OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Audit of Corporation for National and Community Service Grants Awarded to North Carolina Commission On Volunteerism and Community Service Raleigh, N. C.

OIG Audit Report Number 02-08
June 18, 2001

Financial Schedules
and
Independent Auditor's Reports
For the Period
January 1, 1994 to September 30, 2000

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This report was issued to Corporation management on February 8, 2002. Under the laws and regulations governing audit follow up, the Corporation must make management decisions on the report's findings and recommendations no later than August 8, 2002, and complete its corrective actions by February 8, 2003. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of Inspector General
Corporation for National and Community Service
Audit Report 02-08

Audit of Corporation for National and Community Service Grants Awarded to North Carolina Commission on Volunteerism and Community Service

Introduction

The Corporation for National and Community Service, pursuant to the authority of the National and Community Service Act, awards grants and cooperative agreements to state commissions, nonprofit entities, tribes and territories to assist in the creation of full and part time national and community service programs. Currently, in accordance with the requirements of the Act, the Corporation awards approximately two thirds of its AmeriCorps State/National funds to state commissions. The state commissions in turn fund and are responsible for the oversight of subgrantees who execute the programs. Through these subgrantees, AmeriCorps members perform service to meet educational, human, environmental, and public safety needs.

OIG retained L. G. Birnbaum and Company to audit Corporation grants to the North Carolina Commission for AmeriCorps, Learn and Serve, Professional Development and Training, Promise Fellows and Administrative costs from January 1, 1994 through September 30, 2000. During this period, the Commission received approximately $20 million in funding authority from the Corporation. The audit's objectives were to determine whether (1) the Commission's financial reports presented fairly the financial results of the grants; (2) the internal controls adequately safeguarded federal funds; (3) the Commission and its subgrantees had adequate procedures and controls to ensure compliance with federal laws, applicable regulations, and award conditions; (4) costs were documented and allowable under the grants' terms and conditions; and (5) the Commission adequately informed its subgrantees of the Corporation's objectives.

The auditors identified questioned costs of $614,235 (approximately four percent) of the $14,351,222 of costs that the Commission claimed during the audit period. Of the $614,235 of questioned costs, $370,360 was questioned because the Commission and/or its subgrantees were unable to provide documentation to support the claimed costs.[1] A significant portion of this amount ($174,522) resulted from costs for which supporting documentation was prematurely destroyed under state record retention policies. Other costs questioned included excessive living allowances, living allowances questioned because key eligibility documentation could not be located, and related administrative expenses.

[1] Questioned costs are costs for which there is documentation that the recorded costs were expended in violation of Federal laws, regulations or the specific conditions of the award, costs which require additional support by the grantee, or which require interpretation of allowability by the Corporation.

The report includes 17 recommendations to the Commission to address weaknesses in the areas of compliance and internal controls. Five of these recommendations relate to the following findings that are considered material weaknesses:

- The Commission did not track expenditures by budget line item as required by the Commission's provisions.
- The Commission is unable to track matching requirements to actual tracking expenditures as required by Corporation provisions.
- Grant records were destroyed although a final Financial Status Report had not been submitted.
- Amounts drawn down, as reported by Health and Human Services, are not reconciled to amounts reflected on the Commission's records.
- Subgrantees failed to maintain documentation as required by AmeriCorps Provisions.

OIG has reviewed the report and the work papers supporting the auditors' conclusions. We agree with the findings and recommendations presented.

OIG provided the Commission and the Corporation a draft of this report for their review and comment. Their responses are included in their entirety as Appendices A and B, respectively. The Commission disagreed with a number of the findings but reported corrective action on some of them. The auditors have summarized the Commission's responses to the individual findings within the report itself.

OIG recommends that the Corporation conduct additional oversight and monitoring of the Commission to evaluate new procedures and controls with testing at both the Commission and at the subgrantee level and to determine whether these corrective actions are effective.

Audit of Corporation for National and Community Service
Grants Awarded To
North Carolina Commission On Volunteerism and Community Service
Raleigh, N. C.

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REPORT SUMMARY AND HIGHLIGHTS

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Inspector General
Corporation for National and Community Service

This report is issued under an engagement to audit the costs claimed by the North Carolina Commission on Volunteerism and Community Service and its subrecipients from January 1, 1994 through September 30, 2000 under the grants awarded by the Corporation for National and Community Service. This report focuses on the audit of claimed costs, instances of noncompliance with federal laws, applicable regulations or award conditions, and internal control weaknesses disclosed during the audit at the Commission and its subrecipients.

Results in Brief

As a result of our audit of these awards, we are questioning costs totaling $614,235 (approximately four percent) of the total of $14,351,222 claimed by the Commission. 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 require interpretation of allowability by the Corporation. Of the $614,235 of questioned costs, $370,360 was questioned because the Commission and/or its subrecipient(s) were unable to provide documentation to support the claimed costs. A significant portion of this amount ($174,522) represents costs for which supporting documentation was destroyed. Other costs questioned included excessive living allowances, living allowances questioned because key eligibility documentation could not be located, education awards related to those members whose key eligibility documentation could not be located, and related administrative expenses. Details related to questioned costs appear in the Independent Auditor's Report.

We found that, during the earlier grant years, the Commission lacked appropriate and effective controls for overseeing and monitoring its subrecipients. Additionally, the Commission failed to set a proper example as to how its subrecipients should monitor and oversee their second-tier subrecipients. However, we noted during the audit that the Commission expended considerable effort since 1999 in implementing more effective controls over the financial and programmatic performance of its subrecipients.

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Our audit also disclosed that, because the Commission is a unit of the North Carolina state government and must use the state's accounting system, the Commission lacks the ability to track expenditures by budget line item without extensive analysis. Details related to these and other noncompliance findings appear in the Independent Auditor's Report on Compliance and on Internal Controls Over Financial Reporting.

Grant Programs Audited

Our audit of the Commission covered financial transaction, compliance and internal controls testing of the following program awards funded by the Corporation:

Program	Award Number	Award Period	Audit Period
AmeriCorps	94ASCNC034	1/1/94 to 12/17/00	1/1/94 to 9/30/00
Learn & Serve	94LCSNC010	9/1/94 to 12/31/00	9/1/94 to 9/30/00
PDAT	95PDSNC027	1/1/95 to 12/31/00	1/1/95 to 9/30/00
Administration	94SCSNC027	1/1/94 to 12/31/00	1/1/94 to 9/30/00

Our audit of the costs claimed by the Commission under these awards disclosed the following:

	Amount	Percentage of Budget/Claimed
Award Budget	$16,270,346	-
Claimed Costs	14,351,222	88%
Questioned Costs	614,235	4%

Costs Questioned

The following summarizes the costs questioned on these awards:

AmeriCorps Grant

• Member Living Allowances – Overpayments	$ 21,042
• Member Living Allowance – Lack of Eligibility Documentation	79,970
• Unsupported Costs (Lack of Documentation)	195,219
• Unexpended Funds Not Returned to the Commission Or Corporation	42,271
• Unauthorized Expenditure	2,674
• Administrative Costs Questioned – Incorrect Rate	13,162
• Administrative Costs Questioned – Applicable To Other Questioned Costs	13,763
Total Costs Questioned – Claimed Costs	368,101
Questioned Education Awards	42,525
Total Costs Questioned – AmeriCorps	410,626

Learn and Serve	
• Unsupported Costs (Lack of Documentation)	$ 73,022
• Unexpended Funds Not Returned to the Commission	19,473
• Reclassifications From Administrative Grant	(1,859)
Total Costs Questioned – Learn and Serve	90,636
PDAT	
• Unsupported Costs (Lack of Documentation)	$ 433
• Reclassification From Administrative Grant	(1,249)
Total Costs Questioned – PDAT	(816)
Administration	
• Unsupported Costs (Lack of Documentation)	$ 101,686
• Other	3,171
• Questioned Costs Due To Match Shortfall	5,189
• Reclassifications	3,743
Total Costs Questioned - Administration	113,789
Total Costs Questioned – All Grants	**$ 614,235**

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

Compliance

Our audit disclosed the following instances of noncompliance with federal laws, applicable regulations and award conditions:

- The Commission did not submit Financial Status Reports (FSRs) on a timely basis.
- The Commission did not submit Federal Cash Transaction Reports on a timely basis.
- Required Commission approval for an equipment purchase was not obtained.
- Required Commission approval for insurance expense was not obtained.
- Subrecipients FSRs were not submitted on a timely basis.
- Subrecipients paid living allowances in excess of authorized amounts.
- North Carolina State University (a subrecipient) did not comply with Cost Accounting Standard 501, since it was unable to compare estimated costs to actual costs by budget line item.
- A subrecipient's AmeriCorps member performed activities prohibited by Corporation provisions.

- The Commission did not meet Administrative Grant matching requirements for one year.

Internal Controls

Our audit disclosed the following weaknesses in the Commission's internal controls:

- The Commission did not track expenditures by budget line item as required by the Commission's provisions.
- The Commission is unable to track matching requirements to actual tracking expenditures as required by Corporation provisions.
- Grant records were destroyed although a final FSR had not been submitted.
- Amounts drawn down, as reported by HHS, are not reconciled to amounts reflected in the Commission's records.
- Subrecipients did not maintain documentation as required by AmeriCorps Provisions.
- Overpayments to subrecipients were undetected for long periods after grant completion.
- Subrecipients lack an understanding of required financial and accounting controls.
- Learn and Serve subrecipients lack an understanding of all grant requirements.

The first five of these findings are considered to be material weaknesses as defined on page 41.

Purpose And Scope Of Audit

Our audit covered the costs claimed under Corporation Grant Nos. 94 ASC NC 034, 00 ASC NC 034, 00 ASF NC 034, 94 LCS NC 010, 00 LCS NC 034, 95 PDS NC 027 and 94 SCS NC 027.

The principal objectives of our audit were to determine whether:

1. Financial reports prepared by the Commission presented fairly the financial results of the awards;

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

3. The Commission and its subrecipients had adequate procedures and controls to ensure compliance with federal laws, applicable regulations, award conditions and that member services were appropriate to the programs;

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

5. The Commission had established adequate oversight and informed subrecipients of the Corporation's objectives.

We performed the 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 amounts claimed against the awards, as presented in the Consolidated Schedule of Award Costs and the grant-specific Schedules of Award Costs (Exhibits A through D), are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in Exhibits A through D. 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. Our audit included reviews of audit reports and working papers prepared by the independent public accountants for the Commission and its subrecipients in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. Our audit also followed up on the findings and recommendations in the Pre-Award Survey Report of NCCVCS dated October 8, 1999 (CNS OIG Report 00-06). We believe our audit provides a reasonable basis for our opinion.

The contents of this report were disclosed to and discussed with the Commission at an exit conference on August 29, 2001. In addition, we provided a draft of this report to the Commission and to the Corporation for comment on November 29, 2001 and received responses from both the Commission and the Corporation on December 21, 2001 and January 2, 2002, respectively. Their responses, included in their entirety as appendices A and B, respectively, take issue with some of the report's findings and recommendations. The Commission did not respond to all costs that were questioned as a result of our audit. We have included the Commission's responses to costs questioned only for those costs questioned upon which the Commission commented.

Background

The Corporation, pursuant to the authority of the National and Community Service Act, as amended, awards grants and cooperative agreements to state commissions, and other entities to assist in the creation of full and part time national and community service programs.

The Commission has received approximately $20 million in funding and exercised $15 million in drawdowns from the Corporation since 1994, including AmeriCorps formula funds, AmeriCorps competitive funds, Learn and Serve funds, PDAT funds, Promise Fellowship funds and Administration funds. Of this amount, approximately $12 million was distributed to subgrantees. The majority of the Commission's subgrantees are state entities or nonprofit organizations.

As of September 30, 2000, the Commission had received funding from the Corporation for various programs since 1994 in the amount of $20,789,492. The majority of this amount has been subgranted to numerous entities in order to carry out the programs. A brief synopsis of the programs follows:

Authorized	Drawndown	
94 ASC NC034 – AmeriCorps (Comp. & Form)	$ 12,726,115	$ 11,198,755
00 ASC NC034 – AmeriCorps – Competitive	775,729	22,119
00 ASF NC034 – AmeriCorps – Formula	2,221,962	171,874
Total AmeriCorps	$ 15,723,806	$ 11,392,748
94 LCS NC010 – Learn & Serve K-12	$ 989,474	$ 795,627
00 LCS NC034 – Learn & Serve K-12	214,981	14,402
Total Learn & Serve	$ 1,204,455	$ 810,029
99 APS NC034 – Promise Fellows	$ 169,500	$ 125,558
97 DSC NC035 – Disability Funds	$ 54,398	
99 ASH NC034 – Governor's Initiative	$ 318,202	$ 96,265
95 PDS NC027 – Prof. Development & Training	$ 672,071	$ 554,771
97 EDS NC047 – Education Awards	$ 26,000	$ 13,704
99 MDD NC018 – Make a Difference Day	$ 1,999	
94 SCS NC027 – Administrative	$ 1,882,686	$ 1,802,069
TOTAL	$ 20,053,117	$ 14,795,144

Report Release

This report is intended for the information and use of the Office of Inspector General, management of the Corporation for National and Community Service, the North Carolina Commission on volunteerism and Community Service, and its subrecipients, and the U.S. Congress. However, this report is a matter of public record and its distribution is not limited.

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INDEPENDENT AUDITOR'S REPORT

We have audited the costs incurred by the North Carolina Commission on Volunteerism and Community Service (Commission) for the award numbers listed below. These costs, as presented in the Consolidated Schedule of Award Costs and the grant-specific Schedules of Award Costs (Exhibits A through D), are the responsibility of the Commission's management. Our responsibility is to express an opinion on the consolidated Schedule of Award Costs and Exhibits A through D based on our audit.

Program	Award Number	Award Period	Audit Period
AmeriCorps	94ASCNC034	1/1/94 to 12/17/00	1/1/94 to 9/30/00
Learn & Serve	94LCSNC010	9/1/94 to 12/31/00	9/1/94 to 9/30/00
PDAT	95PDSNC027	1/1/95 to 12/31/00	1/1/95 to 9/30/00
Administration	94SCSNC027	1/1/94 to 12/31/00	1/1/94 to 9/30/00

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 management estimates, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

During the course of our audit examinations, we encountered situations at the Commission's office, and various subrecipient locations such as North Carolina State University, UNC - Chapel Hill, UNC - Greensboro (Child Care Corps), N.C. Low Income Housing and the Catabwa Valley Area Girl Scouts, where supporting source documentation for transactions totaling $370,360 was destroyed

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or otherwise could not be located. Accordingly, the results of our examination are qualified to the extent that the absence of such supporting records limited our audit and may have impacted the overall audit results had such documentation been available.

