OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Incurred Cost Audit of Grants Awarded to the Kentucky Commission on Community Volunteerism and Service

OIG Audit Report Number 02-10
October 23, 2001

Financial Schedules
and
Independent Auditors' Report
For the Period
January 28, 1994 to December 31, 2000

Prepared by:

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Contract No. GS 23F 8127H
Task Order No. 00-01, Task F

This report was issued to Corporation management on April 18, 2002. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than October 15, 2002, and complete its corrective actions by April 18, 2002. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

CORPORATION
FOR NATIONAL
SERVICE

Office of Inspector General
Corporation for National and Community Service
Audit Report 02-10

Incurred Cost Audit of Grants Awarded to the Kentucky Commission on Community Volunteerism and 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 Act's requirements, 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 that execute specific programs. Through these subgrantees, AmeriCorps members perform service to meet educational, human, environmental, and public safety needs.

OIG engaged KPMG LLP to audit Corporation grants to the Kentucky Commission and its subgrantees for the period from January 28, 1994 through December 31, 2000 for AmeriCorps, Learn and Serve, Administration, and Professional Development and Training programs. The auditors identified total questioned claimed costs[1] of $5,587,955 (approximately 32.7%) out of total claimed costs of more than $17 million. A significant portion of the questioned costs ($2,724,186) was due to the inability of subgrantees to provide supporting documentation, such as general ledgers and payroll records, because their record retention policies did not comply with requirements in the AmeriCorps Provisions.

The auditors identified a number of conditions relating to internal control over financial reporting that are characterized as material weaknesses. First, the report concludes that the Commission lacked adequate procedures for monitoring the financial activity and related compliance with laws and regulations of its subgrantees, especially retention of verifiable records to support reported program results. The second material weakness relates to the absence of an effective system at the Commission for ensuring quality control of accounting and financial reporting activities and for assessing the system for internal controls to safeguard assets, produce reliable financial reports, and complying with laws and regulations.

Since the Commission lacked an adequate system during the audit period to monitor its subgrantees' financial and programmatic activities and some of the subgrantees failed to maintain adequate accounting and/or program files, the scope of the audit work was not

[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 required additional support by the grantee, or which require interpretation of allowability by the Corporation.

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sufficient to enable the auditors to express an opinion on the Commission's Schedules of Award Costs. The report explains that this disclaimer results from the lack of controls over financial reporting and compliance, the significance of the questioned costs identified in relation to the total claimed costs and the nature of other report findings.

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 most of the findings and recommendations, especially with the auditors' interpretation of record retention requirements. Additionally, the Commission noted that it has recently implemented a risk-based monitoring tool that deals with both program and fiscal monitoring requirements. The Corporation indicated that it would respond to the report's findings and recommendations during the audit resolution process. The auditors responded to the Commission's comments in Appendix C.

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.

Office of Inspector General
Corporation for National and Community Service
Incurred Cost Audit of Grants Awarded to the
Kentucky Commission on Community Volunteerism and Service

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2001 M Street, N.W.
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Independent Auditors' Report

Inspector General
Corporation for National and Community Service:

At your request, KPMG LLP performed an incurred cost audit of the costs claimed by the Kentucky Commission on Community Volunteerism and Service and its subgrantees from January 28, 1994 through December 31, 2000. The primary objective of the incurred cost audit was to express an opinion concerning whether the Schedules of Award Costs (Exhibits A through E) fairly present the costs incurred by the Commission, during the period under audit, in conformity with the terms of the Commission's grant agreements with the Corporation for National and Community Service. Additionally, in planning and performing our audit we also considered the Commission's internal controls over financial reporting and its compliance with federal laws, applicable regulations, and award Provisions. Further, we inquired of the Commission and its subgrantees selected for audit, as to their awareness of the Corporation's Government Performance and Results Act (GPRA) goals.

SUMMARY

Our report expresses a disclaimer of opinion on the Commission's Schedules of Award Costs due to the lack of controls over financial reporting and compliance, as well as, the nature of the findings identified, and the significance of the questioned costs identified in relation to total costs incurred.

Our consideration of internal control over financial reporting identified a number of matters which require correction. We consider the following conditions to be material weaknesses:

- **Grants and Program Management** – Adequate procedures for monitoring the financial activity and related compliance with laws and regulations of the Commission's subgrantees are not in place. Procedures for ensuring that verifiable records are maintained to support reported results in accordance with program requirements were not effective.

- **Financial Management and Reporting** – An effective system for ensuring quality control of accounting and financial reporting activities at the Commission for the period under review was not in place. Additionally, a comprehensive process for assessing the system of internal control for safeguarding assets,

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producing reliable financial reports, and complying with laws and regulations was not in place.

Our tests of compliance with laws and regulations disclosed instances of noncompliance resulting in questioned claimed costs as follows:

- $5,170,103 of claimed federal costs out of total claimed federal costs of $14,419,096 (35.9%) for the 11 AmeriCorps and 1 Learn & Serve subgrantees tested;
- Related match of $2,574,693 of the total reported match of $6,415,353 (40.1%) for these same 12 subgrantees;
- $367,637 of claimed federal costs out of total claimed federal costs of $1,587,656 (23.2%) for the Commission's Administrative and PDAT grants;
- Related match of $266,463 of the total reported match of $971,465 (27.4%) for the Commission's Administrative grant;
- $50,215 of claimed federal costs (100%) and $13,500 of related match (100%) for the one subgrantee selected for testing for which we could not gain access to the related records; and
- $827,562 related to Education Awards that may have been awarded to ineligible members.

In total, we questioned $5,587,955 (32.7%) of the claimed federal costs, and $2,854,656 (34.6%) of the related match amounts, for all grants administered by the Commission during the audit period.

A significant portion of the questioned costs was due to the inability of subgrantees to provide supporting documentation because their record retention policies did not comply with AmeriCorps Provisions. The Provisions state that the grantee must retain and make available all financial records, supporting documentation, statistical records, evaluation data, member information and personnel records for 3 years from the date of the submission of the final expenditure report (Financial Status Report). However, most of the grants at the Commission have not had their final Financial Status Report submitted. In addition, the Corporation has not closed out any of these grants. Because the Corporation did not specifically inform the Commission on the length of time the records related to the AmeriCorps program needed to be maintained, the Commission, in turn, did not provide this guidance to its subgrantees. For some subgrantees, the lack of documentation was a result of change in subgrantee location or management, and in other cases it was due to the subgrantee records retention policy being much shorter than the AmeriCorps Provisions' requirement. Of the above questioned claimed federal and match costs, $2,724,186 represents amounts related to the lack of supporting financial records such as general ledgers and payroll records.

