Office of Inspector General
Corporation for National and Community Service

Follow-Up on the Corporation's Management Decision Regarding Questioned Costs Reported in OIG Audit Report 99-04, Audit of Congressional Hunger Center

OIG Audit Report 02-07
October 1, 2001

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Under CNS OIG Delivery Order
S-OPRAQ-99-D-0020-CNS 12

CORPORATION
FOR NATIONAL
SERVICE

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Introduction

CNS OIG engaged L. B. Birnbaum to assess the evidence underlying the Corporation's final decision to allow certain costs questioned as a result of OIG's audit of costs claimed against Corporation grants by the Congressional Hunger Center (OIG Audit Report 99-04). As discussed in OIG's March 31, 2001 Semiannual Report, OIG was concerned because $96 thousand of the $128 thousand of the reinstated costs had been described by management as being based on documentation that had been warehoused at the time of the audit and not reviewed by the auditors.

L. G. Birnbaum and Company performed agreed upon procedures to review the documentation supporting the decision to determine whether it was competent; that is, relevant and valid. In addition, in response to issues raised by the firm, OIG investigators followed-up regarding the propriety of the documentation supporting the $96 thousand. The investigation revealed that the documents were authentic.

Based on the procedures performed, L. G. Birnbaum concluded that $18,446 of the $128,589 of costs (Exhibit A) were inappropriately reinstated. OIG reviewed the report and the work papers upon which it is based. We agree with the report's conclusion. We concur with Corporation management that the remaining $104,873 of reinstated costs are allowable.

We provided a draft of this report for Corporation management's review and response. Their response is included in its entirety within the report. L. G. Birnbaum's report discusses certain points raised in the response.

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Inspector General
Corporation for National Service

We have applied certain agreed-upon procedures, as discussed below, to the Final Management Decision, by the Corporation for National Service (Corporation), on OIG Audit Report 99-04, *Audit of the Congressional Hunger Center*. We applied the agreed-upon procedures in accordance with *Government Auditing Standards* (1994 Revision). Our review was made solely to assist you in evaluating the appropriateness of the Management Decision regarding costs that had been questioned in Audit Report 99-04, and should not be used for any other purpose.

Background

Audit report 99-04 addressed $1,978,804 claimed by the Congressional Hunger Center (CHC) under Cooperative Agreement No. 96ADNDC099 during the period October 1996 through March 1998. The report questioned $233,032 of the amount claimed. The Corporation's Final Management Decision reinstated $123,319 of the questioned costs.

Review Results

Based on the results of applying the procedures enumerated below, we are of the opinion that $18,446 of costs questioned were inappropriately reinstated and allowed by the Corporation in it's Final Management Decision. Details with respect to these findings are presented on Exhibit A.

Procedures

The procedures we performed are as follows:

(a) We reviewed the original audit report.
(b) We reviewed CHC's response to the audit report.
(c) We reviewed the Proposed and Final Management Decisions.
(d) We reviewed CHC's Audit Response for Management Decision dated June 25, 1999.

(e) We reviewed documentation represented as supporting the Final Management Decision to determine whether such documentation was competent.

Because the above procedures do not constitute an audit conducted in accordance with generally accepted government auditing standards, we do not express an opinion on the adequacy or compliance of the Corporation's Final Management Decision. In connection with the procedures referred to above, no matters came to our attention that caused us to believe that there were significant inadequacies or noncompliances related to the Final Management Decision other than those presented on Exhibit A.

The Corporation's response appears at the end of this report. We considered the response when finalizing our report but made no changes for the following reasons: We observe, first, that the Corporation did not comment on our findings related to the reinstatement of healthcare costs, payment to the Milwaukee Area Technical College, payment to the University of Wisconsin, or payroll costs. However, in supporting its position that the questioned living allowances are valid costs, the Corporation repeats its argument that the Hope VI/Hillside activities were part of the CHC joint cross-stream activities and are within the scope of the project. Again, neither Congressional Hunger Center nor the Corporation has produced any documentation or other substantiation that this is, in fact, the case.

The Corporation also repeats its argument that driving lessons are allowable costs because members are required to drive trucks for delivering food and other supplies to community gardens and food kitchens. We do not believe that driver education is the type of Member education contemplated by the AmeriCorps program. Further, the Corporation's position suggests that all of the activities of the Wisconsin program involve driving.

Finally, the Corporation notes that the original management position stated that CHC provided copies of the general ledger reflecting the $1,360 of bookkeeping charges which were questioned, as 33% of a $4,000 charge paid from CHC General Account Fund. Irrespective of what the Corporation was shown, the $1,360 was, in fact, included in the amounts claimed against Federal funds.