In our opinion, except for the omission of the supporting source documentation discussed above and $614,235 in questioned costs, the Consolidated Schedule of Award Costs and the grant-specific Schedules of Award Costs (Exhibits A through D and related Schedules) referred to above present fairly, in all material respects, the costs claimed for the period January 1, 1994 to September 30, 2000, in conformity with generally accepted accounting standards in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report, dated June 18, 2001, on Compliance and on Internal Controls over financial reporting.

This report is intended for the information and use of the Corporation for National and Community Service's Office of Inspector General, management of the Corporation for National and Community Service, the North Carolina Commission on Volunteerism and Community Service and its subrecipients, and the U.S. Congress. However, this report is a matter of public record and its distribution is not limited.

Leonard G. Birnbaum and Company

Alexandria, Virginia
June 18, 2001

North Carolina Commission on Volunteerism and Community Service
Consolidated Schedule of Award Costs

Corporation for National and Community Service Awards

Award Number	Program	Approved Budget	Claimed Costs	Questioned Costs	Questioned Education Awards	Reference
94ASCNC034	AmeriCorps	$12,726,115	$11,198,755	$ 368,101	$ 42,525	Exhibit A
94LCSNC010	Learn and Serve	989,474	795,627	90,636	-	Exhibit B
95PDSNC027	PDAT	672,071	554,771	(816)	-	Exhibit C
94SCSNC027	Administration	1,882,686	1,802,069	113,789	-	Exhibit D
Total		$16,270,346	$14,351,222	$ 571,710	$ 42,525	

North Carolina Commission on Volunteerism and Community Service
Notes to Consolidated Schedule of Award Costs

1. Summary of Significant Accounting Policies

Reporting Entity

The accompanying consolidated Schedule of Award Costs includes amounts budgeted, claimed, and questioned under AmeriCorps, Administrative, Learn and Serve, and Program Development and Training grants awarded to Learn and Serve by the Corporation for National and Community Service for the period from January 1, 1994 to September 30, 2000.

The Commission awards its AmeriCorps grant funds to numerous subgrantees that administer the AmeriCorps program and report financial and programmatic results to the Commission.

Basis of Accounting

The accompanying Schedule has been prepared to comply with the Provisions of the grant agreements between the Corporation and the Commission. The information presented in the Schedule has been prepared from the reports submitted by the Commission to the Corporation. The basis of accounting used in preparation of these reports differs slightly from accounting principles generally accepted in the United States of America as follows:

Equipment

Equipment is charged to expense in the period during which it is purchased instead of being recognized as an asset and depreciated over its useful life. As a result, the expenses reflected in the Schedule of Award Costs include the cost of equipment purchased during the period rather than a provision for depreciation. The equipment acquired is owned by NCSC while used in the program for which it was 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 therefore, is subject to Federal regulations.

Inventory

Minor materials and supplies are charged to expense during the period of purchase.

Questioned Costs

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 awards, or those costs which require additional support by the grantee or which require interpretation of allowability by the Corporation.

North Carolina Commission on Volunteerism and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNC034 (AmeriCorps)
January 1, 1994 to September 30, 2000

	Claimed Costs	Questioned Cost	Questioned Education Awards	Reference
North Carolina State University	$ 1,284,669	$ 232,239	$ 14,175	Schedule A-1
North Carolina Low Income Housing Coalition	782,440	97,657	23,625	Schedule A-2
University of North Carolina – Chapel Hill	774,469	22,507	4,725	Schedule A-3
University of North Carolina – Greensboro				
ACCESS Program	1,051,009	2,617	0	Schedule A-4
Child Care Corps	938,204	13,081	0	Schedule A-5
Day Care Services Association	704,049	0	0	Note 2
Habitat for Humanity	606,985	0		Note 2
Subtotal	6,141,825	368,101	42,525	
Other	5,056,930	0	0	Note 3
Total	$11,198,755	$ 368,101	$ 42,525	
Approved Budget	$12,726,115			Note 1

North Carolina Commission on Volunteerism and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNC034 (AmeriCorps)
January 1, 1994 to September 30, 2000

Notes

1. As discussed in the Independent Auditor's Report on Compliance and on Internal Controls Over Financial Reporting, the Commission did not track expenditures by budget line item. Accordingly, neither this Exhibit nor the accompanying Schedules present claimed costs by budget line item.

2. Based on our review of workpapers prepared by the independent auditors of these subrecipients, in the performance of audits under Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," we concluded that further audit of these subrecipients was not necessary and we relied on them for purposes of this audit.

3. During the period covered by our audit, the Commission had between 9 and 14 subrecipients and between 18 and 110 second-tier subrecipients. Accordingly, we used a sampling approach to test the claimed costs. The claimed costs reported include costs claimed by subrecipients that were not tested as part of this audit.

North Carolina Commission on Volunteerism and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNC034
January 1, 1994 to September 30, 2000

North Carolina State University

			Reference
Approved Budget (Federal funds)		$ 1,429,584	
Claimed Costs		1,284,669	
Questioned Costs			
Wayne County	$ 193,113		Note 1
Member Living Allowances - Overpayments	749		Note 2
Member Living Allowance – Lack of Eligibility Documentation	28,802		Note 3
Administrative Costs	9,575		Note 4
Total Questioned Costs		232,239	
Questioned Education Awards		$ 14,175	Note 3

Notes

1. The entire amount paid by the University (net of refunds) to one of its subrecipients, Wayne County, is questioned as unsupported, since the County was unable to provide any supporting source documentation, as further described in Finding No. 17 in our report on compliance and internal controls over financial reporting ($193,113). Within the unsupported total above, there are living allowance overpayments to Wayne County that would be unallowable even if the supporting documentation were available. These unallowable overpayments (Questioned Costs), which are included in the $193,113, total $12,703. Subsequent to our review, North Carolina State University representatives indicated that some payroll records had been located. However, we were unable to validate these assertions back to grant charges during our audit.

   Commission's Response

   The Commission disagrees with the questioned cost stating that NC State University submitted a final FSR covering the costs incurred.

North Carolina Commission on Volunteerism and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNC034
January 1, 1994 to September 30, 2000

North Carolina State University

Notes (continued)

Auditor's Comment

First, we note that the Commission does not, in its response, state when NC State University filed the final FSR. Second, and more importantly, the record retention period is tolled only by the Commission's filing of a final FSR, and not by individual subrecipients. Accordingly, our position remains unchanged.

2. Separate tests of Member Living Allowance and Staff Salaries and Benefits charges to the University "Prime Accounts" disclosed overpayments for certain individuals. Questioned Living Allowances charged to University "Prime Accounts" are $749.

3. Compliance testing of AmeriCorps member files revealed that key eligibility documentation for 15 members was missing. The related member stipends and benefits of $28,802, therefore, are questioned. Education awards of $14,175 made to these members are also questioned.

4. Questioned administrative costs of $9,575 represent the application of the prescribed grant administrative rate to questioned costs included in the administrative rate base.

North Carolina Commission on Volunteerism and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNC034
January 1, 1994 to September 30, 2000

North Carolina Low Income Housing Coalition

			Reference
Approved Budget (Federal funds)		$ 846,832	
Claimed Costs		782,440	
Questioned Costs			
Member Living Allowance Refund	$ 1,296		Note 1
Member Living Allowance– Lack of Eligibility Documentation	37,853		Note 2
Benefits	8,153		Note 2
Administrative Costs	6,706		Note 3
Unexpended Funds	40,975		Note 4
Unauthorized Funding	2,674		Note 5
Total Questioned Costs		97,657	
Questioned Education Awards		$ 23,625	Note 2

Notes

1. The questioned amount represents refund of unexpended funds from "Land of Sky Regional Council" to the Coalition. These funds should have been returned to the Commission and the Corporation.

   Commission's Response

   The Commission disagrees with this questioned cost and that discussed in Note 4, stating that the overpayment has been repaid.

   Auditor's Comment

   We are unable to determine whether the overpayment has, in fact, been repaid. It had not been at the time of our audit.

North Carolina Commission on Volunteerism and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNC034
January 1, 1994 to September 30, 2000

North Carolina Low Income Housing Coalition

Notes (continued)

2. Compliance testing of AmeriCorps member files revealed that key eligibility documentation for 7 members was missing. The related member stipends ($37,853) and benefits (8,153), therefore, are questioned. Education awards made to these members are also questioned.

3. Administrative costs questioned consist of (1) costs of $5,086 charged for the 1995-96 Program Year in excess of the 5 percent total cost ceiling, and (2) application of the administrative rate to the living allowance costs questioned above ($1,620).

   Commission's Response

   The Commission disagrees with the $5,086 cost questioned, stating that it made a three-year grant to this subrecipient and that administrative costs claimed during this period was below the 5 percent ceiling.

   Auditor's Comment

   The assertion that a three year award was made to this subrecipient is untenable. Each year, a separate grant document was issued specifying the period covered. Further, the award made by CNCS to the Commission was also incremented annually. Accordingly, our position remains unchanged.

4. Coalition records show that unexpended funds received from the Commission totaled $40,975. These funds should have been returned to the Commission and the Corporation.

North Carolina Commission on Volunteerism and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNC034
January 1, 1994 to September 30, 2000

North Carolina Low Income Housing Coalition

Notes (continued)

5. The questioned amount represents North Carolina Unemployment Insurance liability at Coalition site locations. This cost element was neither included nor authorized in the original Budget Authorization Funding. Payment was made by the Commission out of AmeriCorps funds. This amount is not included in the grant revenues or expenditures on the subrecipients' project ledgers nor reported in the subrecipient's FSRs. This amount, however, was included in the drawdowns by the Commission from the Corporation. While this type of expenditure would otherwise be considered allowable if contemplated in an approved budget, we have questioned the entire amount, $2,674, of the Commission drawdown as an unauthorized payment by the Commission.

   Commission's Response

   The Commission disagrees with the questioned cost, stating that the cost would have been allowable if it had been included in the budget.

   Auditor's Comment

   The fact that such a cost might have been allowable, had it been included in the budget, does not alter the fact that the expenditure was not authorized. Accordingly, our position remains unchanged.

North Carolina Commission on Volunteerism and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNC034
January 1, 1994 to September 30, 2000

University of North Carolina, Chapel Hill

			Reference
Approved Budget (Federal funds)		$ 927,614	
Claimed Costs		774,469	
Questioned Costs			
Member Living Allowances –Overpayments	$ 15,311		Note 1
Member Living Allowance – Lack of Eligibility Documentation	4,891		Note 2
Benefits	271		Note 2
FICA	23		Note 3
Other	1,521		Note 4
Administrative Costs	490		Note 5
Total Questioned Costs		22,507	
Questioned Education Awards		$ 4,725	Note 2

Notes

1. Living allowances paid exceeded those authorized by the grant. Overpayments were made by UNC-Chapel Hill, ($13,473,) and its subrecipient, Wesleyan College ($1,838).

2. Compliance testing of AmeriCorps member files revealed that key eligibility documentation for several members was missing. The related stipends ($4,891) and benefits ($271), therefore, are questioned. Education awards of $4,725 made to these members are also questioned.

3. FICA costs questioned are directly associated with the 1995-96 Wesleyan College living allowances questioned in Note 1 above. UNC-Chapel Hill FICA charges were minimal.

North Carolina Commission on Volunteerism and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNC034
January 1, 1994 to September 30, 2000

University of North Carolina, Chapel Hill

Notes (continued)

4. A sample of other direct costs resulted in questioned costs of $1,521. Supporting documentation for $503 could not be located. A travel advance for an AmeriCorps member, purpose of trip unknown, of $988 was taken from the petty cash fund and never liquidated with actual receipts. The remaining $30 was for unallowable local lunches. University policy and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments," only allow subsistence payments when on travel status.

5. Administrative costs questioned result from the application of the annual administrative rate used by the University for the AmeriCorps grant to the applicable costs questioned in Notes 1 to 4 above.

Schedule A-4

North Carolina Commission on Volunteerism and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNC034
January 1, 1994 to September 30, 2000

University of North Carolina, Greensboro
ACCESS Program

			Reference
Approved Budget (Federal funds)		$1,139,610	
Claimed Costs		1,051,009	
Questioned Costs			
Member Living Allowances – Overpayments	$ 2,486		Note 1
Administrative Costs	131		Note 2
Total Questioned Costs		$ 2,617	
Questioned Education Awards		0	

Notes

1. The questioned amount represents payments in excess of the authorized stipend.

2. Administrative costs questioned represent application of the University's administrative rate to questioned stipend overpayments.

North Carolina Commission on Volunteerism and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNC034
January 1, 1994 to September 30, 2000

University of North Carolina, Greensboro
Child Care Corps Program

			Reference
Approved Budget (Federal funds)		$ 1,248,961	
Claimed Costs		938,204	
Questioned Costs			
Members Living Allowance – Overpayments	$ 2,297		Note 1
FICA/Workers Compensation	176		Note 2
Other	585		Note 3
Administrative Costs	10,023		Note 4
Total Questioned Costs		$ 13,081	
Questioned Education Awards		0	

Notes

1. The amount questioned represents payments in excess of the authorized stipend.

2. FICA/Workers Compensation costs questioned are the amounts applicable to the questioned stipend overpayments.

3. Other direct costs questioned consist of $385 for which documentation could not be located and $200 related to an unexplained stipend.

4. Administrative costs questioned of $10,023 are composed of two parts. First, $8,076 is due to the University using an incorrect administrative rate that exceeded the maximum 5% of total costs. Second, $1,947 is due to the application of the allowable administrative rate to the questioned costs in Notes 1 through 3 above.

North Carolina Commission on Volunteerism and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNC034
January 1, 1994 to September 30, 2000

University of North Carolina, Greensboro
Child Care Corps Program

Notes (continued)

Commission's Response

The Commission disagrees with the $8,076 questioned cost, stating that administrative costs were budgeted to provide a six-week training course to AmeriCorps members and that while these costs could have been used to support administrative costs, the University chose to use the funds for direct training costs.

Auditor's Comment

The Commission's response does not address the issue nor does it dispute the fact that administrative costs were claimed in excess of the 5 percent ceiling. Accordingly, our position remains unchanged.