The Corporation, pursuant to the authority of the National and Community Service Act of 1990, as amended, awards grants and cooperative agreements to State Commissions, nonprofit entities and tribes and territories to assist in the creation of full and part time national and community service programs. State Commissions are prohibited from

directly operating national service programs. State Commissions provide AmeriCorps funding to approved applicants for service programs within their states and are responsible for monitoring these subgrantees' compliance with grant requirements. These awards provide funding for AmeriCorps members to perform service to meet educational, human, environmental, and public safety needs throughout the nation. In return for this service, eligible members may receive a living allowance and post service educational benefits.

The Kentucky Commission on Community Volunteerism and Service located in Frankfort, Kentucky, currently operates as part of the State of Kentucky's Cabinet of Families and Children, but was formerly a part of the State of Kentucky's Council on Post Secondary Education (prior to January 2000). The Corporation and the State of Kentucky provide the only sources of funding for the Commission. Receipt and disbursement of grant funds are processed and accounted for within the State of Kentucky's general ledger system. The Commission has received AmeriCorps grant funds from the Corporation since program year 1994-95.

Only 6 of the 13 Commission subgrantees that we selected to audit currently continue to receive Corporation funds – Homeless and Housing Coalition of Kentucky, Simpson County Board of Education, Eastern Kentucky University, Morehead State University, Big Sandy Area Development District, and Green River Area Development District. Nonetheless, the various compliance issues identified in relation to all subgrantees indicate that the Commission needs to provide more guidance to subgrantees on record retention and documentation standards for such items as eligibility, time sheets, member service hours, AmeriCorps roster updates on member status, and other claimed costs submitted for reimbursement and matching costs reported. In addition, the Commission should establish policies and procedures to ensure that its subgrantees maintain financial management systems that include standard accounting codes and a clear audit trail, and are capable of distinguishing expenditures attributable to grant and non-grant funding, identifying costs by budget line item, and differentiating between direct and indirect costs. The Commission should also implement policies and procedures requiring its subgrantees to review member support and program operating matching requirements and ensure compliance.

The following sections comprise our report on the Schedules of Award Costs, our consideration of the Commission's internal control over financial reporting, our tests of the Commission's compliance with certain provisions of applicable laws, regulations, and the terms of the Corporation's grant awards, and the Commission's and our responsibilities.

REPORT ON THE SCHEDULES OF AWARD COSTS

We were engaged to audit the accompanying AmeriCorps Consolidated, Learn & Serve Consolidated, Administrative, Program Development and Training (PDAT), and State Disability Funds Schedules of Award Costs (Exhibits A through E) for the Kentucky Commission on Community Volunteerism and Service, a grantee of the Corporation for National and Community Service, for the awards and award periods listed below:

Program	Award Number	Award Period
AmeriCorps	94ASCKY018	9/1/94 – 8/31/00
	00ASCKY018	9/1/00 – 8/31/01
	00ASFKY018	9/1/00 – 8/31/01
Learn & Serve	94LCSKY003	7/1/94 - 9/30/99
Administrative	94SCSKY017	1/28/94 – 12/31/00
Program Development and Training (PDAT)	95PDSKY017	1/1/95 – 12/31/00
State Disability Funds	97DSCKY019	2/1/97 – 12/31/99

Our audit period covered (a) program years 1994-95 through the first quarter of 2000-01 for the AmeriCorps program and (b) the entire award periods noted above for the Learn & Serve, Administrative, PDAT and State Disability Funds programs.

As discussed in our Report on Internal Control over Financial Reporting and our Report on Compliance, the Commission did not have an adequate system in place, during the period under audit, to monitor the financial and programmatic activities of its subgrantees. Additionally, certain of the Commission's subgrantees did not maintain adequate accounting records and/or AmeriCorps program files, and adequate evidential matter in support of recorded transactions was not available in all cases. As a result, we identified instances of noncompliance and questioned costs, which are material to the Schedules of Award Costs.

Further, there were several changes in Commission and subgrantee employees and key management personnel during the period under audit, and certain former subgrantees no longer participate in or administer the AmeriCorps or Learn & Serve Programs. As a result, present management of both the Commission and its subgrantees was unable to furnish us with knowledgeable representation of facts and circumstances regarding certain transactions arising during the audit period. It was impracticable to extend our procedures sufficiently to determine the extent to which the Schedules of Award Costs may have been affected by the foregoing conditions.

Because of the matters discussed in the two preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying AmeriCorps Consolidated, Learn & Serve Consolidated, Administrative, PDAT, and State Disability Funds Schedules of Award Costs.

The Schedules of Award Costs by subgrantee (Exhibits F-1 through F-13) are presented for additional analysis of the AmeriCorps Consolidated Schedule of Award Costs (Exhibit A) rather than to present the costs incurred by the individual subgrantees. Because of the matters discussed in the second and third preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on this information.

Exhibit A

Kentucky Commission on Community Volunteerism and Service
AmeriCorps
Consolidated Schedule of Award Costs
From September 1, 1994 to December 31, 2000

Cost Category	Approved Budget	Claimed Costs	Questioned Costs
Member Support Costs:			
Living Allowance	$ 11,044,863	$ 7,544,409	$ 2,252,959
FICA & Workers Comp.	959,897	611,465	151,853
Health Care	1,127,689	672,785	199,816
Subtotal	13,132,449	8,828,659	2,604,628
Other Member Costs:			
Training & Education	355,364	279,943	101,907
Uniforms	6,951	7,060	1,056
Other	43,640	5,454	-
Subtotal	405,955	292,457	102,963
Staff:			
Salaries	2,444,208	1,960,279	268,178
Benefits	551,931	423,719	36,712
Training	54,063	25,873	2,671
Other	36,325	47,904	-
Subtotal	3,086,527	2,457,775	307,561
Salaries/Living Allowance	-	1,598,802	19,802
Benefits/FICA	-	144,510	-
Operating Costs	1,430,020	1,345,794	419,579
Internal Evaluation:	71,346	51,416	10,000
Administration:	606,409	280,626	35,912
Missing General Ledger Detail:	-	71,203	71,203
Adjustment to Agree General Ledger to FSRs:	-	(62,379)	97,522
Federal Costs Claimed in Excess of Approved Percentage:			
Section A	-	-	376,646
Section B-F	-	-	1,120,169
Total Corporation Funds:	18,732,706	15,008,863	5,165,985
Total Matching Funds:	8,285,328	6,647,989	2,570,938
Total Funds:	$ 27,018,034	$ 21,656,852	$ 7,736,923

See accompanying notes to Schedules of Award Costs.

