $8,000-10,000 increments and mentor subgrants were provided in $3,500-5,000 increments. Fifty percent of subgrantee funding was provided upon commencement of the award, thirty percent at the midpoint upon receipt of a written status report, and the final twenty percent upon receipt of the written year-end report. Each subgrantee was required to contribute a 100 percent match of its funds to the federal funds passed through by AACC. The milestone reimbursements, along with the 100 percent matching requirement, reduced the risk associated with the subgrantees. Each of the subgrantees met or exceeded the 100 percent match, which is subject to the same allowability, allocability, and reasonableness concerns of federal funds. The auditor questioned no matching costs. Where the subgrantee exceeded the matching requirement, the subgrantee could use such expenditures in lieu of the costs questioned by the auditor. AACC also made field visits to mentee subgrantees at least once over the three-year program.

For the very reason the auditor did not conduct fieldwork at the subgrantees (small subgrants and the expense of auditing subgrantees), AACC implemented a risk-based, cost-effective monitoring program of subgrantees, relying ultimately on the subgrantees' OMB Circular A-133 audit, which is the federal government's primary tool for determining allowability of costs incurred under federal awards. A review of A-133 audits submitted by the sixteen subgrantees disclosed no questioned or unsupported costs related to the service learning program.

The auditor's testing of subgrantees did identify potential weaknesses at a number of the subgrantees. AACC has taken steps to further enhance its subgrantee monitoring plan. AACC will include financial testing along with its field visits to subgrantees. AACC will also include periodic testing of milestone reimbursements. AACC believes these steps will not only enhance its subgrantee monitoring plan but also promote more responsible subgrantees. This serves not as a concurrence to the auditor's unsupported costs, but recognition that AACC's subgrantee monitoring plan can be strengthened at a minimal cost.

AACC does not concur with the inadequate documentation or unsupported cost claims made by the auditor. AACC has in place a risk-based, cost-effective subgrantee monitoring plan, it instituted milestone payments that ensured the subgrantees fulfilled their responsibilities under the subgrants, each subgrantee met or exceeded its 100 percent matching requirement, and ultimately each subgrantee submitted an A-133 audit that disclosed no questioned costs related to the service learning program.

2. *Costs charged to incorrect program year*

AACC subgrantees Nunez Community College and Johnson County Community College followed their respective institutional policies on encumbering funds, thereby making plans for and using grant funds according to their approved and audited policies.

3. *Excess costs claimed*

In the case of Albuquerque TVI, Glendale, and Johnson County Community Colleges, AACC did not claim any excess costs. The auditor erred in not looking at all budget categories to reconcile grant payments and reports. In 1998, each of these mentor colleges received $5,000 in the subcontract category to carry out their planned service learning programs, plus $500 in the training category as honoraria for the individual mentor, totaling $5,500. The pattern was the same for 2000, with mentor subcontracts of $3,500 and honoraria of $500, totaling $4,000. The individual mentors were not required to submit reports for the $500 honoraria payments. Documentation was and is available for these transactions.

In the case of Community College of Rhode Island, the college only spent $2,510 of its $5,000 Year One subgrant. CCRI returned the remaining $2,490 to AACC in 1999 (Year Two), after Year One had been closed. The returned funds were deposited in AACC's Year Two account, per instructions from the CNCS program officer, to be used to produce AACC service learning publications. Documentation was and is available for these transactions.

Findings Related to Compliance and Internal Controls Over Financial Reporting

1. *"AACC was unable to adequately monitor subgrantee costs claimed because documentation was not obtained"*

AACC Learn and Serve project staff will review subgrantee financial systems and documentation during site visits to its subgrantee colleges, and conduct periodic testing of backup documentation. Cognizant of the federal Paperwork Reduction Act, AACC will continue to require and review quarterly and semi-annual financial reports from its subgrantees, as well as OMB Circular A-133 audits and Financial Status Reports, for accuracy, allowability, and relevance to the program.

2. *"Subgrantee costs were charged to the grant in excess of the amount claimed by the subgrantees"*

AACC is investigating how to charge subgrantee payments to an advance account, as recommended, to make for more accurate reconciliation with actual subgrantee expenditures.

3. *"AACC could not locate documentation for two expenditures and applied costs charged in one fiscal year to another"*

AACC will make every effort to ensure all expenses are appropriately documented and that such documentation is retained. In addition, AACC will make every effort to indicate all travel costs on travel reimbursement forms, to ensure costs are posted to the correct accounts. AACC cannot postpone paying for airline and train tickets charged to its corporate charge accounts. AACC staff are instructed to purchase airline tickets well in advance of travel to obtain the most cost-effective fares.

4. *"Retirement fringe benefits were incorrectly computed"*

AACC will reconcile retirement charges and make any necessary adjustments to payroll allocations as recommended.

5. *"Unreasonable hotel charges"*

AACC program and accounting personnel will obtain and become familiar with the cost principles of OMB Circular A-122 as recommended.

6. *"AACC did not record all match costs to the general ledger that were chargeable to the grant"*

AACC accounting personnel are posting all cost matching data to the detailed general ledger.