Exhibit B

North Carolina Commission on Volunteerism and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94LCSNC010 (Learn and Serve)
September 1, 1994 to September 30, 2000

			Reference
Approved Budget (Federal Funds)		$ 989,474	
Claimed Costs		795,627	
Questioned Costs			
Catawba Valley Girl Scouts	$ 89,372		Schedule B-1
Western Carolina Center for Volunteer Services	3,123		Schedule B-2
Total Questioned Costs		92,495	
Reclassifications		(1,859)	Note 1
Net Questioned Costs		$ 90,636	

Note

1. This amount consists of $1,249 of computer acquisition costs erroneously charged to the Administrative grant rather than the Learn and Serve grant, and $610 of charges for a 4-H program activity also erroneously charged to the Administrative grant rather than the Learn and Serve grant.

North Carolina Commission on Volunteerism and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94LCSNC010 (Learn and Serve)
September 1, 1994 to September 30, 2000

Catawba Valley Girl Scouts

			Reference
Approved Budget (Federal Funds)		$ 106,658	
Claimed Costs (Drawdowns)		92,372	
Questioned Costs			
Excess Drawdown	$ 16,350		Note 1
Unsupported Costs	73,022		Note 2
Total Questioned Costs		$ 89,372	

Notes

1. The questioned amount represents the excess of amounts drawn down from the Commission over total booked expenditures.

   Commission's Response

   The Commission disagrees with the costs questioned, stating that these funds were expended for the purchase of equipment to implement the Learn and Serve program, but listed under another account.

   Auditor's Comment

   We are unable to determine, at this point, whether this assertion is valid.

2. Source documentation supporting expenditures prior to calendar year 1998 were destroyed. Consequently, the entire amount booked prior to 1998 is questioned.

   Commission's Response

   The Commission disagrees with the questioned cost stating that this subrecipient submitted a final FSR covering the costs incurred.

North Carolina Commission on Volunteerism and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94LCSNC010 (Learn and Serve)
September 1, 1994 to September 30, 2000

Catawba Valley Girl Scouts

Notes (continued)

Auditor's Comment

First, we note that the Commission does not, in its response, state when the subrecipient filed the final FSR. Second, and more importantly, the record retention period is tolled only by the Commission's filing of a final FSR, and not by individual subrecipients. Accordingly, our position remains unchanged.

Schedule B-2

North Carolina Commission on Volunteerism and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94LCSNC010 (Learn and Serve)
September 1, 1994 to September 30, 2000

Western Carolina Center for Volunteer Services

		Reference
Approved Budget (Federal Funds)	$ 102,550	
Claimed Costs (Drawdowns)	91,550	
Questioned Costs		
Excess Drawdown	$ 3,123	Note 1

Note

1. The questioned amount represents the excess of amounts drawn down from the Commission over total booked expenditures.

   Commission's Response

   The Commission disagrees with the questioned costs, stating that the funds were used to support the implementation of the Learn and Serve program, and that the request from the subrecipient to redirect these funds was verbally approved by Commission staff.

   Auditor's Comment

   The Commission has not explained why the cost associated with this "redirection" of funds does not appear on the subrecipient's records for the Learn and Serve program. Accordingly, our position remains unchanged.

Exhibit C

North Carolina Commission on Volunteerism and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 95PDSNC027 (PDAT)
January 1, 1995 to September 30, 2000

		Reference
Approved Budget (Federal Funds)	$ 672,071	
Claimed Costs	554,771	
Questioned Costs (Unsupported)	433	Note 1
Reclassifications	(1,249)	Note 2
Total Questioned Costs	$ (816)	

Notes

1. The questioned amount represents costs for which supporting documentation could not be located.

2. This amount represents the acquisition cost of a computer erroneously charged to the Administrative grant rather than the PDAT grant.

North Carolina Commission On Volunteerism and Community Service
Schedule of Award Costs
Corporation For National Service
Award Number 94 SCS NC 027 (ADMINISTRATION)
From January 1, 1994 to September 30, 2000

			Reference
Approved Budget (Federal Funds)		$ 1,882,686	
Claimed Costs		1,802,069	
Questioned Costs			
Unsupported Costs	$ 101,686		Note 1
Other	3,171		Note 2
Match Shortfall	5,189		Note 3
Total Questioned Costs		110,046	
Reclassifications		3,743	Note 4
Net Questioned Costs		$ 113,789	

Notes

1. The questioned amount consists of $101,500 of costs claimed for the period January 14 through June 30, 1994 for which records were not retained, and $186 of unsupported 1995 travel costs.

   Commission's Response

   The Commission disagrees with the questioned costs, stating that it followed the Uniform Administration Requirements issued by the Corporation.

   Auditor's Comment

   While the Commission disagrees with the questioned cost, it does not dispute that the records were not maintained. Moreover, the Commission did not, in fact, follow the Uniform Administration Requirements issued by the Corporation because these require record retention until three years after filing of a final FSR.

2. The questioned amount consists of an equipment purchase ($2,155) not approved by the Corporation, unreasonable costs of custom framing and hand drawn prints ($282), unreasonable hotel charge ($132), and duplicate payment for office supplies ($602).

North Carolina Commission On Volunteerism and Community Service
Schedule of Award Costs
Corporation For National Service
Award Number 94 SCS NC 027 (ADMINISTRATION)
From January 1, 1994 to September 30, 2000

Notes (continued)

Commission's Response

The Commission disagrees with the $2,155 and $282 costs questioned, stating that if these costs were included in the budget, they would have been considered allowable. The Commission disagrees with the $602 questioned cost, stating that it has resolved this duplication of payment with the vendor. The Commission also disagrees with the $132 questioned cost, stating that the hotel would not honor the rate established for conference participants.

Auditor's Comment

The assertion that certain costs would have been allowable had they been included in the grant budget is without foundation, since the Commission has no way of knowing how the Corporation would react to such items in a grant budget. Accordingly, our position on these questioned costs remains unchanged. Further, while the Commission may have resolved the duplication of payment, it does not dispute that a duplicate payment was, in fact, made and charged to the grant. Accordingly, our position on this questioned cost remains unchanged. Finally, we have no way, at this point, of verifying the assertion that a hotel did not honor a rate established for conference participants.

3. The questioned amount relates to the period November 1, 1994 to October 31, 1995 during which total (federal and match) costs were $357,898, the maximum federal share (80%) was $286,318, but $291,507 was charged to federal funds. Accordingly, the difference of $5,189 is questioned.

Commission's Response

The Commission does not agree that there was a match shortfall for the 1994-1995 program year asserting that certifications documenting contributed time were not initially included with other match documents. The Commission also does not agree with the calculation of the costs questioned due to match shortfall asserting that funds carried over from the previous grant period retained their lower match requirement percentage.

North Carolina Commission On Volunteerism and Community Service
Schedule of Award Costs
Corporation For National Service
Award Number 94 SCS NC 027 (ADMINISTRATION)
From January 1, 1994 to September 30, 2000

Notes (continued)

Auditor's Comment

We rejected the cited certifications because they were obtained four years after the fact. As for the calculation of the resulting costs questioned, carryover funds are simply a source of amounts necessary to fund a later period; the match requirements for the period are unaffected by the source of the funds. Accordingly, our position on this finding remains unchanged.

4. This amount consists of an incorrect charge for Community Service Conference (Points of Light), reclassified to the Governor's Initiative grant ($635); an incorrect charge for 4-H Program, reclassified to the Learn and Serve grant (Exhibit B) ($610); an incorrect charge for acquisition of a computer, reclassified to the PDAT grant (Exhibit C) ($1,249); and a similar incorrect computer acquisition, reclassified to the Learn and Serve grant (Exhibit B) ($1,249).

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

We have audited the Schedules of Award Costs, as presented in Exhibits A through D, that summarize the claimed costs of the North Carolina Commission on Volunteerism and Community Service under the Corporation awards listed below, and have issued our report thereon dated June 18, 2001.

Program	Award Number	Award Period	Audit Period
AmeriCorps	94ASCNC034	1/1/94 to 12/17/00	1/1/94 to 9/30/00
Learn & Serve	94LCSNC010	9/1/94 to 12/31/00	9/1/94 to 9/30/00
PDAT	95PDSNC027	1/1/95 to 12/31/00	1/1/95 to 9/30/00
Administration	94SCSNC027	1/1/94 to 12/31/00	1/1/94 to 9/30/00

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.

Compliance

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

Instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, and the award provisions.

MEMBERS OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Compliance Findings

The results of our tests of compliance disclosed the following instances of noncompliance:

Finding No. 1

Condition

The Commission did not submit Financial Status Reports (FSRs) for Administrative, AmeriCorps, Learn & Serve, Professional Development and Training, and the Governor's Initiative grants on a timely basis as stipulated in the respective CNS grants' provisions (76% late). In addition, 7 FSRs were not submitted at all.

	Not Submitted	Submitted Late	On Time	Ratio Late To Total Submitted
94ASC NC034 - AmeriCorps	1	14	4	78%
94LCS NC010 - Learn & Serve	1	12	6	67%
94SCS NC027 – Administrative	2	18	5	78%
95PDS NC027 - PDAT	2	16	3	84%
99ASH NC034 - Governor's Initiative	1	0	1	0%
Totals	7	60	19	76%

This condition's cause appears to be that the Commission's financial management process did not suitably emphasize the need for timely gathering of the information necessary to prepare FSRs.

The Corporation has established due dates for FSRs for each program for each year. We prepared a schedule of due dates for each program and matched these due dates with actual FSR submission dates in arriving at the results shown above.

This condition results in a violation of the grant's terms and conditions and might result in, or fail to disclose on a timely basis, potential funding misapplications. Problems can occur because both the grantor and grantee lack current financial information to include in management decision-making.

Recommendation

We recommend that the Commission establish policies and procedures to ensure that FSRs are submitted on a timely basis and are properly completed prior to submission.

Commission's Response

The Commission disagrees with the recommendation, stating that it has been following an unpublished policy to ensure that FSRs are submitted on a timely basis. The Commission also states that the unpublished policy was codified as Policy #F1S-08 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual on December 10, 2001.

Auditor's Comment

While the Commission disagrees with the finding, it has not disputed the accuracy of the cited condition. Accordingly, our position remains unchanged. Assuming that the Commission effectively implements its newly codified policy, its response is considered adequate.

Finding No. 2

Condition

The Commission did not submit Federal Cash Transactions Reports (FCTRs) on a timely basis. Our review disclosed that 6 out of 21 reports tested were submitted after the due dates.

The reporting controls and procedures utilized apparently did not suitably emphasize the significance of timely and accurate cash management.

Due dates of the Federal Cash Transactions Reports are established by the Department of Health and Human Services. FCTRs are usually due 45 days after the end of the quarter.

The effect of this condition is that federal cash accountability controls are weakened when FCTRs are not submitted timely. To ensure funds are being spent for the grant's purpose and conditions, a timely accounting is necessary. When accounting controls are weak, it becomes easier to circumvent the established processes.

Recommendation

We recommend that the Commission establish policies and procedures to ensure that FCTRs are submitted on a timely basis.

Commission's Response

The Commission disagrees with the recommendation, stating that it has been following an unpublished policy to ensure that FCTRs are submitted on a timely basis. The Commission also states that the unpublished policy was codified as Policy #F1S-06 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual on December 10, 2001.

Auditor's Comment

While the Commission disagrees with the finding, it has not disputed the accuracy of the cited condition. Accordingly, our position remains unchanged. Assuming that the Commission effectively implements its newly codified policy, its response is considered adequate.

Finding No. 3

Condition

Corporation approval for the 1995 purchase of equipment, a camcorder costing $2,155, was not obtained by the Commission in violation of Americorps Provisions.

Equipment purchases over $500, not included in the approved budget, required the Corporation's prior written approval according to the AmeriCorps Provision No.19 – "Equipment Costs". The Commission could not provide any documentation of such prior approval and the approved budget did not include the camcorder purchase.

The Commission did not adhere to this provision and neither the Governor's Office Budget/Accounting Department, nor the Commission detected the violation.

Without the Corporation's knowledge, funds were spent for an objective that may not be considered necessary to meet the grant's purpose and conditions.

Recommendation

We recommend that the Commission establish controls to ensure that all required purchase approvals are obtained prior to initiating the procurement action.

Commission's Response

The Commission disagrees with the recommendation, stating that it has been following an unpublished policy to ensure that all required approvals are obtained prior to initiating the procurement action. The Commission also states that the unpublished policy was codified as Policy #F1S-13 of Section 9 (Fiscal Management) in the commission's Policies and Procedures Manual on December 10, 2001. The Commission disagrees with the related questioned costs of $2,155 asserting that the purchase would have been allowable if it was included in the budget.

Auditor's Comment

While the Commission disagrees with the finding, it has not disputed the accuracy of the cited condition. Accordingly, our position remains unchanged. Assuming that the Commission effectively implements its newly codified policy, its response is considered adequate. With respect to the questioned costs, again, the Commission does not dispute the point that it did not obtain the required approval. Accordingly, our position remains unchanged.

Finding No. 4

Condition

Payment of $2,674 was made to a subrecipient, North Carolina Low Income Housing Coalition (NCLIHC), for site unemployment insurance without documented written approval.

During grant performance, it was determined that NCLIHC site locations would incur a liability for state unemployment insurance that was not contemplated in the original budget submission. The payment was made by the Commission out of AmeriCorps funds but the formal approval process was not utilized.

The AmeriCorps Provision – "Responsibility For Administering the Grant", requires the Commission to act in a judicious and reasonable manner in expending grant funds.

Grant funds were used for expenses not included in the approved budget. In addition, the transaction was not documented and properly accounted. Although the expenses appear to be legitimate, both parties circumvented appropriate controls. This expense was not included in Commission AmeriCorps accounting records until a complete reconciliation was completed. The NCLIHC accounting records did not record this transaction in their grant accounting records.

Recommendation

We recommend that the Commission establish procedures to ensure that formal approval requirements are obtained on a timely basis.

Commission's Response

The Commission disagrees with the recommendation, stating that it has been following an unpublished policy to ensure that formal approval requirements are obtained on a timely basis. The Commission also states that the unpublished policy was codified as Policy #F1S-01 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual on December 10, 2001. The Commission disagrees with the related questioned cost of $2,764 asserting that the cost would have been allowable if it was included in the grant budget.

Auditor's Comment

While the Commission disagrees with the finding, it has not disputed the accuracy of the cited condition. Accordingly, our position remains unchanged. Assuming that the Commission effectively implements its newly codified policy, its response is considered adequate. With respect to the questioned cost, again, the Commission does not dispute that it did not obtain the required approval. Accordingly, our position remains unchanged.