Exhibit B

Kentucky Commission on Community Volunteerism and Service
Learn & Serve
Consolidated Schedule of Award Costs
From July 1, 1994 to September 30, 1999

	Approved Budget	Claimed Costs	Questioned Costs
Corporation Funds			
Micro City Government	$ 50,215	$ 50,215	$ 50,215
Kentucky River Foothills Development	63,500	58,388	4,118
All Other Learn & Serve Subgrantees	310,758	373,641	N/A
Total Corporation Funds	424,473	482,244	54,333
Match Funds			
Micro City Government	-	13,500	13,500
Kentucky River Foothills Development	13,673	15,510	3,755
All Other Learn & Serve Subgrantees	-	593,130	N/A
Total Match Funds	13,673	622,140	17,255
Total Funds	$ 438,146	$ 1,104,384	$ 71,588

See accompanying notes to Schedules of Award Costs.

Exhibit C

Kentucky Commission on Community Volunteerism and Service
Administrative Award
Schedule of Award Costs
From January 28, 1994 to December 31, 2000

Cost Category	Approved Budget	Claimed Costs	Questioned Costs
Personnel	$ 946,660	$ 774,652	$ -
Travel	144,800	157,595	
Subcontracts/Grants/Agreements	63,071	2,181	-
Operating Costs	91,357	61,353	6,423
Other Costs	299,291	120,592	-
Indirect Costs	-	8,450	-
Unidentified Reduction in Budget	(4,300)	-	-
Awards Not Subject to Match Requirements			
Interim PDAT	10,000	-	-
Disability Funds	69,321	-	-
Unified State Plan	6,000	-	-
Questioned Costs Not Identified with a Specific Budget Line	-	-	191,736
Federal Costs Claimed in Excess of Approved Percentage	-	-	94,015
Total Corporation Funds Prior to Carryover Deduction	1,626,200	1,124,823	292,174
Less Carryover Funds	(241,044)	-	-
Total Corporation Funds	1,385,156	1,124,823	292,174
Total Matching Funds	1,110,328	971,465	266,463
Total Funds	$ 2,495,484	$ 2,096,288	$ 558,637

See accompanying notes to Schedules of Award Costs.

Exhibit D

Kentucky Commission on Community Volunteerism and Service
Program Development and Training (PDAT)
Schedule of Award Costs
From January 1, 1995 to December 31, 2000

Cost Category	Approved Budget	Claimed Costs	Questioned Costs
Program Staff Salary & Benefits	$ 12,660	$ -	$ -
Program Staff Development	72,220	246,399	-
Consultants	23,600	11,633	-
Training Events	336,879	-	-
Sub-contracts, Sub-grants	101,875	-	-
Communication - Systems	12,500	-	-
Supplies	4,755	6,214	-
Other	43,930	197,606	-
Questioned Costs Not Identified with a Specific Budget Line	-	-	75,463
Total Corporation Funds Prior to Carryover Deduction	608,419	461,852	75,463
Less: Carryover Funds	(71,098)	-	-
Total Corporation Funds	$ 537,321	$ 461,852	$ 75,463

See accompanying notes to Schedules of Award Costs.

Exhibit E

Kentucky Commission on Community Volunteerism and Service
State Disability Funds Grant Award
Schedule of Award Costs
From February 1, 1997 to December 31, 1999

Cost Category	Approved Budget	Claimed Costs	Questioned Costs
Outreach / Recruitment	$17,300	$0	$ -
Training / Technical Assistance	12,788	716	-
Reasonable Accommodation	45,133	265	-
Total Corporation Funds Prior to Carryover Deduction	75,221	981	-
Less: Carryover Funds	(45,000)	-	-
Total Corporation Funds	$ 30,221	$ 981	$ -

See accompanying notes to Schedules of Award Costs.

Kentucky Commission on Community Volunteerism and Service
Notes to Schedules of Award Costs

1. Summary of Significant Accounting Policies

Reporting Entity

The accompanying Schedules of Award Costs include amounts budgeted, claimed, and questioned under AmeriCorps, Learn & Serve, Administrative, Program Development and Training (PDAT), and State Disability grants awarded to the Kentucky Commission on Community Volunteerism and Service by the Corporation for National and Community Service for the period January 28, 1994 to December 31, 2000.

The Commission subsequently awards its grant funds to numerous subgrantees that administer the AmeriCorps and Learn & Serve programs and report financial and programmatic results to the Commission.

Basis of Accounting

The accompanying Schedules have been prepared to comply with the Provisions of the grant agreements between the Corporation and the Commission. The information presented in the Schedules has been prepared from the reports submitted by the Commission to the Corporation and the accounting records of the Commission and its subgrantees. 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 Schedules of Award Costs include the cost of equipment purchased during the period rather than a provision for depreciation. The equipment acquired is owned by the Commission 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.

Explanation of Selected Schedule Line Items

Salaries/Living Allowance and Benefits/FICA

These line items include total claimed and questioned costs related to staff salaries and related benefits and member living allowances and related benefits for one subgrantee that did not track staff and member payroll separately for most program years.

Missing General Ledger Detail

This line reports the amount of claimed and questioned costs related to the period of time for which one subgrantee could not provide general ledger detail or other documentation supporting the costs claimed during that period.

Adjustment to Agree General Ledger to Financial Status Reports (FSRs)

AmeriCorps general ledger detail provided by various subgrantees did not agree to the submitted FSRs. The amount on this line represents the difference between these two sources of information.