Leonard G. Birnbaum and Company

Alexandria, Virginia
October 1, 2001

Exhibit A

CORPORATION FOR NATIONAL SERVICE
CONGRESSIONAL HUNGER CENTER
REVISED SCHEDULE OF QUESTIONED COSTS
OCTOBER 1, 1996 TO MARCH 31, 1998

Cost Category	Original Questioned Costs	Management Reinstated Costs	OIG Amount Agreed	Revised Questioned Costs	Notes
Living Allowances					
Living Allowances	8,927	8,927	-	8,927	1
Questioned Costs Not Disputed by Management	-			-	
Total for Living Allowances	8,927	8,927	-	8,927	
FICA & Worker's Compensation					
FICA & Worker's Compensation	1,161	1,161	-	1,161	2
Questioned Costs Not Disputed by Management	-			-	
Total for FICA & Worker's Compensation	1,161	1,161	-	1,161	
Health Care					
Vermont Health Care Costs	654	654	-	654	3
Questioned Costs Not Disputed by Management	2,397			2,397	
Total for Health Care Costs	3,051	654	-	3,051	
Training & Education					
I. DC Site	705	705	693	12	4
Questioned Costs Not Disputed by Management	375			375	
Total for DC Site	1,080	705	693	387	
II. Wisconson Site	3,412	3,412	-	3,412	4
Questioned Costs Not Disputed by Management	-	-	-	-	
Total for Wisconson Site	3,412	3,412	-	3,412	
Total Training & Education	4,492	4,117	693	3,799	
Other Member Costs					
Questioned Costs Not Disputed by Management	214			214	
Salaries					
Salaries	8,884	8,884	4,849	4,035	5
Questioned Costs Not Disputed by Management	2,543			2,543	
Total Salaries	11,427	8,884	4,849	6,578	
Benefits					
Benefits	576	576	371	205	6
Questioned Costs Not Disputed by Management	8,924			8,924	
Total Benefits	9,500	576	371	9,129	
Staff Training					
Questioned Costs Not Disputed by Management	226			226	
Operational Expenses - Travel					
Travel Costs	539	539	499	40	7
Questioned Costs Not Disputed by Management	2,505			2,505	
Total Travel	3,044	539	499	2,545	
Operational Expenses - Supplies					
Questioned Costs Not Disputed by Management	685			685	8
Operational Expenses - Transportation					
Questioned Costs Not Disputed by Management	943			943	9
Operational Expenses - Other					
Questioned Costs Not Disputed by Management	5,376			5,376	10

Exhibit A

CORPORATION FOR NATIONAL SERVICE
CONGRESSIONAL HUNGER CENTER
REVISED SCHEDULE OF QUESTIONED COSTS
OCTOBER 1, 1996 TO MARCH 31, 1998

Cost Category	Original Questioned Costs	Management Reinstated Costs	OIG Amount Agreed	Revised Questioned Costs	Notes
Costs Claimed by California Site					
California Site Costs	2,462	2,462	2,462	0	11
Questioned Costs Not Disputed by Management	84,713			84,713	
Total California Site Costs	87,175	2,462	2,462	84,713	
Costs Exceeded Maximum Federal Share					
Costs exceeding federal matching share	95,999	95,999	95,999		
Questioned Costs Not Disputed by Management	812			812	
	96,811	95,999	95,999	812	12
Total Before Matching Funds	*233,032*	*123,319*	*104,873*	*128,159*	
Matching Funds					
Matching Funds	5,270	5,270	-	5,270	13
Questioned Costs Not Disputed by Management	1,638			1,638	
Total for Matching Funds	6,908	5,270	-	6,908	
Total	*239,940*	*128,589*	*104,873*	*135,067*	

Summary

Reinstated Costs - OIG Concurrance	104,873
Reinstated Costs - OIG Non-Concurrance	18,446
	123,319
Reinstated Matching Funds - OIG Non-Concurrance	5,270
	128,589

Corporation for National Service
Congressional Hunger Center
Cooperative Agreement No. 96ADNCO99
Revised Schedule of Questioned Costs

Notes to Revised Schedule of Questioned Costs

1. Living Allowances – The original report questioned these costs because these individuals were either not on AmeriCorps rosters or were performing services for the Hillside or Recycling activities, which are not within the scope of the cooperative agreement. The Corporation noted that the audit work papers included timesheets with entries indicating "AmeriCorps" or "Hope VI/Hillside." The Corporation, without explanation, characterized the Hope VI/Hillside as joint service activities with other participants in the Corps and that these cross service activities were part of their AmeriCorps activities. Since the Final Management Decision does not present any evidence that these other activities are related to AmeriCorps activities, we consider the reinstatement of these costs as inappropriate.