Finding No. 5

Condition

The following subrecipients did not submit FSRs on a timely basis:

	Not Submitted/ Missing	Submitted Late	On Time	Ratio Late To Total Submitted
AmeriCorps:				
North Carolina State University	4	6	7	46%
North Carolina Low Income Housing Coalition	5	3	3	50%
UNC – Chapel Hill	3	9	3	75%
UNC - Greensboro, Child Care Corps Program	0	9	8	53%
UNC - Greensboro, ACCESS Program	2	3	8	27%
Learn & Serve:				
Catawba Valley Area Girl Scouts	11	6	1	86%
Western Carolina Center	4	5	14	26%
Totals	29	41	44	48%

This condition's cause may be that the Commission's indoctrination and oversight processes did not adequately stress to subrecipients the importance of preparing and submitting correct and timely FSRs.

OMB Circulars A-102 and A-110, as well as AmeriCorps Provision No. 17 – "Reporting Requirements", provide for the submission of quarterly FSRs. The Commission also established annual subrecipient FSR due dates in order to provide the time necessary to prepare aggregate Commission FSRs and meet the Corporation's FSR due date schedule. We compared the subrecipient due dates with subrecipient submission dates to arrive at the above schedule.

This timeliness condition resulted in a violation of the subgrant's terms and conditions and potential funding misapplications. Problems can occur because both the grantee and subgrantee do not have current financial information to include in management decision-making.

Recommendation

We recommend that the Commission establish and implement procedures to ensure that its subrecipients (a) complete FSRs properly prior to submission, (b) submit them on a timely basis, and (c) retain the appropriate supporting documentation.

Commission's Response

The Commission disagrees with the recommendation, stating that it has been following an unpublished policy to ensure that its subrecipients (a) complete FSRs properly prior to submission, (b) submit them on a timely basis, and (c) retain the appropriate supporting documentation. The Commission also states that the unpublished policy was codified as Policy #F1S-10 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual on December 10, 2001.

Auditor's Comment

While the Commission disagrees with the finding, it has not disputed the accuracy of the cited condition. Accordingly, our position remains unchanged. Assuming that the Commission effectively implements its newly codified policy, its response is considered adequate.

Finding No. 6

Condition

Grant authorized living allowance payments to AmeriCorps members were exceeded by the following subrecipients, in the amounts indicated:

North Carolina State University, SOS Program	$ 749
University of North Carolina-CH, SCALE Program	$ 15,333
University of North Carolina-G, CCC Program	$ 2,473
University of North Carolina-G, ACCESS Program	$ 2,486

Although the above universities cited a number of causes for overpayments, the root cause is that Commission guidance to, and oversight of, subrecipients did not provide complete and thorough instruction on living allowance payments.

The AmeriCorps Provision - "Living Allowances, Other In-Service Benefits and Taxes" requires that member living allowances be paid in increments, not as an hourly wage. It also limits the Corporation's payment of full-time member living allowances to 85% of the minimum living allowance. Subrecipients must use a cash match for the remaining 15%.

Our testing identified living allowance overpayments totaling $21,041 as a result of this condition.

Recommendation

We recommend that the Commission establish oversight policies and procedures to ensure that its subrecipients comply with ceiling limitations for AmeriCorps member Living Allowances included in drawdown payment requests. We note that the Commission has developed a new monitoring instrument covering this area, that is intended to be used for all subgrantee visits after December 2000.

Commission's Response

The Commission disagrees with the recommendation, stating that it has been following an unpublished policy to ensure that its subrecipients comply with ceiling limitations for AmeriCorps member living allowances included in drawdown payment requests. The Commission also states that the unpublished policy was codified as Policy #F1S-02 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual on December 10, 2001.

Auditor's Comment

While the Commission disagrees with the finding, it has not disputed the accuracy of the cited condition. Accordingly, our position remains unchanged. Assuming that the Commission effectively implements its newly codified policy, its response is considered adequate.

Finding No. 7

Condition

Under the provisions of Public Law 100-679, North Carolina State University is subject to Cost Accounting Standards for Educational Institutions. It is not in compliance with Cost Accounting Standard 9905.501, *Consistency in Estimating, Accumulating and Reporting Costs by Educational Institutions*, that requires each educational institution's practices used in estimating costs for a proposal to be consistent with cost accounting practices used by the institution in accumulating and reporting costs.

Budget estimates and related funding were predicated on the traditional budget line item categories associated with AmeriCorps grants. Accounting for grants' expenditures was performed on the basis of the University's standard chart of accounts and financial systems structure. Consequently, the University was unable to compare estimated costs to actual costs by budget line item.

Recommendation

We recommend that the Commission establish oversight policies and procedures to ensure consistency in its subrecipients' estimating, accounting and reporting practices for AmeriCorps

grants.

Commission's Response

The Commission disagrees with the recommendation, stating that it has been following an unpublished policy to ensure consistency in its subrecipients' estimating, accounting and reporting practices for AmeriCorps grants. The Commission also states that the unpublished policy was codified as Policy #F1S-04 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual on December 10, 2001.

Auditor's Comment

While the Commission disagrees with the finding, it has not disputed the accuracy of the cited condition. Accordingly, our position remains unchanged. Assuming that the Commission effectively implements its newly codified policy, its response is considered adequate.

Finding No. 8

Condition

An AmeriCorps member with the University of North Carolina – Chapel Hill, SCALE Program, performed various fund raising activities and clerical work prohibited by the AmeriCorps Provisions.

This condition's cause may be varied, including:

(a) a lack of adequate supervision over the member's activities,
(b) inappropriate direction from the supervisor, or
(c) lack of training or understanding on the part of all parties on the prohibitions imposed by the AmeriCorps grant on certain types of activities.

All AmeriCorps members and program supervisors should be trained and fully conversant with the restrictions incorporated in the grant terms. The AmeriCorps Provision - "Fund Raising" states, in part "A member's service activities may not include organized fund raising, solicitation of gifts and bequests, and similar activities." The AmeriCorps Provision - "Training, Supervision and Support" also states, in part " ... Member activities may not include clerical work, research or fund raising activities...."

Recommendation

We recommend that the Commission reemphasize these prohibitions to all subrecipients and monitor the activities of the members during its program site visits.

Commission's Response

The Commission states that it understands the importance of re-emphasizing prohibited activities to all subrecipients and monitoring members during site visits. The Commission has implemented a member and site supervisor questionnaire to be administered during site visits. The questionnaire goes over each prohibited activity to ensure that members are not engaging in, and that site supervisors are aware of, prohibited activities. In addition, prohibited activities are carefully outlined in the solicitation package given to potential applicants, pre-application training and technical assistance session, pre-award site visits, subsequent start-up training and additional communications, as needed.

Auditor's Comment

The Commission's does not dispute the accuracy of the cited conditions. Assuming the Commission appropriately and effectively implements the questionnaire as it pertains to prohibited activities, the Commission's response is considered adequate.

Finding No. 9

Condition

For the 1994-95 program year, the Commission did not meet the matching requirements of the Administrative grant.

The Commission did not have procedures in place to monitor its required matching costs commitment during this program year. Policies and procedures should provide for monitoring of required and actual matching costs during grant performance periods.

This condition resulted in shortfall of $1,747 in required Administrative grant matching costs for the 1994-95 program year.

Recommendation

We recommend that the Commission establish policies and procedures to monitor its matching requirements throughout performance periods and take any necessary action to attempt to meet its annual requirements before completion of the period.

Commission's Response

The Commission disagrees with the recommendation, stating that it has been following an unpublished policy to monitor its matching requirements throughout performance periods and take any necessary action to attempt to meet its annual requirements before completion of the period. The Commission also states that the unpublished policy was codified as Policy #F1S-11 of Section 9

(Fiscal Management) in the Commission's Policies and Procedures Manual on December 10, 2001.

The Commission does not agree that there was a match shortfall of $1,747 for the 1994-1995 program year asserting that certifications documenting contributed time were not initially included with other match documents. The Commission also does not agree with the calculation of the costs questioned due to match shortfall asserting that funds carried over from the previous grant period retained their lower match requirement percentage.

Auditor's Comment

While the Commission disagrees with the finding, it has not disputed the accuracy of the cited condition. Accordingly, our position remains unchanged. Assuming that the Commission effectively implements its newly codified policy, its response is considered adequate. We rejected the cited certifications because they were obtained four years after the fact. As for the calculation of the resulting costs questioned, carryover funds are simply a source of amounts necessary to fund a later period; the match requirements for the period are unaffected by the source of the funds. Accordingly, our position on this finding remains unchanged.

Internal Controls Over Financial Reporting

In planning and performing our audit of awards costs as presented in Exhibits A through D for the period January 1, 1994 to September 30, 2000, we considered the Commission's internal controls 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 controls over financial reporting.

The Commission's management is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs on internal control policies and procedures. The objective of internal controls is to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial schedules in accordance with generally accepted accounting principles of the United States of America. Because of inherent limitations in any internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of internal control would not necessarily disclose all matters of internal control over financial reporting that might be reportable conditions. Under standards established by the American Institute of Certified Public Accountants, reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls,

that, in our judgment, could adversely affect the entity's ability to record, possess, summarize and report financial data consistent with the assertions of management in the financial schedules. Material weaknesses are reportable conditions 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 errors or irregularities in amounts, which would be material in relation to the financial schedules being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Internal Control Findings

We noted the following matters which we consider to be reportable conditions:

Finding No. 10

Condition

The Commission did not track expenditures by budget line item as stipulated in various Corporation grant provisions. Consequently, we were unable to align the Commission's booked/claimed amounts to specific CNS Program Budget line items in most cases. AmeriCorps' General Provisions include "Financial Management Provisions" that state " ... This (Financial Management) system must be able to identify costs by programmatic year and by budget line item." Learn & Serve Provisions have the same requirement.

The Governor's Office accounting system provided for budgeted figures at the account level. The effect of this condition was that, for most grants, the Commission was unable to perform a comparison of actual expenditures to budget line item. It is very difficult to control costs if management is unaware of how expenditures compare with the budget.

For AmeriCorps, the Program Director has established a worksheet showing the subgrantee budgeted funds and actual expenditures by line item. However, this analysis was done only for the most recent AmeriCorps awards and was not a part of the Commission's Financial Management System. In addition, the subgrantee's Request for Payment Form included a "Budget Request Worksheet" that showed budget line items and expenditures of federal funds and grantee matching. In spite of this information being available for subgrants, the Commission's Financial Management System is not configured to supply a comparison of actual expenditures to budget line item. On grants without subgrantees, such as PDAT and Administration, there was no budget line item comparison with expenditures available.

Recommendation

We recommend that the Commission establish policies, procedures and accounting practices within its current recordation systems to utilize the respective grants' appropriation codes and budget line items for tracking the funded and expended amounts by grant, program year and budget line item.

Commission's Response

The Commission disagrees with the recommendation, stating that it has been following an unpublished policy to utilize grant appropriation codes and budget line items for tracking the funded and expended amounts by grant, program year and budget line item. The Commission also states that the unpublished policy was codified as Policy #F1S-03 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual on December 10, 2001.

Auditor's Comment

While the Commission disagrees with the finding, it has not disputed the accuracy of the cited condition. Accordingly, our position remains unchanged. Assuming that the Commission effectively implements its newly codified policy, its response is considered adequate.

Finding No. 11

Condition

The Commission was unable to track matching requirements on CNS grants to actual matching expenditures as required by Corporation Provisions.

The Governor's Office's accounting system did not record matching budgets or matching expenditures. To ensure matching requirements were met separate records were maintained for the Administrative, AmeriCorps, and Learn & Serve grants. We identified no Commission effort to configure its accounting system to record matching budget and matching expenditure amounts.

The AmeriCorps Provision on "Matching Requirements", states " ... The grantee must provide and account for the matching funds as agreed upon in the approved application and budget...."

As a result of these conditions, the Commission was unable to efficiently compare actual matching expenditures to budgeted matching funds. It is difficult to ensure actual matching expenditures are meeting the budget without readily available budget and expenditure information. The Commission had not supplied matching information on FSRs until June 1998 for the Administrative grant; May 1999 for AmeriCorps; and July 1999 for Learn & Serve.

For AmeriCorps, the Program Director has established a worksheet showing the subgrantee matching budgeted funds and actual matching expenditures. However, this analysis was done only for the most recent AmeriCorps awards and it was not a part of the Commission's accounting system. In addition, the subgrantee's Request for Payment Form included a "Budget Request Worksheet" that showed the matching budget and matching expenditures. Although this information was available for subgrants, the Commission's accounting system was not configured to present a comparison of actual matching expenditures to budgeted matching funds.

Recommendation

We recommend that the Commission establish policies, procedures and accounting practices within its accounting system to identify matching requirements by grant and to monitor progress toward meeting such requirements at both the Commission and subrecipient levels.

Commission's Response

The Commission disagrees with the recommendation, stating that it has been following an unpublished policy to identify matching requirements by grant and to monitor progress toward meeting such requirements at both the Commission and subrecipient levels. The Commission also states that the unpublished policy was codified as Policy #F1S-12 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual on December 10, 2001.

Auditor's Comment

While the Commission disagrees with the finding, it has not disputed the accuracy of the cited condition. Accordingly, our position remains unchanged. Assuming that the Commission effectively implements its newly codified policy, its response is considered adequate.

Finding No. 12

Condition

Administrative grant records were destroyed for the period January 1994 to June 1994 although a final FSR for the Administrative grant had not been submitted.

The Commission followed the normal North Carolina State record retention process resulting in the destruction of the July 1, 1993 to June 30, 1994 fiscal year records. The records were destroyed in the fall of 2000. The Uniform Administrative Requirements issued by the Corporation state that financial and programmatic records must be retained for three years from the date the grantee submits its last expenditure report (FSR). The Commission has not submitted a final FSR.

As a result, the Corporation is unable to take advantage of the grant's audit clause. The allowability, allocability and reasonableness of these expenses cannot be verified.

Recommendation

We recommend that existing Commission record retention policies and practices be modified to ensure consistency with the Corporation's record retention requirements.

Commission's Response

The Commission disagrees with the recommendation, stating that it has been following an unpublished policy to ensure consistency with the Corporation's record retention requirements. The Commission also states that the unpublished policy was codified as Policy #F1S-14 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual on December 10, 2001.

Auditor's Comment

While the Commission disagrees with the finding, it has not disputed the accuracy of the cited condition. Accordingly, our position remains unchanged. Assuming that the Commission effectively implements its newly codified policy, its response is considered adequate.

Finding No. 13

Condition

Amounts drawn down by the Commission from HHS as reported by HHS are not readily reconcilable to the amounts reflected on the Commission's records, because reconciliations of these amounts were not performed.