Federal Costs Claimed in Excess of Claimed Percentage

The results of the incurred cost audit indicated that various subgrantees did not meet the matching requirements of their approved AmeriCorps budgets. Such requirements are divided between Section A costs (member support costs) and Sections B-F costs (other costs). In the accompanying Schedules of Award Costs, these lines represent the amount of questioned costs resulting from the subgrantees' failure to meet the matching requirements in each cost section.

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 required additional support by the grantee or which require interpretation of allowability by the Corporation. Certain amounts included in questioned member support costs are based on estimates. Questioned costs included on the accompanying Schedules do not include potentially disallowed education awards related to ineligible members. Such additional questioned costs amount to $827,562.

A detailed reconciliation of amounts identified as questioned costs in the Report on Compliance to those reflected on Exhibits A through D is presented in Note 2.

2.A. Summary of Questioned Costs - AmeriCorps and Learn and Serve Grants

Finding	Finding Number	Consolidated Full Scope Audit - All Subgrantees	Consolidated Full Scope Audit - AmeriCorps Subgrantees	Consolidated Full Scope Audit - Learn & Serve Subgrantees
Questioned Claimed Costs				
Lack of Documentation				
Eligibility Requirements	1a	$ 1,699,924	$ 1,699,924	$ -
Time and attendance records and proper authorization of timesheets	1b	384,034	384,034	-
General ledger and/or payroll records were not maintained, or expenses reported in the FSRs exceeded expenses recorded in the general ledger	2	646,572	646,572	-
Documentation to support certain federal costs were destroyed	3	742,622	742,622	-
Documentation to support selected payments claimed under the grant was not maintained	4	112,429	112,429	-
Administrative costs in excess of the maximum Corporation share	5	24,693	24,693	-
Funds were allocated to different budget cost categories without prior approval	6	14,382	14,382	-
Insufficient explanations for variances in payroll expenditures	7	22,264	22,264	-
Certain calculation errors were made by subgrantee personnel	8	22,250	22,250	-
Inability to gain access to subgrantee records	16	50,215	-	50,215
Matching requirements were not met	9, 17	1,500,933	1,496,815	4,118
Subtotal		5,220,318	5,165,985	54,333
Questioned Match				
Lack of Documentation				
Eligibility Requirements	1a	220,806	220,806	-
Time and attendance records and proper authorization of timesheets	1b	6,544	6,544	-
General ledger and/or payroll records were not maintained, or expenses reported in the FSRs exceeded expenses recorded in the general ledger	2	145,722	145,722	-
Documentation to support selected payments claimed under the grant was not maintained	4	15,802	15,802	-
Insufficient explanations for variances in payroll expenditures	7	17,470	17,470	-
Certain calculation errors were made by subgrantee personnel	8	3,284	3,284	-
Inability to gain access to subgrantee records	16	13,500	-	13,500
Documentation to support certain matching costs were destroyed	10	1,189,270	1,189,270	-
Match amounts claimed are not properly supported	11, 18	975,795	972,040	3,755
Subtotal		2,588,193	2,570,938	17,255
Total		$ 7,808,511	$ 7,736,923	$ 71,588

(continued)

2.A. Summary of Questioned Costs - AmeriCorps and Learn and Serve Grants

		AmeriCorps			
Finding	Finding Number	Homeless & Housing Coalition of Kentucky	Kentucky State University	Community Action of Southern Kentucky, Inc.	Morehead State University
Questioned Claimed Costs					
Lack of Documentation					
Eligibility Requirements	1a	$ 16,009	$ -	$ -	$ -
Time and attendance records and proper authorization of timesheets	1b	23,289	17,428	-	-
General ledger and/or payroll records were not maintained, or expenses reported in the FSRs exceeded expenses recorded in the general ledger	2	-	-	238	-
Documentation to support certain federal costs were destroyed	3	464,055	-	-	203,749
Documentation to support selected payments claimed under the grant was not maintained	4	41,037	891	79	-
Administrative costs in excess of the maximum Corporation share	5	-	-	8,214	-
Funds were allocated to different budget cost categories without prior approval	6	3,610	44	-	3,079
Insufficient explanations for variances in payroll expenditures	7	-	-	-	-
Certain calculation errors were made by subgrantee personnel	8	-	22,245	5	-
Inability to gain access to subgrantee records	16	-	-	-	-
Matching requirements were not met	9, 17	360,096	88,681	-	361,002
Subtotal		908,096	129,289	8,536	567,830
Questioned Match					
Lack of Documentation					
Eligibility Requirements	1a	2,825	-	-	-
Time and attendance records and proper authorization of timesheets	1b	735	5,809	-	-
General ledger and/or payroll records were not maintained, or expenses reported in the FSRs exceeded expenses recorded in the general ledger	2	-	-	-	-
Documentation to support selected payments claimed under the grant was not maintained	4	6,890	388	73	-
Insufficient explanations for variances in payroll expenditures	7	-	-	-	-
Certain calculation errors were made by subgrantee personnel	8	-	3,279	5	-
Inability to gain access to subgrantee records	16	-	-	-	-
Documentation to support certain matching costs were destroyed	10	291,729	-	-	41,678
Match amounts claimed are not properly supported	11, 18	264,252	-	-	-
Subtotal		566,431	9,476	78	41,678
Total		$ 1,474,527	$ 138,765	$ 8,614	$ 609,508

(continued)