2. FICA & Worker's Compensation – The original report questioned these costs because they were allocations attributable to the questioned living allowances. Since we consider the reinstatement of the living allowances to be inappropriate, we consider the reinstatement of the related FICA and worker's compensation to also be inappropriate.

3. Health Care – The management decision did not reference any records related to the time actually spent by these individuals. Instead, the reinstatement seems to be based on an invoice for insurance. Absent the provision of timesheets which support the contention that these individuals were, in fact, working in a full time capacity for a sustained period of time, we consider these costs to have been inappropriately reinstated.

4. Training & Education

   - Washington D.C. Site – With the exception of a de minimis unexplained difference, we consider the reinstatement of questioned costs to be based on appropriate documentation.

   - Wisconsin Site – The audit report questioned $2,341 of driving school fees; $453 paid to Milwaukee Area Technical College (MATC), and $618 to the University of Wisconsin. The Corporation, in its Management Decision, stated that the MATC training was for presentations on basic computer skills. The audit examination of the underlying documentation disclosed that the payment covered a Member's outstanding course and book fees so that Member could obtain a transcript. Similarly, the Corporation identified the payment to the University of Wisconsin as training on gardening programs while the audit examination of the underlying documentation disclosed that the site had sponsored a Member to take a Spanish class at the university. The Corporation took no effort to determine the true nature of these expenditures, but rather acted only on written representations by CHC. We consider this reinstatement to be inappropriate. The audit report questioned the driving school fees as being of a personal nature. The Corporation reasoned that the members need driver education to drive trucks for delivering food and other supplies, but did not address whether the expense was personal. In contrast, the

Corporation sustained our questioning of costs claimed for prescription eyeglasses on the basis that such costs are personal in nature. We feel that the Corporation has not adequately addressed the personal nature of driving lessons and accordingly, consider the reinstatement of these costs to be inappropriate.

5. Salaries – Our original findings were that $11,427 in salary costs should be questioned due to expenditures not being adequately supported. CHC has reinstated $1,360 and $7,524 of these questioned costs.

   - The $1,360 payment was to the CPA firm of Kaufman Davis, LLP was for bookkeeping services. These are not salaries. Therefore we consider the reinstatement of this cost to be inappropriate.

   - We originally questioned $7,827 in salary costs because these salaries were on the general ledger, but not the Paychex Payroll Register. CHC has reinstated $7,524 of this amount claiming that the grantee has provided CHC with a list of specific individuals who received severance payments. CHC has provided us with Paychex Payroll Registers for the periods 12/13/96 and 1/8/97. The payroll register dated 12/13/96 does not pertain to the period in question. The payroll register dated 1/8/97 will support $4,849 in salary payments. However, unless and until the grantee can support the remaining amounts reinstated (mostly from the period 1/31/97), we consider the reinstatement of the remaining salary costs to be inappropriate.

6. Benefits – The Corporation reinstated $576 of questioned benefit costs. We concur with the portion attributable to additional salary costs for which we concur with ($4,849 x .0765 = 371). However, unless and until the Corporation can establish that the remaining reinstated salary costs are supported, we consider the Corporation's reinstatement of the remaining $205 to be inappropriate.

7. Travel – With the exception of a de minimis amount which we believe to be a duplicative, we concur with the Corporation's decision.

8. Supplies – We concur with the Corporation's Management Decision.

9. Transportation – We concur with the Corporation's Management Decision.

10. Other Operational Expenses – We concur with the Corporation's Management Decision.

11. Costs Claimed by California Site – We concur with the Corporation's Management Decision.

12. Costs Claimed in Excess of Maximum Federal Share – The audit report questioned $96,811 because the ***recorded and claimed*** costs did not meet the minimum match requirement of 33 percent of program operating costs. CHC responded to the draft audit by letter dated January 14, 1999. In that letter, CHC acknowledged that "$96,811 is questioned." In a document titled Supplemental Submission for CHC's Audit Response No. 99-04, dated July 20, 1999, CHC asserted "(w) e believe that the auditor's notes only demonstrated Vermont's match the cash portion of B-F costs at $73,000 (sic). The remaining portion is achieved by in-kind donations not sought by the auditor during his visit." The Proposed Management Decision stated that "(t) he grantee was able to locate additional boxes of in-kind matching documentation that had been warehoused during the time of the audit and had not been reviewed by the auditors." On the strength of these documents, the Corporation reinstated $95,999 of the questioned costs. However, the documents, which CHC has produced, and the information provided to CNS OIG, ***have not been recorded as a cost of the program***. We note, that Office of Management and Budget Circular A-110 requires that grantees' financial management systems provide accurate, current, and complete disclosure of the financial results of each federally sponsored project or program. The Circular requires, further, that cost sharing, including cash and third party in-kind must be verifiable from the recipient's records.