The AmeriCorps Provision – "Payments Under the Grant" requires that advance payments be based on actual and immediate cash needs in order to minimize federal cash on hand in accordance with 31 CFR Part 205. The AmeriCorps Provision – "Financial Management Provisions" requires that the grantee maintain a financial management system that includes "sufficient internal controls."

Recommendation

We recommend that the Commission implement a process of reconciling amounts drawn down as reported by HHS to the corresponding amounts in the Commission's records. We note that the Commission has recently added a staff member to address this condition.

Commission's Response

The Commission disagrees with the recommendation, stating that it has been following an unpublished policy when reconciling amounts drawn down as reported by HHS to the corresponding amounts in the Commission's records. The Commission also states that the unpublished policy was codified as Policy #F1S-05 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual on December 10, 2001.

Auditor's Comment

While the Commission disagrees with the finding, it has not disputed the accuracy of the cited condition. Accordingly, our position remains unchanged. Assuming that the Commission effectively implements its newly codified policy, its response is considered adequate.

Finding No. 14

Subrecipients did not maintain documentation as required by AmeriCorps Provisions.

(A)

Condition

The following subrecipients did not maintain required AmeriCorps member eligibility documentation:

		Files Lacking Eligibility Documentation	
	No. Tested	Number	Ratio
North Carolina State University	51	15	29%
North Carolina Low Income Housing Coalition	15	7	47%
UNC – Chapel Hill	29	6	21%
Totals	95	28	29%

This condition's cause may be that Commission guidance to, and monitoring of, subrecipients did not suitably emphasize the importance of maintaining complete member files.

AmeriCorps Provision No. 7 – "Member Eligibility, Recruitment and Selection", requires that the grantee maintain verifiable records that document each member's eligibility to serve. As stated above, programmatic records must be maintained for three years from the submission date of the final FSR.

Without complete member files, the Commission cannot verify that eligibility requirements are being met. In order to ensure that grant funds are used for the purposes intended, it is important to make certain that the intended target group is receiving the funding. Due to the inability to validate member eligibility in the above cases, we questioned the living allowances and related benefits of $79,970 for those members whose eligibility documentation could not be located. We also questioned the corresponding Education Awards in the amount of $42,525 for those members.

(B)

Condition

The following subrecipients did not maintain required AmeriCorps member file documentation regarding enrollment and end-of term:

		Files Lacking Form			Submitted Late		
	Form	No. Tested	Number Missing	Ratio	No. Tested	Number Late	Ratio
North Carolina State University	Enrollment	51	24	47%	25	5	20%
	End-of-Term	51	13	25%	37	12	32%
North Carolina Low Income Housing Coalition	Enrollment	15	5	33%	6	2	33%
	End-of-Term	15	5	33%	10	2	20%
UNC – Chapel Hill	Enrollment	29	7	24%	22	13	59%
	End-of-Term	29	10	34%	19	14	74%
UNC - Greensboro Child Care Corps Program	Enrollment	22	18	82%	0		
	End-of-Term	22	6	27%	16	5	31%
UNC - Greensboro ACCESS Program	Enrollment		0		14	4	29%
	End-of-Term		0		18	13	72%
Totals		234	88	38%	167	70	42%

This condition's cause may be that Commission guidance to, and oversight of, subrecipients did not suitably emphasize of the importance of maintaining complete member files, especially in the earlier years of performance.

The AmeriCorps Provision – "Member Records and Confidentiality", requires that the grantee maintain verifiable records that are sufficient to establish the individual was eligible to participate in the program and successfully completed it. The Enrollment and End-of-Term forms are used to ensure these requirements are being met. The End-of-Term form is also used to establish an individual's right to an education award. As stated above, programmatic records must be maintained for three years from the submission date of the final FSR.

Without accurate start and finish information, the Corporation cannot compute accurate education award commitments. This information is also critical for internal evaluations of the program's success. Other uses, such as measuring the ability to attract and retain members, are also hampered without accurate and timely enrollment and exit information.

(C)

Condition

The following subrecipients did not maintain required AmeriCorps member contracts:

	No. Tested	Files Lacking Contract Documentation Number	Ratio
North Carolina State University	51	31	61%
North Carolina Low Income Housing Coalition	13	11	85%
UNC – Chapel Hill.	29	21	72%
UNC - Greensboro Child Care Corps Program	22	21	95%
Totals	115	84	73%

This condition's cause may be that Commission guidance to, and oversight of, subrecipients did not suitably emphasize the importance of maintaining complete member files.

The AmeriCorps Provision – "Training, Supervision and Support" states, in part, "The Grantee must require that members sign contracts that stipulate the following:

(a) the minimum number of service hours and other requirements (as developed by the Program) necessary to be eligible for educational award;
(b) acceptable conduct;
(c) prohibited activities;
(d) requirements under the Drug-Free Workplace Act (41 U.S.C. §701 et seq.);
(e) suspension and termination rules;
(f) the specific circumstances under which a member may be released for cause;
(g) the position description;
(h) grievance procedures."

Without signed member contracts that establish sound basic ground rules, the subgrantee and Commission are at serious risk for potentially expensive problems. To lower this risk to an acceptable level, member contracts must be signed, contain the stipulated provisions, and must be maintained by the subgrantee for possible future use.

(D)

Condition

The following subrecipients did not document required written mid-term and end-of-term AmeriCorps member evaluations:

	Evaluation Type	No. Tested	Files Lacking Member Evaluation Documentation Number	Ratio
North Carolina State University	Mid-Term	51	50	98%
	End-of-Term	51	50	98%
North Carolina Low Income Housing Coalition	Mid-Term	15	11	73%
	End-of-Term	15	14	93%
UNC – Chapel Hill	Mid-Term	29	23	79%
	End-of-Term	29	27	93%
UNC – Greensboro Child Care Corps Program	Mid-Term	22	4	18%
	End-of-Term	22	22	100%
Totals		234	201	86%

This condition's cause may be that Commission guidance to, and oversight of, subrecipients did not suitably emphasize the importance of documenting AmeriCorps member evaluations.

The AmeriCorps Provision – "Training, Supervision and Support" requires written mid-term and end-of-term evaluations of each member. The provision states, in part, "the Grantee must conduct at least a mid-term and end-of-term written evaluation for each member's performance, focusing on such factors as:

a. whether the member has completed the required number of hours;
b. whether the member has satisfactorily completed assignments, and
c. whether the member has met other performance criteria that were clearly communicated at the beginning of the term of service."

Evaluations provide feedback to members regarding the quality and quantity of their work. They provide supervisors with an opportunity to give guidance, correct misunderstandings, offer praise, share experiences, and increase confidence. Evaluations that are missed or delayed often result in members not having a clear understanding of what they are doing right, what they can do better, and what they should learn to improve their skills. This situation usually results in low morale.

Recommendation

We recommend that the Commission reemphasize the need to adhere to the documentation requirements of AmeriCorps Provisions to its subrecipients.

Commission's Response

The Commission agrees with the importance of re-emphasizing the need for AmeriCorps subrecipients to adhere to the documentation requirements of the AmeriCorps provisions. Currently, the Commission requires that subrecipients maintain complete member files. The Commission is committed to working with the three former AmeriCorps subrecipients identified in this finding for the completion of all member files.

Auditor's Comment

The Commission's response is adequate.

Finding No. 15

Condition

Overpayments to subrecipients went undetected for long periods after completion of the grant program. One subrecipient in the AmeriCorps program, North Carolina Low Income Housing Coalition, held $42,271 of unexpended funds for a period exceeding three years. Two other subrecipients in the Learn & Serve program, Catawba Girl Scout Council and the Western Carolina Center For Volunteer Services, also have indicated overpayments open for lengthy periods.

The Commission's grant close-out process does not include a control procedure to compare total funds expended by the subrecipient to total payments made by the Commission.

Close-out procedures at the completion of a grant should incorporate a reconciliation of claimed expenditures as reported by the final FSR with cumulative amounts drawn down as reflected on the Commission's records. Any indicated overpayment would be pursued for recovery.

Recommendation

We recommend that the Commission develop and implement an internal control procedure to ensure that the total funds expended by the subrecipient are reconciled to the total funds disbursed by the Commission to the subrecipient. We note that Commission personnel are revising the close-out procedures.

Commission's Response

The Commission disagrees with the recommendation, stating that it has been following an unpublished policy to ensure that the total funds expended by the subrecipient are reconciled to the total funds disbursed by the Commission to that subrecipient. The Commission also states that the unpublished policy was codified as Policy #F1S-09 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual on December 10, 2001.

The Commission disagrees with the questioned costs of $42,271 for overpayments made to the North Carolina Low Income Housing Coalition stating that this amount has been repaid and submitted to the Division of Payment Management of DHHS. The Commission disagrees with the questioned costs of $16,350 for overpayments to Catawba Valley Girl Scouts asserting that these funds were moved from the "program supplies" line item to the fixed asset fund for equipment purchases. Finally, the Commission disagrees with the questioned costs of $3,123 for overpayments to Western Carolina Center asserting that the funds were expended to implement the Learn and Serve program and that the request by Western Carolina Center to redirect these funds was verbally approved by Commission staff.

Auditor's Comment

While the Commission disagrees with the finding, it has not disputed the accuracy of the cited condition. Accordingly, our position remains unchanged. Assuming that the Commission effectively implements its newly codified policy, its response is considered adequate. At the time of the audit, North Carolina Low Income Housing Coalition had not made any repayment to the Commission for excess drawdown. With respect to Catawba Valley Girl Scouts and Western Carolina Center, the Commission has not presented any evidence that these "redirected" funds were, in fact, expended for the Learn and Serve Program or when they were expended. Accordingly, our position on these costs questioned remains unchanged.

Finding No. 16

Condition

Subrecipients indicated a lack of understanding of the necessary financial and accounting controls required to track and report upon grant performance. While subrecipients have financial management systems which accommodate budgets and incurred costs, these systems have not been adapted to meet the requirements of AmeriCorps' General Provision – "Financial Management Provisions that states "This (Financial Management) system must be able to identify costs by programmatic year and budget line item." This weakness may result, in part, because the application review board does not include any individual with accounting or financial credentials.

Recommendation

We recommend that the Commission revise its grant application process to ensure that potential subrecipients fully understand required financial controls.

Commission's Response

The Commission disagrees with the recommendation, stating that it has been following an unpublished policy to ensure that potential subrecipients fully understand required financial controls. The Commission also states that the unpublished policy was codified as Policy #F1S-07 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual on December 10, 2001.

Auditor's Comment

While the Commission disagrees with the finding, it has not disputed the accuracy of the cited condition. Accordingly, our position remains unchanged. Assuming that the Commission effectively implements its newly codified policy, its response is considered adequate.

Finding No. 17

Condition

Subrecipients are not fully aware of all of the provisions applicable to the grant such as prohibited activities and retention of records. In one instance, (North Carolina State University) records were destroyed prematurely and therefore resulted in questioned costs in an amount of $193,113 due to the absence of supporting documentation. Similarly, a Learn and Serve program subrecipient destroyed records resulting in questioned costs of $73,022.

This results, at least in part, because the current Learn & Serve award process consists of only an "award letter" from the Commission to the subrecipient.

Recommendation

We recommend that the Commission develop a comprehensive award document that specifically, or by reference, identifies the program's provisions and regulations.

Commission's Response

The Commission disagrees with this finding stating that "(s)uch a document has already been put into effect with the 2001 – 2001 (sic) Learn and Serve program year." The Commission also states that this document details requirements/guidelines for subgrantees in the components of program management, fiscal management, national identity, participant development, and general grant provisions.

Auditor's Comment

Such a document was not made available to us during the audit. To the extent that the requirements/guidelines are effectively implemented, the Commission's response is considered adequate.

Findings Nos. 1 through 9 set forth in the *Compliance* section of the report are also considered findings on internal control. Findings Nos. 10 through 15 are considered to be material weaknesses.

Follow-Up On Pre-Audit Survey Findings
OIG Audit Report No. 00-08
Pre-Award Survey Report of the
North Carlina Commission on Volunteerism and Community Servce

Pre-Audit Survey Finding No. 1

The Commission did not maintain documentation to support the advertisement of the availability of funds for Learn and Serve grants. Commission procedures indicate that Learn and Serve funds are awarded through an open and competitive process. However, no evidence exits to document that this process was performed. The Commission could not provide an explanation for this lack of documentation and also did not document their reasons for failing to announce the availability of funds during the selection process.

Current Status

The Commission currently retains documentation supporting the availability of funds and extensively advertises the availability of funds. We consider this finding closed.

Pre-Audit Survey Finding No. 2

Some documentation was unavailable to support grant-making decisions.... However, out of six applicants selected for testing, the Commission was unable to provide us with all requested documentation related to the renewal of a Learn and Serve America subgrantee. The renewal file for 1996 did not contain site visits or progress reports to support the renewal of the program.

Current Status

The Commission possesses documentation supporting selection decisions for all years subsequent to 1996. We consider this finding closed.

Pre-Audit Survey Finding No. 3

Lack of assessment of subgrantee applicants' financial systems during the selection process.... Selection officials do not consider the adequacy of the applicants' financial systems during the Commission's subgrantee selection process.... In addition, Commission selection procedures do not require Commission personnel to request information from the applicants related to their financial systems.

Current Status

The Commission has committed to amend its AmeriCorps procedures manual to include fiscal assessments before grants are awarded to new subrecipients. We consider this finding open.

Pre-Audit Survey Finding No. 4

Lack of evidence of FSR review, including matching recalculation. Commission procedures indicate that subgrantees' FSRs are reviewed, and that matching requirements are recalculated. However, no documentation exists supporting that this review was performed. In addition, Commission personnel do not compare the FSRs to the subgrantees' accounting systems or other supporting documentation during site visits. Also, we identified one AmeriCorps FSR that was not properly carried forward from the prior reported FSR submitted to the Corporation.

Current Status

We consider this finding open.

Pre-Audit Survey Finding No. 5

Inability to determine timeliness of receipt of FSRs.... The Commission does not routinely date-stamp FSR reports from subgrantees as they are received. Thus, the Commission cannot routinely verify whether these documents are submitted timely in compliance with the grant agreement.

Current Status

The Commission currently requires that its subrecipients submit FSRs through WBRS at least one week before the date FSRs are due to the Corporation. Since the FSRs are submitted electronically, the use of a date stamp is not appropriate. We consider this finding closed.