2.A. Summary of Questioned Costs - AmeriCorps and Learn and Serve Grants

		AmeriCorps			
Finding	Finding Number	Community Action Council of Lexington, et al	Simpson County Board of Education	Christian County Public Schools	Eastern Kentucky University
Questioned Claimed Costs					
Lack of Documentation					
Eligibility Requirements	1a	$ -	$ -	$ -	$ 1,530,737
Time and attendance records and proper authorization of timesheets	1b	-	-	262,164	81,153
General ledger and/or payroll records were not maintained, or expenses reported in the FSRs exceeded expenses recorded in the general ledger	2	-	575,131	71,203	-
Documentation to support certain federal costs were destroyed	3	-	-	-	63,376
Documentation to support selected payments claimed under the grant was not maintained	4	-	69,828	-	594
Administrative costs in excess of the maximum Corporation share	5	809	9,643	-	-
Funds were allocated to different budget cost categories without prior approval	6	-	-	-	7,649
Insufficient explanations for variances in payroll expenditures	7	-	19,802	-	2,462
Certain calculation errors were made by subgrantee personnel	8	-	-	-	-
Inability to gain access to subgrantee records	16	-	-	-	-
Matching requirements were not met	9, 17	11,204	368,053	22,631	225,138
Subtotal		12,013	1,042,457	355,998	1,911,109
Questioned Match					
Lack of Documentation					
Eligibility Requirements	1a	-	-	-	215,081
Time and attendance records and proper authorization of timesheets	1b	-	-	-	-
General ledger and/or payroll records were not maintained, or expenses reported in the FSRs exceeded expenses recorded in the general ledger	2	-	145,722	-	-
Documentation to support selected payments claimed under the grant was not maintained	4	-	8,451	-	-
Insufficient explanations for variances in payroll expenditures	7	-	16,202	-	1,268
Certain calculation errors were made by subgrantee personnel	8	-	-	-	-
Inability to gain access to subgrantee records	16	-	-	-	-
Documentation to support certain matching costs were destroyed	10	-	-	177,014	556,690
Match amounts claimed are not properly supported	11, 18	-	336,813	-	370,975
Subtotal		-	507,188	177,014	1,144,014
Total		$ 12,013	$ 1,549,645	$ 533,012	$ 3,055,123

(continued)

2.A. Summary of Questioned Costs - AmeriCorps and Learn and Serve Grants

Finding	Finding Number	AmeriCorps: Northern Kentucky United Way	AmeriCorps: Green River Area Development District	AmeriCorps: Consolidated Full Scope Audit - AmeriCorps Subgrantees
Questioned Claimed Costs				
Lack of Documentation				
Eligibility Requirements	1a	$ 136,744	$ 16,434	$ 1,699,924
Time and attendance records and proper authorization of timesheets	1b	-	-	384,034
General ledger and/or payroll records were not maintained, or expenses reported in the FSRs exceeded expenses recorded in the general ledger	2	-	-	646,572
Documentation to support certain federal costs were destroyed	3	11,442	-	742,622
Documentation to support selected payments claimed under the grant was not maintained	4	-	-	112,429
Administrative costs in excess of the maximum Corporation share	5	5,630	397	24,693
Funds were allocated to different budget cost categories without prior approval	6	-	-	14,382
Insufficient explanations for variances in payroll expenditures	7	-	-	22,264
Certain calculation errors were made by subgrantee personnel	8	-	-	22,250
Inability to gain access to subgrantee records	16	-	-	-
Matching requirements were not met	9, 17	46,039	13,971	1,496,815
Subtotal		199,855	30,802	5,165,985
Questioned Match				
Lack of Documentation				
Eligibility Requirements	1a	-	2,900	220,806
Time and attendance records and proper authorization of timesheets	1b	-	-	6,544
General ledger and/or payroll records were not maintained, or expenses reported in the FSRs exceeded expenses recorded in the general ledger	2	-	-	145,722
Documentation to support selected payments claimed under the grant was not maintained	4	-	-	15,802
Insufficient explanations for variances in payroll expenditures	7	-	-	17,470
Certain calculation errors were made by subgrantee personnel	8	-	-	3,284
Inability to gain access to subgrantee records	16	-	-	-
Documentation to support certain matching costs were destroyed	10	122,159	-	1,189,270
Match amounts claimed are not properly supported	11, 18	-	-	972,040
Subtotal		122,159	2,900	2,570,938
Total		$ 322,014	$ 33,702	$ 7,736,923

(continued)

2.A. Summary of Questioned Costs - AmeriCorps and Learn and Serve Grants

Finding	Finding Number	MicroCity Government	Learn & Serve: Kentucky River Foothills Development Council	Learn & Serve: Consolidated Full Scope Audit - Learn & Serve Subgrantees
Questioned Claimed Costs				
Lack of Documentation				
Eligibility Requirements	1a	$ -	$ -	$ -
Time and attendance records and proper authorization of timesheets	1b	-	-	-
General ledger and/or payroll records were not maintained, or expenses reported in the FSRs exceeded expenses recorded in the general ledger	2	-	-	-
Documentation to support certain federal costs were destroyed	3	-	-	-
Documentation to support selected payments claimed under the grant was not maintained	4	-	-	-
Administrative costs in excess of the maximum Corporation share	5	-	-	-
Funds were allocated to different budget cost categories without prior approval	6	-	-	-
Insufficient explanations for variances in payroll expenditures	7	-	-	-
Certain calculation errors were made by subgrantee personnel	8	-	-	-
Inability to gain access to subgrantee records	16	50,215	-	50,215
Matching requirements were not met	9, 17	-	4,118	4,118
Subtotal		50,215	4,118	54,333
Questioned Match				
Lack of Documentation				
Eligibility Requirements	1a	-	-	-
Time and attendance records and proper authorization of timesheets	1b	-	-	-
General ledger and/or payroll records were not maintained, or expenses reported in the FSRs exceeded expenses recorded in the general ledger	2	-	-	-
Documentation to support selected payments claimed under the grant was not maintained	4	-	-	-
Insufficient explanations for variances in payroll expenditures	7	-	-	-
Certain calculation errors were made by subgrantee personnel	8	-	-	-
Inability to gain access to subgrantee records	16	13,500	-	13,500
Documentation to support certain matching costs were destroyed	10	-	-	-
Match amounts claimed are not properly supported	11, 18	-	3,755	3,755
Subtotal		13,500	3,755	17,255
Total		$ 63,715	$ 7,873	$ 71,588

2.B. Summary of Questioned Costs - Administrative and PDAT Grants

Finding	Finding Number	Administrative Grant	PDAT Grant	Consolidated Full Scope Audit - Commission
Questioned Claimed Costs				
Documentation to support selected payments claimed under the grant was not maintained	21	198,159	75,463	273,622
Matching requirements were not met	22	94,015	-	94,015
Subtotal		292,174	75,463	367,637
Questioned Match				
Match amounts claimed are not properly supported	23	266,463	-	266,463
Subtotal		266,463	-	266,463
Total		$ 558,637	$ 75,463	$ 634,100

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted certain matters, described below, involving internal controls over financial reporting that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. We believe the reportable conditions identified as items 1 and 2 below are material weaknesses. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the Schedules of Award Costs of the Commission for the period January 28, 1994 to December 31, 2000.