    Because CHC did not, in response to the draft audit report, represent that it had additional in-kind documents and because this in-kind match was not recorded as a cost of the program, we referred this matter to OIG Investigations. The investigation found that the documents were, in fact, authentic forms filled out at the time the in-kind donation was received. Accordingly, we concur with the reinstatement of these costs and recommend that the Corporation follow-up with CHC to ensure that these costs, and future matching costs, are properly recorded and reported.

13. Because we do not concur with the reinstatement of the living allowances, FICA, and workers' compensation, and health care expenses, we do not concur with reinstatement of the related match costs.

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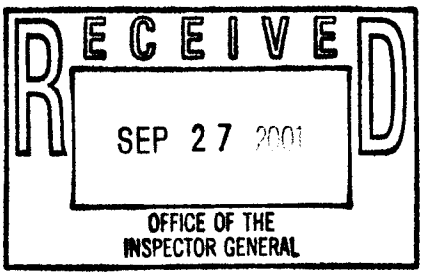

DATE: September 27, 2001

TO: Luise S. Jordan, Inspector General

THRU: William Anderson, Deputy Chief Financial Officer

FROM: Peg Rosenberry, Director of Grants Management

SUBJECT: Response to OIG Draft Audit Report 01-44, *Follow Up on the Corporation's Management Decision Related to the Audit of CNS Grants to the Congressional Hunger Center*

Thank you for the additional information regarding the Corporation's management decision on the audit of the Congressional Hunger Center (CHC). As you know, on March 14, 2001, the Corporation made its final management decision and conveyed it to CHC. Subsequently, you expressed disagreement with our final management decision regarding several costs allowed by the Corporation. We are pleased that the auditors concurred with our decision regarding $104,873 of the original $123,319 in questioned costs allowed by management in its management decision. We note that this follow up audit report continues to disagree with $18,446 of the costs the Corporation allowed. For your convenience, additional information is provided below outlining why we allowed these costs.

However, the Corporation does not believe that an audit report such as this is the appropriate vehicle to resolve this type of issue. Rather, the Corporation believes that these matters should be addressed during the audit resolution process before the management decision is finalized. During the audit resolution process, management considers the issues raised in the final OIG report, reviews relevant evidence and other pertinent information provided by both the OIG and the auditee, and provides a proposed management decision to OIG. During the process, management and OIG have the opportunity to review and discuss the basis of management decisions, including the allowance of questioned costs. The Corporation believes that it would be more productive to raise and resolve these matters during that process.

Living Allowances: The auditors disagreed with our decision to allow the member living allowance costs associated with individuals performing services for the Hope VI/Hillside service project. They felt the Corporation allowed the costs without presenting evidence that these other activities are related to AmeriCorps activities. However, we point out that under the AmeriCorps guidelines, programs are encouraged to participate in cross-stream service activities and the hours spent on these activities are allowable. The Hope VI/Hillside activities were part of the CHC joint cross-stream service activities and are within the scope of the project. Therefore, the

$10,088 in questioned costs associated with those activities, including living allowances, FICA and Worker's Compensation, were allowed.

Driving School Fees: The auditors disagreed with the Corporation's decision to allow $2,341 in driving school fees. The audit originally questioned the costs because they appeared to be of a personal nature and the auditors believed the Corporation did not address the personal nature of the training in its management decision. However, in its management decision, the Corporation cited the AmeriCorps Provisions as the authority for allowing the costs. AmeriCorps Provision #7c states that, "consistent with the approved budget, the Grantee must provide members with the training, skills, knowledge and supervision necessary to perform the tasks required in their assigned project positions, including specific training in a particular field and background information on the community served." Therefore, because members needed driver's licenses to drive trucks for delivering food and other supplies to community gardens and food kitchens, the program could pay for that training for those without licenses. It is an allowable cost under the grant.

Salaries: The auditors misread the original management decision related to the bookkeeping expenses. They disagreed with the Corporation's decision to allow the expenses because they were fees to a bookkeeping firm, not salaries. However, the original management decision noted that the expenses were not charged to the grant at all. The original management decision stated that CHC provided copies of the general ledger reflecting the $1,360 as 33% of a $4,000 charge for bookkeeping services paid from the CHC General Account fund and not CNS funds.

cc: file