Pre-Audit Survey Finding No. 6

The Commission did not maintain all required FSRs.... The Commission was unable to provide us with FSRs for the 1995 through 1998 program years for seven of the eight Learn and Serve subgrantees tested. This lack of documentation precluded us from determining whether the North Carolina Commission submitted FSRs for Learn and Serve grants to the Corporation in a timely manner. In addition, we were also unable to determine the accuracy of FSRs submitted to the North Carolina Commission by subgrantees, as well as the accuracy of FSRs submitted by the Commission to the Corporation, due to various missing quarterly FSRs.

Current Status

The Commission is committed to ensure that all FSRs submitted by subrecipients as well as FSRs submitted by the Commission to the Corporation are retained and available for review. We consider this finding open.

Pre-Audit Survey Finding No. 7

The Commission's evaluating and monitoring system for subgrantees needs to be improved. During our review of monitoring folders for subgrantees, we determined that certain information was not included. Specifically, the names of the member files reviewed, identification of member files where exceptions were noted and procedures followed to select member files reviewed were not included. In addition, comments included on the checklists were general in nature and prevented others or us from re-performing procedures completed by North Carolina Commission personnel. The lack of specific documentation prevents us from determining the adequacy of the monitoring procedures performed by North Carolina Commission personnel.

Current Status

The Commission, while noting that it follows the Corporation's monitoring module, has proposed that it enlist management consultants within the North Carolina Office of Budget and Management to identify components of the current monitoring tool in need of strengthening and develop strategies to address such areas. We consider this finding open.

Pre-Audit Survey Finding No. 8

Lack of documentation of review of OMB Circular A-133 Reports or other audit reports from subgrantees.... However, the Commission does not document the review of subgrantee OMB Circular A-133 audits or other audit reports as part of the monitoring process. Therefore, we were not able to determine if the Commission routinely reviews these reports to determine if auditors have identified control weaknesses or instances of non-compliance related to the AmeriCorps program.

Current Status

The Commission, while noting its compliance with the Corporation's Policies and Procedures Manual, specifically, that section entitled "Tracking Findings of Audit Reports," has committed to require Commission staff to attach a memorandum to the audit reports evidencing review of the reports before they are filed. We consider this finding open.

Pre-Audit Survey Finding No. 9

Schedule of planned and actual site visit dates.... The Commission does not maintain a schedule of planned and actual dates for site visits for each program year.... We were unable to find

Current Status

Commission staff routinely prepares lists of scheduled site visits and submits them to the Executive Director. We consider this finding closed.

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

Leonard G. Birnbaum and Company

Alexandria, Virginia
June 18, 2001

Appendix A

Response of the North Carolina Commission on Volunteerism and Community Service

NC COMMISSION ON VOLUNTEERISM AND COMMUNITY SERVICE
0312 Mail Service Center 116 West Jones Street
Raleigh, NC 27699-0312
919-715-3470 800-820-4483 919-715-8677 (fax)

December 20, 2001

RECEIVED
DEC 21 2001
OFFICE OF THE
INSPECTOR GENERAL

Ms. Luise S. Jordan, Inspector General
Office of the Inspector General
Corporation for National Service
1201 New York Avenue, NW
Washington, DC 20525

Dear Ms. Jordan:

Enclosed is our response to draft OIG Audit Report Number 02-08 of the North Carolina Commission on Volunteerism and Community Service. As you know, the audit process began on December 11, 2000 and culminated with the exit conference on August 29, 2001.

As noted in the Results in Brief section of the draft report, the audit questions approximately four percent (4%) of the $14,351,222 claimed by the Commission. Please note that over 99% of the questioned costs occurred from 1994 through 1997. Less than 1% of the questioned costs occurred from 1998-2000. It should be expected that the overwhelming questioned costs would occur during the initial years of a new federal program under the guidance of a new federal agency. Even though the questioned costs seem low, please note that the Commission disagrees with the overwhelming majority of these findings.

The vast majority of the funds claimed by the Commission were subgranted to nonprofit and government agencies for the administration of AmeriCorps programs. We appreciate the draft report noting the improvements in recent years of the "more effective controls over the financial and programmatic performance of it subrecipients".

On the last page of our response, you will have a cumulative listing of the items for which we are requesting the work papers from the auditors. If you have questions or concerns, please feel free to contact me.

Sincerely,

William Lindsay
Executive Director

cc: Emery Rann, Chair, NC Commission

NORTH CAROLINA COMMISSION ON VOLUNTEERISM AND COMMUNITY SERVICE
RESPONSE TO AUDIT FINDINGS
OIG AUDIT REPORT #02-08

FINDING #1

Condition

The Commission did not submit Financial Status Reports (FSRs) for Administrative, AmeriCorps, Learn & Serve, Professional Development and Training, and the Governor's Initiative Grants on a timely basis as stipulated in the respective CNS Grants' provisions (76% late). In addition, 7 FSRs were not submitted at all...

Recommendation

We recommend that the Commission establish policies and procedures to ensure that FSRs are submitted on a timely basis and are properly completed prior to submission.

Commission Comment

The Commission disagrees with the recommendation. The Commission has been following an unpublished policy to ensure that FSRs were submitted from the Commission to the Corporation for National Service (CNS) in a timely manner and properly completed prior to submission. On December 10, 2001, this unpublished policy was converted to writing and established as Policy #FIS-08 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual. The Manual is available for review in the Commission office.

FINDING #2

Condition

The Commission did not submit Federal Cash Transactions Reports (FCTRs) on a timely basis. Our review disclosed that 6 out of 21 reports tested were submitted after the due dates...Due dates of the Federal Cash Transactions Reports are established by the Department of Health and Human Services. FCTRs are usually due 45 days after the end of the quarter.

Recommendation

We recommend that the Commission establish policies and procedures to ensure that FCTRs are submitted on a timely basis.

Commission Comment

The Commission disagrees with the recommendation. The Commission has been following an unpublished policy to ensure that Federal Cash Transactions Reports (FCTRs) are submitted in a timely manner. On December 10, 2001, this unpublished policy was converted to writing and established as Policy #FIS-06 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual. The Manual is available for review in the Commission office.

FINDING #3

Condition

Corporation approval for the 1995 purchase of equipment...was not obtained by the Commission... Equipment purchases over $500, not included in the approved budget, required the Corporation's prior written approval...The Commission could not provide any documentation of such prior approval and the approved budget did not include the... purchase.

Recommendation

We recommend that the Commission establish controls to ensure that all required purchase approvals are obtained prior to initiating the procurement action.

Commission Comment

The Commission disagrees with the recommendation. The Commission has been following an unpublished policy to ensure that all required purchase approvals are obtained prior to initiating the procurement action. On December 10, 2001, this unpublished policy was converted to writing and established as Policy #FIS-13 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual. The Manual is available for review in the Commission office.

The Commission disagrees with the questionable cost of $2,155 (purchase of equipment) in 1995. This questioned amount would have been considered an allowable expense if included in the approved budget.

FINDING #4

Condition

Payment...was made to a subrecipient...for site unemployment insurance without documented written approval... The payment was made by the Commission out of AmeriCorps funds but the formal approval process was not utilized...

Recommendation

We recommend that the Commission establish procedures to ensure that formal approval requirements are obtained on a timely basis.

Commission Comment

The Commission disagrees with the recommendation. The Commission has been following an unpublished policy to ensure that formal approval requirements are obtained on a timely basis. On December 10, 2001, this unpublished policy was converted to writing and established as Policy #FIS-01 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual. The manual is available for review in the Commission office.

The Commission disagrees with the questionable cost of $2,674 associated with the North Carolina Low Income Housing Coalition. This questioned amount represents North Carolina Unemployment Insurance liability, which would be considered an allowable expense if included in the approved budget.

FINDING #5

Condition

...subrecipients did not submit Financial Status Reports on a timely basis...

Recommendation

We recommend that the Commission establish and implement procedures to ensure that its subrecipients (a) complete FSRs properly prior to submission, (b) submit them on a timely basis, and (c) retain the appropriate supporting documentation.

Commission Comment

The Commission disagrees with the recommendation. The Commission has been following an unpublished policy to ensure that its subrecipients (a) complete FSRs properly prior to submission, (b) submit them on a timely basis, and (c) retain the appropriate supporting documentation. On December 10, 2001, this unpublished policy was converted to writing and established as Policy #FIS-10 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual. The Manual is available for review in the Commission office.

Currently, the Commission includes due dates of FSRs in the subrecipient's contract. FSRs are due to the Commission two weeks before they are due to the Corporation. This provides the Commission an opportunity to ensure that FSRs are accurate and completed properly prior to CNS submission. Email reminders are sent out from the Commission to subrecipients on a regular basis to remind them of important due dates. In addition, WBRS sends automated reminders to subrecipients notifying them of when FSRs are due.

FINDING #6

Condition

Grant authorized living allowance payments to AmeriCorps members were exceeded...

Recommendation

We recommend that the Commission establish oversight policies and procedures to ensure that its subrecipients comply with ceiling limitations for AmeriCorps member Living Allowances included in drawdown payment requests. We note that the Commission has developed a new monitoring instrument covering this area, that is intended to be used for all subgrantee visits after December 2000.

Commission Comment

The Commission disagrees with the recommendation. The Commission has been following an unpublished policy to ensure that its subrecipients comply with ceiling limitations for AmeriCorps member Living Allowances included in drawdown payment requests. On December 10, 2001, this unpublished policy was converted to writing and established as Policy #FIS-02 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual. The Manual is available for review in the Commission office.

FINDING #7

Condition

Under the provisions of Public Law 100-679, North Carolina State University is subject to Cost Accounting Standards for Educational Institutions. It is not in compliance with Cost Accounting Standard 9905.501, Consistency in Estimating, Accumulating and Reporting Costs by Educational Institutions...the University was unable to compare estimated costs to actual costs by budget line item.

Recommendation

We recommend that the Commission establish oversight policies and procedures to ensure consistency in its subrecipients' estimating, accounting and reporting practices for AmeriCorps grants.

Commission Comment

The Commission disagrees with the recommendation. The Commission has been following an unpublished policy to ensure consistency in its subrecipients' estimating, accounting and reporting practices for AmeriCorps grants. On December 10, 2001, this unpublished policy was converted to writing and established as Policy #FIS-04 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual. The Manual is available for review in the Commission office.

FINDING #8

Condition

An AmeriCorps member...performed various fundraising activities and clerical work prohibited by the AmeriCorps Provisions...

Recommendation

We recommend that the Commission re-emphasize these prohibitions to all subrecipients and monitor activities of the members during its program site visits.

Commission Comment

The Commission understands the importance of re-emphasizing prohibited activities to all subrecipients and monitoring of members during site visits. The Commission has implemented a member and site supervisor questionnaire to be administered during site visits. The questionnaire goes over each prohibited activity to ensure that members are not participating and to ensure that site supervisors are aware of prohibited activities. In addition, prohibited activities are carefully outlined in the RFP, pre-application training and technical assistance session, pre-award site visits, subrecipient start-up training and additional communications as needed. *(No new written policy recommended.)*

FINDING #9

Condition

For the 1994-95 program year, the Commission did not meet the matching requirements of the Administrative grant. The Commission did not have procedures in place to monitor its required matching costs commitment during this program year. Policies and procedures should provide for monitoring of required and actual matching costs during grant performance periods.

Recommendation

We recommend that the Commission establish policies and procedures to monitor its matching requirements throughout performance periods and take any necessary action to attempt to meet its annual requirements before completion of the period.

Commission Comment

The Commission disagrees with the recommendation. The Commission has been following an unpublished policy to monitor its matching requirements throughout performance periods and take any necessary action to attempt to meet its annual requirements before completion of the period. On December 10, 2001, this unpublished policy was converted to writing and established as Policy #FIS-11 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures. The Manual is available for review in the Commission office.

The Commission disagrees with the assertion that matching requirements of the Administrative grant were not met for the 1994-95 program year. Finding #9 indicates an Administrative match shortfall of $1,747 for this year. Signed certifications documenting time contributed to the administrative function of the Commission by two employees who worked at that time in the Personnel/Payroll Office and the Budgeting/Accounting Office in the Office of the Governor were not initially included with other match documents. These certifications were not included in the original match calculations for the second year as we initially felt our previously identified match was sufficient.

Also, pages 3 and 23 (Exhibit D) of the draft audit report erroneously show this match shortfall to be $5,189. A large portion of the Administrative funds expended in program year 1994-95 was carryover dollars from the first year of the program. For the first year of the program, administrative dollars were matched at the 15% level, while 1994-95 expenditures were matched at 20%. When calculating match percentage, carryover funds retain their identity from the year in which they are awarded. In the case of program year 1994-95, of the $291,507 expended for administrative purposes, $64,444 was carryover funds from first year of the program and matched at the 15% level. The remaining balance expended was matched at the 20% level. The attached chart (Attachment "A") developed by Ms. Betsy Kelly, former CNS Budget Officer for the Southern Cluster, documents the expenditure for the first 4 program years of the administrative grant, amount of carryover available for each year, required match percentage for each year, and the amount of match required for each year. The total required match for the 1994-95 program year was $68,138. The match documentation for 1994-95 program year exceeds $68,138 and is available in the Commission office. Work papers are requested.

FINDING #10

Condition

The Commission did not track expenditures by budget line item as stipulated in various Corporation grant provisions. Consequently, we were unable to align the Commission's booked/claimed amounts to specific CNS Program Budget line items in most cases... For AmeriCorps, the Program Director has established a worksheet showing the subgrantee budgeted funds and actual expenditures by line item. However, this analysis was done only for the most recent AmeriCorps awards and was not a part of the Commission's Financial Management System... On grants without subgrantees, such as PDAT and Administration, there was no budget line item comparison with expenditures available.

Recommendation

We recommend that the Commission establish policies, procedures and accounting practices within its current recordation systems to utilize the respective grants' appropriation codes and budget line items for tracking the funded and expended amounts by grant, program year and budget line item.

Commission Comment

The Commission disagrees with the recommendation. The Commission has been following an unpublished policy to utilize the respective grants' appropriation codes and budget line items for tracking the funded and expended amounts by grant, program year and budget line item. On December 10, 2001, this unpublished policy was converted to writing and established as Policy #FIS-03 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual. The Manual is available for review in the Commission office.

FINDING #11

Condition

The Commission was unable to track matching requirements on CNS grants to actual matching expenditures as required by Corporation Provisions. The Governor's Office's accounting system did not record matching budgets or matching expenditures. To ensure matching requirements were met, separate records were maintained for the Administrative Grant and for AmeriCorps and Learn & Serve. We identified no Commission effort to configure its accounting system to record matching budget and matching expenditure amounts... The Commission had not supplied matching information on FSRs until June 1998 for the Administrative Grant; May 1999 for AmeriCorps; and July 1999 for Learn & Serve.