Our consideration of internal controls would not necessarily disclose all matters in internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. 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 Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Schedules.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that misstatements, in amounts that 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. Because of inherent limitations in internal control, misstatements due to error or fraud may occur and not be detected.

The objective of our audit was not to provide assurance on the Commission's internal controls over financial reporting. Consequently, we do not provide an opinion on internal control over financial reporting.

The following paragraphs present reportable conditions identified during our incurred cost audit of the Schedules of Award Costs and the unresolved reportable conditions that were identified during a pre-audit survey conducted in 1999. A more detailed summary of the status of reportable conditions as first reported in OIG Audit Report Number 00-11[1], *Pre-Audit Survey Report of the Kentucky Commission on Community Volunteerism and Service* issued on June 20, 2000, is presented as Exhibit G.

[1] For additional information, including the responses by KCCVS and the Corporation, see OIG Audit Report #00-11; *Pre-Audit Survey Report of the Kentucky Commission on Community Volunteerism and Service*, issued by the Corporation OIG.

Material Weaknesses

1. Grants and Program Management

The Kentucky Commission is responsible for evaluating whether its subgrantees comply with legal, reporting, financial management and grant requirements and ensuring follow through on issues of noncompliance. The Commission did not have a comprehensive program to monitor the programmatic activity of all subgrantees to ensure adequate attention was given to compliance issues and that documentation was retained as evidence of compliance. We noted that, during the period audited, the Commission experienced significant turnover and changed administrative entities. As a result, we identified control weaknesses and instances of noncompliance resulting in significant questioned costs.

In February 2001, we obtained the AmeriCorps member rosters from the National Service Trust database for individual program years for each of the 11 Commission AmeriCorps subgrantees selected for audit in order to select member files for testing. The following subgrantee rosters (obtained from the Corporation and represented to us as current) for the respective program years did not appear accurate or complete, or had not been properly updated.

Subgrantee	Program Year and Exception
Simpson County Board of Education	1996-97 lists 1 member earning an award although that program year has ended. 1997-98 excludes 2 members who were paid living allowances. 1998-99 excludes 4 members who were paid living allowances and lists 1 member earning an award although that program year has ended. 1999-2000 excludes 1 member who was paid a living allowance.
Kentucky State University	1998-99 lists 4 members earning an award although the program has ended. 1999-2000 lists 3 members earning an award although the program has ended.

Homeless and Housing Coalition of Kentucky	1999-2000 excludes 7 second year members.
Eastern Kentucky University	1994-95 excludes 2 members who were paid living allowances. 1995-96 includes 21 1996-97 members and excludes 2 members who were paid living allowances. 1997-98 has an incorrect start date for 2 members, is missing completion dates for 7 members, and excludes 8 members who were paid living allowances. 1998-99 has an incorrect start date for 1 member, is missing completion dates for 11 members, and excludes 10 members who were paid living allowances. 1999-2000 excludes 7 members who were paid living allowances.
Christian County Public Schools	1996-97 lists 1 member earning an award although the program has ended.

The Corporation relies on the Commission and its subgrantees to maintain systems and management controls that provide accurate information related to member service to the National Service Trust. The numerous noncompliance issues related to member status forms identified above and in the Report on Compliance indicate that the Commission needs to take more responsibility for the accuracy and completeness of member status reporting by its subgrantees to the Corporation. In addition, failure to provide accurate member information to the Corporation could result in erroneous education awards being issued and undermines the reliability of certain of the Corporation's GPRA statistics.

Further, during our audit work at individual subgrantees, we identified the following internal control deficiencies, which indicated inadequate monitoring by the Commission:

- Inadequate segregation of accounting duties existed for a majority of the grant period at the following subgrantees – Christian County Public Schools, Northern Kentucky United Way, Homeless and Housing Coalition of Kentucky, Simpson County Board of Education, Kentucky State University and Kentucky River Foothills Development Council.
- The financial management system maintained by Simpson County Board of Education does not separately account for member living allowances and staff salaries.
- At Kentucky State University, certain bank reconciliations had been improperly completed, not all necessary correcting journal entries had been posted to the fiscal year 1998 and 1999 general ledgers, and vouchers and supporting data were not consistently being cancelled upon payment to prevent resubmission.

We recommend the Commission take the following actions to improve its grants and program management processes.

- Complete the implementation of the recently developed policies and procedures to monitor the programmatic and financial activity of all subgrantees.
- Enhance its recently developed monitoring policies and procedures to include specific sampling guidelines for all areas of the monitoring tool and for the review of the validity of reported program accomplishments.
- Ensure that operating sites (i.e., the locations where service is performed) are visited during each subgrantee monitoring visit.
- Ensure that a person knowledgeable of financial management requirements accompanies Commission program personnel on each site visit to perform the financial monitoring activities.
- Ensure adequate attention is given to compliance issues which may not be addressed even if an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*, has been performed for any specific subgrantee.
- During site visits, the frequency of which should depend on the level of risk assessed by the Commission, ensure that subgrantees are compliant with revised guidance and are adequately following up on deficiencies communicated to them by the Commission.
- Ensure that current subgrantees establish procedures by which adequate segregation of accounting duties is maintained, systems are in place to ensure that expenses incurred can be accurately reported to the Corporation based on approved budget line items, systems are in place to track the number of hours members spend on training, and sufficient accounting controls over bank reconciliations, the posting of journal entries, and the cancellation of vouchers are implemented.
- Establish and implement timeframes for formal submission of site visit feedback to the subgrantee and for receipt of the subgrantee's corrective action plan if issues are identified.

2. *Financial Management and Reporting*

The Commission is required to select organizations for award, administer Corporation grant funds and monitor subgrantees for financial activities and compliance with laws, regulations and provisions of grant awards. The Corporation's regulations describe standards for financial management systems that must be maintained by State Commissions. OMB Circulars also establish standards for monitoring, compliance oversight, record retention, documentation and allowable costs.

As noted above and in Exhibit G, the 1999 pre-audit survey procedures revealed that the Commission had minimal controls in place to provide reasonable assurance that grant funds were administered according to Corporation and federal guidelines and inadequate procedures for maintaining internal controls that provide for accurate, current, and complete disclosure of financial and programmatic results.