Recommendation

We recommend that the Commission establish policies, procedures and accounting practices within its accounting system to identify matching requirements by grant and to monitor progress toward meeting such requirements at both the Commission and subrecipient levels.

Commission Comment

The Commission disagrees with the recommendation. The Commission has been following an unpublished policy to identify matching requirements by grant and to monitor progress toward meeting such requirements at both the Commission and subrecipient levels. On December 10, 2001, this unpublished policy was converted to writing and established as Policy #FIS-12 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual. The Manual is available for review in the Commission office.

FINDING #12

Condition

Administrative Grant records were destroyed for the period January 1994 to June 1994 although a final FSR for the Administrative Grant had not been submitted. The Commission followed the normal North Carolina State record retention process resulting in the destruction of the July 1, 1993 to June 30, 1994 fiscal year records. The records were destroyed in the fall of 2000. The Uniform Administrative Requirements issued by the Corporation state that financial and programmatic records must be retained for three years from the date the grantee submits its last expenditure report (FSR). The Commission has not submitted a final FSR.

Recommendation

We recommend that existing Commission record retention policies and practices be modified to ensure consistency with the Corporation's record retention requirements.

Commission Comment

The Commission disagrees with the recommendation. The Commission has been following an unpublished policy to ensure consistency with the Corporation's record retention requirements. On December 10, 2001, this unpublished policy was converted to writing and established as Policy #FIS-14 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual. The Manual is available for review in the Commission office.

The Administrative Grant records were destroyed for the period January 1994 to June 1994, although the final FSR for the Administrative Grant had not been submitted. This lack of documentation resulted in questionable costs in the amount of $101,686. The condition for Finding #12 states, "The Commission followed the normal North Carolina State record retention

process resulting in the destruction of the July 1, 1993 to June 30, 1994 fiscal year records." The Commission disagrees with this statement. The Commission followed the Uniform Administrative Requirements issued by the Corporation and the destruction of these records was by error. In accordance with the North Carolina state records retention procedure, all files not currently needed and over three years old are transferred to State Archives for storage. All financial records from the early years of the Commission had been archived. When the Inspector General of the Corporation notified the Commission of the upcoming full-scope financial audit, the Budget Officer in the Office of the Governor requested all archived financial records for the Commission be returned from State Archives. All records were returned to the Budget Office with the exception of the box with the January 1994 to June 1994 records. The Budget Office did not notice this box was missing and was mistakenly included with a number of other archived records that were approved by the State Budget Office to be destroyed in the fall of 2000. There is ample evidence that the fiscal funds of the Commission's Administrative Grant from January 1994 through June 1994 by the State Office of Budget and Management were spent and accounted for in a manner that is consistent with accepted accounting practices. Evidence that leads to this conclusion is as follows:

1. The fiscal administration of all federal funds awarded to any state agency is administered in accordance with the North Carolina Accounting System (NCAS). North Carolina General Statute 143-16.1, titled "Federal Funds under the Executive Budget Act" states, "All federal funds shall be expended and reported in accordance with provision of the Executive Budget Act except as otherwise provided by law."
2. The State Budget Manual issued and maintained by the North Carolina Office of State Budget and Management provides detailed guidance for all state departments, agencies and institution in the preparation and administration of their budgets.
3. An audit of the Office of the Governor for state fiscal year 1993-94 by the independent Office of the State Auditor identified no findings related to the Commission or its subgrantees.
4. The Commission submitted an FSR that covered all expenditures during the questioned timeframe..
5. Detailed analysis by Leonard G. Birnbaum and Company, Certified Public Accounts, of the fiscal administration of the Commission's Administrative Grant after June 1994 shows compliance with accepted accounting practices.

FINDING #13

Condition

Amounts drawn down by the Commission from HHS as reported by HHS are not readily reconcilable to the amounts reflected on the Commission's records, because reconciliations of these amounts were not performed...

Recommendation

We recommend that the Commission implement a process of reconciling amounts drawn down as reported by HHS to the corresponding amounts in the Commission's records. We note that the Commission has recently added a staff member to address this condition.

Commission Comment

The Commission disagrees with the recommendation. The Commission has been following an unpublished policy when reconciling amounts drawn down as reported by HHS to the corresponding amounts in the Commission's records. On December 10, 2001, this unpublished policy was converted to writing and established as Policy #FIS-05 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual. The Manual is available for review in the Commission office.

FINDING #14

Condition

Subrecipients did not maintain documentation as required by AmeriCorps Provisions

(A) ...subrecipients did not maintain required AmeriCorps member eligibility documentation

(B) ...subrecipients did not maintain required AmeriCorps member file documentation regarding enrollment and end-of-term

(C) ...subrecipients did not maintain required AmeriCorps member contracts

(D) ...subrecipients did not document required written mid-term and end-of-term AmeriCorps member evaluations

Recommendation

We recommend that the Commission reemphasize the need to adhere to the documentation requirements of AmeriCorps Provisions to its subrecipients.

Commission Comment

The Commission agrees with the importance of re-emphasizing the need for AmeriCorps subrecipients to adhere to the documentation requirements of the AmeriCorps Provisions. Currently, the Commission requires that subrecipients maintain complete member files (i.e. eligibility requirements, enrollment and exit forms, signed member contracts, mid and end of the year member evaluations) in the following manner:

1) Include member documentation requirements in the Request for Proposal process and pre-application training and technical assistance sessions
2) Pre-award site visits for new programs
3) Subrecipient contract which includes the AmeriCorps Provisions and Guidelines

4) AmeriCorps Program Directors' Start-Up Training
5) Ongoing emails and other written correspondences
6) Yearly review of member contracts by Commission Staff
7) Monitoring site visits by Commission Staff
8) Monitoring of WBRS to ensure that members are enrolled and exited in a timely fashion

The Commission understands the importance for recipients to adhere to the member documentation requirements of the AmeriCorps provisions. The Commission is committed to working with the three former AmeriCorps subrecipients identified in this finding for the completion of all member files. Work papers are requested. *(No new written policy recommended.)*

FINDING #15

Condition

Overpayments to subrecipients went undetected for long periods after completion of the grant program. One subrecipient in the AmeriCorps program...held $42,271 of unexpended funds for a period exceeding three years. Two...subrecipients in the Learn & Serve program...have indicated overpayments open for lengthy periods. The Commission's grant closeout process does not include a control procedure to compare total funds expended by the subrecipient to total payments made by the Commission. Closeout procedures at the completion of a grant should incorporate a reconciliation of claimed expenditures as reported by the final FSR with cumulative amounts drawn down...overpayment would be pursued for recovery.

Recommendation

We recommend that the Commission develop and implement an internal control procedure to ensure that the total funds expended by the subrecipient are reconciled to the total funds disbursed by the Commission to the subrecipient. We note that commission personnel are revising the closeout procedures.

Commission Comment

The Commission disagrees with the recommendation. The Commission has been following an unpublished policy to ensure that the total funds expended by the subrecipient are reconciled to the total funds disbursed by the Commission to the subrecipient. On December 10, 2001, this unpublished policy was converted to writing and established as Policy #FIS-09 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual. The Manual is available for review in the Commission office.

The Commission disagrees with the questionable costs of $40,975 (unexpended funds) and $1,296 (member living allowance refund) because the overpayment by the Commission to the North Carolina Low Income Housing Coalition (AmeriCorps) in the amount of $42,271 has been repaid and submitted to the Division of Payment Management at Health and Human Services.

The Commission disagrees with the questionable costs of $16,350 (excess drawdown) associated with the Girl Scout Council of Catawba Valley (Learn and Serve). These funds were expended for the purchase of approved equipment to support the implementation of the Learn and Serve Program. In the Girl Scouts' restricted Learn and Serve account, these funds were moved from the "Program Supplies" line item to the Fixed Asset fund for equipment purchases. The funds were used for the Learn and Serve Program, but listed under a different account. A memorandum from the Girl Scout's CPA firm of Lowdermilk Church & Co., L.L.P. explaining this transaction is attached (Attachment "B"). A detailed spreadsheet from Lowdermilk Church & Co., L.L.P. of the restricted Learn and Serve grant is also attached (Attachment "C").

The Commission disagrees with the questionable costs of $3,123 (excess drawdown) associated with Western Carolina Center (Learn and Serve). These funds were expended to support the implementation of the Learn and Serve program. The request by Western Carolina Center to redirect these funds from the approved budget was verbally approved by Commission staff.

FINDING #16

Condition

Subrecipients indicated a lack of understanding of the necessary financial and accounting controls required to track and report upon grant performance. While subrecipients have financial management systems which accommodate budgets and incurred costs, these systems have not been adapted to meet the requirements of AmeriCorps' General Provision – "Financial Management Provisions" that states that "This (Financial Management) system must be able to identify costs by programmatic year and budget line item." This weakness may result, in part, because the application review board does not include any individual with accounting or financial credentials.

Recommendation

We recommend that the Commission revise its grant application process to ensure that potential subrecipients fully understand required financial controls.

Commission Comment

The Commission disagrees with the recommendation. The Commission has been following an unpublished policy to ensure that potential subrecipients fully understand required financial controls. On December 10, 2001, this unpublished policy was converted to writing and established as Policy #FIS-07 of Section 9 (Fiscal Management) in the Commission's Policies and Procedures Manual. The Manual is available for review in the Commission office.

FINDING #17

Condition

Learn and Serve program subrecipients are not fully aware of all of the provisions applicable to the grant such as prohibited activities and retention of records. In one instance, records were destroyed prematurely and therefore resulted in questioned costs in an amount of $73,022 due to the absence of supporting documentation. This results...because the current Learn & Serve award process consists of only an "award letter" from the Commission to the subrecipients.

Recommendation

We recommend that the Commission develop a comprehensive award document that specifically, or by reference, identifies the program's provisions and regulations.

Commission Comments

The Commission disagrees with this recommendation. Such a document has already been put into effect with the 2001-2001 Learn and Serve program year. The Commission has, in fact, developed a complete and inclusive contract for Learn and Serve America Community-Based K-12 programs. This document details requirements/guidelines for subgrantees in the components of Program Management, Fiscal Management, National Identity, Participant Development, and general Grant Provisions. a template is available for review in the Commission office. *(No new written policy recommended.)*

The Commission disagrees with the questioned costs of $73,022 associated with the Catawba Valley Girl Scout Council. Due to their interpretation of the records retention clause of the Learn and Serve Provisions, financial records for 1994-97 were destroyed by the Catawba Valley Girl Scout Council on the advice of their accounting firm. The Girl Scout Council submitted a final FSR that covered all expenditures during the questioned timeframe. In addition, since 1994 the organization has undergone an annual individual audit that has shown, without exception, that Learn and Serve funds were budgeted by approved line items and spent/accounted for in a manner consistent with accepted accounting practices. These audit reports also indicate that, consistent with Learn and Serve Provisions, grant monies were kept in a segregated account (A-9) separate from the organization's general operating fund (A-1). Although original receipts and/or documentation from 1994-97 were destroyed, these existing audit reports and papers show that the $73,022 was expended within Learn and Serve guidelines.

RESPONSES TO "OPEN" PRE-AUDIT SURVEY FINDINGS
OIG Audit Report No. 00-08

FINDING #3

Lack of assessment of subgrantee applicants' financial systems during the selection process... Selection officials do not consider the adequacy of the applicants' financial systems during the Commission's subgrantee selection process... In addition, Commission selection procedures do not require Commission personnel to request information from the applicants related to their financial systems.

Current Status

The Commission has committed to amend its AmeriCorps procedures manual to include fiscal assessments before grants are awarded to new subrecipients. We consider this finding open.

Commission Comment

Please refer to Commission Comments in OIG Audit Report #02-08 Finding #16 and the establishment of Policy #FIS-07, Section 9 (Fiscal Management), in the Commission's Policies and Procedures Manual.

FINDING #4

Lack of evidence of FSR review, including matching recalculation. Commission procedures indicate that subgrantees' FSRs are reviewed, and that matching requirements are recalculated. However no documentation exists supporting that this review was performed. In addition, Commission personnel do not compare the FSRs to the subgrantees' accounting systems or other supporting documentation during site visits. Also, we identified one AmeriCorps FSR that was not properly carried forward from the prior reported FSR submitted to the Corporation.

Current Status

We consider this finding open.

Commission Comment

Please refer to Commission Comments in OIG Audit Report #02-08 Finding #5 and the establishment of Policy #FIS-10, Section 9 (Fiscal Management), in the Commission's Policies and Procedures Manual.

FINDING #6

The Commission did not maintain all required FSRs... The Commission was unable to provide us with FSRs for the 1995 through 1998 program years for seven of the eight Learn and Serve subgrantees tested. This lack of documentation precluded us from determining whether the North Carolina Commission submitted FSRs for learn and Serve grants to the Corporation in a timely manner. In addition, we were also unable to determine the accuracy of FSRs submitted to the North Carolina Commission by subgrantees, as well as the accuracy of FSRs submitted by the Commission to the Corporation, due to various missing quarterly FSRs.

Current Status

The Commission is committed to ensure that all FSRs submitted by subrecipients, as well as FSRs submitted by the Commission to the Corporation are retained and available for review. We consider this finding open.

Commission Comment

Please refer to Commission Comments in OIG Audit Report #02-08 Findings #5 and #12, and the establishment of Policies #FIS-10 and #FIS-14, Section 9 (Fiscal Management), in the Commission's Policies and Procedures Manual.

FINDING #7

The Commission's evaluating and monitoring system for subgrantees needs to be improved. During our review of monitoring folders for subgrantees, we determined that certain information was not included. Specifically, the names of the member files reviewed, identification of member files where exceptions were noted and procedures followed to select member files reviewed were not included. In addition, comments included on the checklists were general in nature and prevented others or us from re-performing procedures completed by North Carolina Commission personnel. The lack of specific documentation prevents us from determining the adequacy of the monitoring procedures performed by North Carolina Commission personnel.

Current Status

The Commission, while noting that it follows the Corporation's monitoring module, has proposed that it enlist management consultants within the North Carolina Office of Budget and Management to identify components of the current monitoring tool in need of strengthening and develop strategies to address such areas. We consider this finding open.

Commission Comment

The Commission revised its monitoring tool for FY00-01. The new tool has the following components: Review of member files, AmeriCorps member training, supervision and support, reporting and communication, grantee policies and procedures, AmeriCorps program objectives and evaluation, financial management, continuous improvement and community consultation, service site visits, interview with member and interview with site supervisor.

Module C: AmeriCorps Member Files is designed to include the name of each member file sampled. During each site visit, we take copies of all files sampled and note any follow up needed. Immediate feedback is given at the end of each site visit. The Program Director signs off on the tool at the end of each visit, confirming they are aware of, and agree with, any findings. Written feedback and a copy of monitoring tool is provided to the subgrantee at a later date.

In response to the audit, the Commission again revised its monitoring tool for FY 01-02 (Attachment "D"). The tool consists of the following components:

- Module A: Record of Grantee Performance
- Module B: Policies and Procedures
- Module C: AmeriCorps Member Personnel Files
- Module D: AmeriCorps Member Support, Training and Supervision
- Module E: Program Evaluation
- Module F: Financial Compliance
- Module G: Continuous Improvement and Community Consultation
- Module H: Service Site Visits
- Module I: Financial Status Report Analysis and Feedback
- Module J: Progress Report Feedback
- Module K: Review of Continuing and Re-competing Programs
- Module L: Grantee Audit Report Control Log
- Module M: Program Inclusion and Accessibility

This inclusive monitoring tool further enhances the Commission's ability to adequately evaluate and monitor subgrantees.

FINDING #8

Lack of documentation of review of OMB Circular A-133 Reports or other audit reports from subgrantees... However, the Commission does not document the review of subgrantee OMB Circular A-133 audits or other audit reports as part of the monitoring process. Therefore, we were not able to determine if the Commission routinely reviews these reports to determine if auditors have identified control weaknesses or instances of non-compliance related to the AmeriCorps program.

Current Status

The Commission, while noting its compliance with the Corporation's Policies and Procedures Manual, specifically that section entitled "Tracking Findings of Audit Reports," has committee to require Commission staff to attach a memorandum to the audit reports evidencing review of the reports before they are filed. We consider this finding to remain open.

Commission Comment

Please refer to Commission Comments in OIG Audit Report #02-08 Finding #7 and the establishment of Policy #FIS-04, Section 9 (Fiscal Management), in the Commission's Policies and Procedures Manual.

RESPONSE TO QUESTIONABLE COSTS
OIG Audit Report #02-08

The North Carolina Commission on Volunteerism and Community Service wishes to respond to the following questionable costs outlined in OIG Audit Report #02-08, *Results in Brief.*

AMERICORPS

- ***Member Living Allowances - Overpayments*** ***$21,042***
  NOTE: The Commission requests the auditors' work papers that indicate the computation or audit methodology used to calculate these questionable costs. *(See response to audit Finding #14.)*

- ***Member Living Allowance – Lack of Eligibility Documentation*** ***$79,970***
  The Commission is committed to working with the three former AmeriCorps subrecipients identified in this finding for the completion of all member files (NC State - $28,802; Low Income Housing - $46,006; UNC-CH - $5,162). Living allowances and related benefits were questioned.
  NOTE: The Commission requests the auditors' work papers that indicate the missing documents from individual member files that were used to calculate these questionable costs.

- ***Unsupported Costs (lack of documentation)*** ***$195,219***
  The Commission disagrees with the questionable cost of $193,113 (NC State University-Wayne County). Due to their interpretation of the record's retention clause of the AmeriCorps Provisions which states, "All financial records, supporting documentation, statistical records, evaluation data, participant information, and personnel records for three years from the date of the final submission of the Financial Status Report", all records for the time period of October 1, 1994 - September 30, 1995 were destroyed in September 1999. The University submitted a final FSR that covered all expenditures during the questioned timeframe. For the year 1994-95 for which the files had been destroyed, there were no irregularities in North Carolina State University's A-133 Audit Report that may have involved the administration of the AmeriCorps program.
  NOTE: The Commission requests the auditors' work papers that indicate the computation or audit methodology used to calculate the remaining $2,106 questionable costs.

- ***Unexpended Funds Not Returned to the Commission or Corporation*** ***$42,271***
  The Commission disagrees with the questionable cost of $42,271. The overpayment by the Commission to the NC Low Income Housing Coalition (AmeriCorps program) has been repaid and submitted to the Division of Payment Management at Health and Human Services. *(See response to audit Finding #15.)*

- ***Unauthorized Expenditure*** ***$2,674***
  The Commission disagrees with the questionable cost of $2,674 associated with the North Carolina Low Income Housing Coalition. This questioned amount represents North Carolina Unemployment Insurance liability, which would be considered an allowable expense if included in the approved budget. *(See response to audit Finding #4.)*

- ***Administrative Costs Questioned – Incorrect Rate*** ***$13,162***
  The Commission disagrees with the questionable cost of $8,076 associated with exceeding the 5% administrative cost ceiling at UNC-Child Care Corps. Administrative costs were budgeted to provide a six-week training course to AmeriCorps members. While these funds could have been used to support administrative costs, the University chose to use the funds for direct training costs.

  The Commission disagrees with the questionable cost of $5,086. The Commission made a three-year AmeriCorps grant to the NC Low Income Housing Coalition from FY 94-95 through FY 96-97. The administrative costs claimed during this 3-year period was below the allowable 5% administrative cost ceiling. *(See response to audit Finding #6.)*

- ***Administrative Costs Questioned-Applicable to other Questioned Costs*** ***$13,763***
  NOTE: The Commission requests the auditors' work papers that indicate the computation or audit methodology used to calculate these questionable costs.

- ***Questioned Education Awards*** ***$42,525***
  On December 11, 2001, the Commission received from the Office of the Inspector General a roster of names of AmeriCorps members whose educational awards were questioned. *(See response to audit Finding #14.)*
  NOTE: The Commission requests the auditors' work papers that indicate the missing documents from individual member files that were used to calculate these education awards.

LEARN AND SERVE

- ***Unsupported Costs (Lack of Documentation)*** ***$73,022***
  The Commission disagrees with the questioned costs of $73,022 associated with the Catawba Valley Girl Scout Council. Due to their interpretation of the records retention clause of the Learn and Serve Provisions, financial records for 1994-97 were destroyed by the Catawba Valley Girl Scout Council on the advice of their accounting firm. The Girl Scout Council submitted a final FSR that covered all expenditures during the questioned timeframe. In addition, since 1994 the organization has undergone an annual individual audit that has shown, without exception, that Learn and Serve funds were budgeted by approved line items and spent/accounted for in a manner consistent with accepted accounting practices. These audit reports also indicate that, consistent with Learn and Serve Provisions, grant monies were kept in a segregated account (A-9) separate from the organization's general operating fund (A-1). Although original receipts and/or documentation from 1994-97 were destroyed, these existing audit reports and papers show that the $73,022 was expended within Learn and Serve guidelines. *(See response to audit Finding #17.)*

- ***Unexpended Funds Not Returned to the Commission/Corporation*** ***$19,473***
  The Commission disagrees with the questionable costs of **$16,350** associated with the Girl Scout Council of Catawba Valley. These funds were expended for the purchase of approved equipment to support the implementation of the Learn and Serve Program. In the Girl Scouts' restricted Learn and Serve account, these funds were moved from the "Program Supplies" line item to the Fixed Asset fund for equipment purchases. The funds were used for the Learn and Serve Program, but listed under a different account. A memorandum from the Girl Scout's CPA firm of Lowdermilk Church & Co., L.L.P. explaining this transaction is attached (Attachment "B"). A detailed spreadsheet from Lowdermilk Church & Co., L.L.P. of the restricted Learn and Serve grant is also attached (Attachment "C"). *(See response to audit Finding #15.)*

  The Commission disagrees with the questionable costs of **$3,123** associated with Western Carolina Center. These funds were expended to support the implementation of the Learn and Serve program. The request by Western Carolina Center to redirect these funds from the approved budget was verbally approved by Commission staff. *(See response to audit Finding #15.)*

PDAT

- ***Unsupported Costs (Lack of Documentation)*** ***$433***
  An explanation of this cost was not included in the audit report.
  NOTE: The Commission requests the auditors' work papers that indicate the computation or audit methodology used to calculate this questionable cost.

Administration

- ***Unsupported Costs (Lack of Documentation)*** ***$101,686***
  The Administrative Grant records were destroyed for the period January 1994 to June 1994. This lack of documentation resulted in questionable costs in the amount of $101,686. The condition for Finding #12

states, "The Commission followed the normal North Carolina State record retention process resulting in the destruction of the July 1, 1993 to June 30, 1994 fiscal year records." The Commission disagrees with this statement. The Commission followed the Uniform Administrative Requirements issued by the Corporation. In accordance with the North Carolina state records retention procedure, all files not currently needed and over three years old are transferred to State Archives for storage. All financial records from the early years of the Commission had been archived. When the Inspector General of the Corporation notified the Commission of the upcoming full-scope financial audit, the Budget Officer in the Office of the Governor requested all archived financial records for the Commission be returned from State Archives. All records were returned to the Budget Office with the exception of the box with the January 1994 to June 1994 records. The Budget Office did not notice this box was missing and was mistakenly included with a number of other archived records that were approved by the State Budget Office to be destroyed in the fall of 2000. There is ample evidence that the fiscal funds of the Commission's Administrative Grant from January 1994 through June 1994 by the State Office of Budget and Management were spent and accounted for in a manner that is consistent with accepted accounting practices. Other evidence leads to this conclusion as follows:

- The fiscal administration of all federal funds awarded to any state agency is administered in accordance with the North Carolina Accounting System (NCAS). North Carolina General Statute 143-16.1, titled "Federal Funds under the Executive Budget Act" states, "All federal funds shall be expended and reported in accordance with provision of the Executive Budget Act except as otherwise provided by law."
- The State Budget Manual issued and maintained by the North Carolina Office of State Budget and Management provides detailed guidance for all state departments, agencies and institution in the preparation and administration of their budgets.
- An audit of the Office of the Governor for state fiscal year 1993-94 by the independent Office of the State Auditor identified no findings related to the Commission or its subgrantees.
- The Commission submitted an FSR that covered all expenditures during the questioned timeframe.
- Detailed analysis by Leonard G. Birnbaum and Company, Certified Public Accounts, of the fiscal administration of the Commission's Administrative Grant after June 1994 shows compliance with accepted accounting practices.

(See response to audit Finding #12.)

- ***Other*** ***$3,171***
  - The Commission disagrees with the questionable cost of **$2,155** associated with a purchase of equipment in 1995. This questioned amount would have been considered an allowable expense if included in the approved budget.
  - The Commission disagrees with the questionable cost of **$602** (duplicate payment for office supplies). The Commission has resolved this duplication of payment with the vendor.
  - The Commission disagrees with the questionable cost of **$132** (unreasonable hotel charge). The hotel did not honor the rate established for conference participants.
  - The Commission disagrees with the questionable cost of **$282** (print and framing). If included in the approved budget in the line item of Commissioner support/recognition, this would have been an allowable expense.

- ***Questioned Costs Due To Match Shortfall*** ***$5,189***

The Commission disagrees with the assertion that matching requirements of the Administrative grant were not met for the 1994-95 program year. Finding #9 indicates an Administrative match shortfall of $1,747 for this year. Signed certifications documenting time contributed to the administrative function of the Commission by two employees who worked at that time in the Personnel/Payroll Office and the Budgeting/Accounting Office in the Office of the Governor were not initially included with other match documents. These certifications were not included in the original match calculations for the second year as we initially felt our previously identified match was sufficient. Also, pages 3 and 23 (Exhibit D) of the draft audit report erroneously show this match shortfall to be $5,189. *(See response to audit Finding #9.)* NOTE: The Commission requests the auditors' work papers that indicate the computation or audit methodology used to calculate this questionable cost.

REQUEST FOR AUDITORS' WORK PAPERS
OIG AUDIT #02-08

The North Carolina Commission on Volunteerism and Community Service requests the auditors' work papers as they relate to the following questionable costs.

QUESTIONABLE COSTS

AmeriCorps

- ***Member Living Allowance – Overpayments*** ***$21,042***
  The Commission cannot determine how this cost was calculated.

- ***Member Living Allowance – Lack of Eligibility Documentation*** ***$79,970***
  The Commission is committed to working with the three former AmeriCorps subrecipients identified in this finding for the completion of all member files (NC State - $28,802; Low Income Housing - $46,006; UNC-CH - $5,162). Living allowances and related benefits were questioned. The Commission requests the work papers that indicate which documents are missing from member files.

- ***Unsupported Costs (lack of documentation)*** ***$195,219***
  The Commission can account for $193,113 of the questionable costs in the category; however, it is unable to determine how the remaining $2,106 was calculated.

- ***Administrative Costs Questioned-Applicable to other Questioned Costs*** ***$13,763***
  The Commission cannot determine how this cost was calculated.

- ***Questioned Education Awards*** ***$42,525***
  The Commission cannot determine how this cost was calculated. The Commission requests the work papers that indicate which documents are missing from member files to calculate the questioned education awards.

PDAT

- ***Unsupported Costs (Lack of Documentation)*** ***$433***
  The Commission cannot determine how this cost was calculated.

LEARN AND SERVE

No work papers requested

ADMINISTRATION

- ***Questioned Costs Due to Match Shortfall*** ***$5,189***
  The audit report contains a discrepancy in the amount of match shortfall. Finding #9 indicates a shortfall of $1,747; Pages 3 and 23 (Exhibit D) indicate a match of shortfall of $5,189. Signed certifications documenting time contributed to the administrative function of the Commission by two employees who worked at that time in the Personnel/Payroll Office and the Budgeting/Accounting Office in the Office of the Governor were not initially included with other match documents. These certifications were not included in the original match calculations for the second year as we initially felt our previously identified match was sufficient.

Appendix B

Response of the Corporation for National and Community Service

CORPORATION
FOR NATIONAL
SERVICE

MEMORANDUM

TO: Luise S. Jordan, Inspector General

THRU: William Anderson, Deputy Chief Financial Officer

FROM: Peg Rosenberry, Director of Grants Management
Peter Heinaru, Director of AmeriCorps State/National

DATE: January 2, 2002

SUBJECT: Response to OIG Draft Audit report 02-08: Audit of Corporation for National and Community Service Grant Numbers 94ASCNC034, 94LCSNC010, 95PDSNC027, and 94SCSNC027, Awarded to the North Carolina Commission on Volunteerism and Community Service

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We have reviewed the draft audit report of the North Carolina Commission on Volunteerism and Community Service grants. Due to the limited timeframe for response, we have not yet conducted a comprehensive review nor analyzed documentation from the North Carolina Commission supporting the questioned costs. We will respond to all findings and recommendations when the audit is issued. The North Carolina Commission has provided an extensive response and begun corrective action as needed. As noted in the Commission response, we, too, will need to review the working papers to resolve most of the questioned costs. In many cases, we cannot determine the basis for the questioned costs without that documentation.