Many of the weaknesses identified at the Commission during the pre-audit survey were also apparent through exceptions identified for individual subgrantees of the Commission and resulted in significant questioned costs. Subsequent to the pre-audit survey, the Commission began to develop, and is still developing, formal procedures to improve controls and ensure compliance with all applicable regulations. For example, the Commission developed procedures that require each new Commission member and peer reviewer to sign and date conflict of interest forms prior to commencement of their duties. In addition, the Commission developed procedures that require all new applicants to submit a form completed by their independent auditors certifying that they have the fiscal capacity to administer the grant. However, we could not adequately follow-up on the implementation of these new procedures because of the timing of their implementation.

The following conditions, however, continue to exist and require corrective action:

- Lack of evidence of Financial Status Report (FSR) review, including matching recalculation.
- Late submission of FSRs.
- Improvements needed in the Commission's evaluating and monitoring system for subgrantees.

Further, during the incurred cost audit, we found the following additional internal control deficiencies:

- No current accounting procedures manual exists for the Commission or for the State of Kentucky, Cabinet for Families and Children, which is the Commission's current administrative entity.
- The Commission does not track budget to actual expenses according to the approved Administrative and PDAT grant cost categories for each program year.
- The Commission did not track expenses related to funding received under the Interim PDAT, Disability and Unified State Plan grants.
- No support, nor methodology for maintaining support, for journal entries in the Grant Management Department exists. In the Grant Management Department, no journal entry support was maintained, except for brief general descriptions entered into the system.
- The Commission does not track what the interagency charges to the Commission represent, and the Financial Officer is generally not provided in advance with the dollar value of interagency expenses that are going to be charged to the grant. Although the Financial Officer does code the service requisition forms to the proper accounts, no prices are quoted by the internal service provider when the forms are submitted.
- The Commission does not prepare reconciliations which compare the actual amount of cash drawn down from the Department of Health and Human Services to the cleared accounts receivable (i.e., claimed expenses).

- As of April 5, 2001, an available balance of $34,000 existed in MARS (i.e., the financial management system used by the State and the Commission) for the Kentucky State University AmeriCorps subgrant. However, this program was terminated by the Commission on January 30, 2001.

We recommend that the Commission develop a comprehensive set of policies and procedures for all grants received from the Corporation. These policies and procedures should address all aspects of the Commission's financial activities, including the accounting, reporting and monitoring of funds received and disbursed by the Commission. Once developed, these policies and procedures should be immediately implemented to ensure that day-to-day procedures are performed accurately and consistently, thus minimizing the risk of Corporation funds being improperly disbursed.

We recommend the Corporation follow up with the Commission to ensure the new procedures have been properly implemented and adequate corrective action is taken on the unresolved conditions noted in the pre-audit survey report and on the additional matters discussed above.

REPORT ON COMPLIANCE

The results of our tests of compliance disclosed the following instances of noncompliance and related questioned costs as reflected in Exhibits A through E, for which the ultimate resolution cannot presently be determined. It is the responsibility of the Corporation to determine whether the questioned costs are allowed or disallowed. Questioned costs identified were developed using either actual costs (in those instances that actual costs were provided by the Commission and its subgrantees) or estimated costs (in those instances that actual costs were not readily available).

AmeriCorps Grant

A. Compliance Findings Resulting in Questioned Costs

The specific amounts questioned related to the findings discussed below are included in the Supplemental Schedules of Award Costs by subgrantee at Exhibits F-1 through F-13, and in the Summary of Questioned Costs included as Note 2 to the Consolidated Schedule of Award Costs. This Note reconciles the amounts identified as questioned costs in the following paragraphs to the consolidated amounts of questioned costs reflected in Exhibit A.

1. Lack of documentation

a. Eligibility requirements were not met (Questioned Claimed Costs of $1,699,924, Questioned Match Amounts of $220,806 (other match amounts questioned in additional findings reported below), and Questioned Education Awards of $529,164).

The following subgrantees failed to maintain sufficient documentation to verify that members met eligibility requirements. The AmeriCorps Special Provisions state, in part, that "the Grantee must maintain verifiable records which document each member's eligibility to serve based upon citizenship or lawful permanent residency, birth date, level of educational attainment, date of high school diploma or equivalent certificate (if attained)...If a member does not have a high school diploma or its equivalent at the time of enrollment, the Grantee must maintain a record of the member's elementary or high school drop-out date, the member's written agreement to obtain a high school diploma or its equivalent before using the education award, and, if applicable, verification of the member's enrollment at an institution of higher education..."

Subgrantee	**Member Files Lacking Documentation/ Sample Size**	**Applicable program years**
Lacking Documentation For: Member file		
Eastern Kentucky University*	All	1994-95 through 1997-98
Lacking Documentation For: High school diploma, equivalent certificate or other required documentation		
Eastern Kentucky University*	29 of 29	1998-99 through 2000-01
Northern Kentucky United Way*	10 of 10	1995-96
Christian County Public Schools**	2 of 11	1996-97
Homeless and Housing Coalition of Kentucky	1 of 52	1996-97 & 1997-98 (2 term member)
Green River Area Development District	1 of 17	1998-99 & 1999-2000 (2 term member)
Lacking Documentation For: Proof of age		
Northern Kentucky United Way	7 of 10	1995-96
Eastern Kentucky University	1 of 29	1998-99

* Because of the significant number of exceptions noted, we have questioned all member costs incurred for these subgrantees and all related Education Awards issued by the Corporation.

** All member costs for this subgrantee are questioned as a result of the issue discussed in finding #1b. Therefore, we did not include questioned member costs related to this subgrantee in finding #1a.

b. Documentation to support time and attendance records and proper authorization of timesheets was not evident, including lack of support for AmeriCorps members' terms of service (Questioned Claimed Costs of $384,034, Questioned Match Amounts of $6,544 (other match amounts questioned in additional findings reported below), and Questioned Education Awards of $298,398)

The AmeriCorps Special Provisions also require that each program must maintain records to verify that the member successfully completed the program requirements with a minimum of 1,700 hours of participation as a full-time member, 900 hours of participation as a part-time member, or 300-900 hours of participation as a reduced part-time member. Lack of documentation to support successful completion of hours of service could ultimately result in questioned education awards.

Further, the AmeriCorps Special Provisions state that "time and attendance records must be signed by both the member and by an individual with oversight responsibilities for the member." They also require that any staff salaries and wages charged directly to a grant or charged to matching funds must be supported by a signed time and attendance report for each individual employee regardless of position. The member or employee's signature represents acknowledgement that the hours reported reflect an accurate depiction of the hours served for the program. A supervisor's signature indicates approval and concurrence with the hours recorded by the member/employee.

The subgrantees listed below (a) could not locate member or staff timesheets for selected pay periods or for entire program years, (b) could not provide timesheets that were signed by the individual or an authorizing official for selected pay periods, or (c) did not maintain required documentation such as all member timesheets/payroll reports to support that the term of member service was properly completed to justify receipt of the related education award.

Subgrantee	**Member Files Lacking Documentation/ Sample Size**	**Applicable program years**
Lacking Documentation For: Member Timesheets for Entire Service Period		
Christian County Public Schools*	11 of 11	1995-96 & 1996-97
Northern Kentucky United Way**	10 of 10	1995-96
Lacking Documentation For: Approved Member Timesheets		
Homeless and Housing Coalition of Kentucky	1 of 52	1994-95
Lacking Documentation For: Service Hour Requirements		
Simpson County Board of Education	43 of 74	1994-95 through 1998-99
Eastern Kentucky University**	3 of 11	1998-99 & 1999-2000

Subgrantee	Member Files Lacking Documentation/ Sample Size	Applicable program years
Lacking Documentation For: Staff Timesheets for Entire Program Year(s)		
Homeless and Housing Coalition of Kentucky	Not applicable	1994-95
Eastern Kentucky University	Not applicable	1994-95 & 1995-96
Kentucky State University	Not applicable	1997-98
Lacking Documentation For: Approved Staff Timesheets		
Homeless and Housing Coalition of Kentucky	11 of 24	1998-99 through 2000-01

* Because of the significant number of exceptions noted, we have questioned all member costs incurred for these subgrantees and all related education awards issued by the Corporation.

** All member costs for this subgrantee are questioned as a result of the issue discussed in finding #1a. Therefore, we did not include questioned member costs related to this subgrantee in finding #1b.

2. *General ledger and/or payroll records were not maintained, or expenses reported in the FSRs exceeded expenses recorded in the general ledger (Questioned Claimed Costs of $646,572 and Questioned Match Amounts of $145,722).*

The AmeriCorps General Provisions state that subgrantees must maintain adequate supporting documents for every expenditure (federal and non-federal) and in-kind contributions made under this grant. Costs must be shown in books or records (e.g., a disbursement ledger or journal), and must be supported by a source document, such as a receipt, travel voucher, invoice, bill, in-kind voucher, or similar document.

Subgrantees must maintain financial management systems that include standard accounting practices, sufficient internal controls, a clear audit trail and written cost allocation procedures as necessary. Financial management systems must be capable of distinguishing expenditures attributable to a grant from expenditures not attributable to a grant. This system must be able to identify costs by programmatic year and by budget category and to differentiate between direct and indirect costs or administrative costs. Subgrantees' financial management responsibilities are detailed further in OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations,* and its implementing regulations.

Christian County Public Schools
Christian County Public Schools did not retain its general ledger accounting records for the period July 1 – September 30, 1997. Therefore, we were unable to test expenses incurred during this time period.

Simpson County Board of Education
The general ledgers for program years 1994-95 and 1995-96 included hand written amounts and calculations and excluded payroll information. Therefore, we considered this documentation unreliable and questioned all costs related to those years. Additionally, claimed costs per the FSRs for program years 1995-96 and 1997-98 exceeded total expenses recorded in the general ledger.

Community Action of Southern Kentucky, Inc.
Claimed costs per the FSRs for program year 1998-99 exceeded total expenses recorded in the general ledger.

3. *Documentation to support certain federal costs were destroyed in accordance with subgrantee record retention policies (Questioned Claimed Cost of $742,622).*

The following subgrantees were unable to provide documentation that supported the existence and/or reasonableness of non-payroll costs in certain years because the subgrantee had destroyed the records in accordance with its record retention policies.

Subgrantee	**Costs Impacted**	**Applicable program years**
Morehead State University	Health care, training and operational	1994-95 through 1996-97
Northern Kentucky United Way	All non-payroll	1994-95
Homeless and Housing Coalition of Kentucky*	All	1996-97
Eastern Kentucky University	All non-payroll	1994-95 & 1995-96
Eastern Kentucky University	Travel	1996-97

* During program year 1996-97, this subgrantee's AmeriCorps program was administered by another entity because of the subgrantee's financial difficulties. No records related to that year were located.

The AmeriCorps General Provisions state that subgrantees must maintain adequate supporting documents for every expenditure (federal and non-federal) and in-kind contributions made under this grant. Costs must be shown in books or records (e.g., a disbursement ledger or journal), and must be supported by a source document, such as a receipt, travel voucher, invoice, bill, in-kind voucher, or similar document. In addition, the subgrantee must retain and make available all financial records, supporting documentation, statistical records, evaluation data, member information and personnel records for 3 years from the date of the submission of the final Financial Status Report (SF 269A).

4. *Documentation to support selected payments claimed under the grant was not maintained (Questioned Claimed Cost of $112,429 and Questioned Match Amounts of $15,802).*

The following subgrantees were unable to provide documentation that supported the existence and/or reasonableness of selected payments claimed for reimbursement from the Commission:

Homeless and Housing Coalition of Kentucky

Category of Cost	Payee	Amount	Program Year
Health Care	SRC	$2,011.33	1999-2000
Health Care	Traci Gibson	$109.59	1998-99
Accident Insurance	Acordia of Northeast Ohio	$551.05	1998-99
Training & Education	Shelly Kelley Marshall	$111.55	1998-99
Training & Education	Renee Wester	$280.00	1997-98
Training & Education	Sherry Kelly Marshall	$448.28	1997-98
Training & Education	Computer Professor	$600.00	1997-98
Training & Education	Ladonna Murphy	$360.00	1997-98
Operational	AT&T	$79.50	1999-2000
Operational	Judd's Office Products	$165.79	1998-99
Operational	AT&T	$109.25	1998-99
Operational*	Cedarmore Baptist Academy	$600.00	1997-98
Operational*	Cedarmore Baptist Academy	$1,310.65	1997-98
Operational*	FAHE	$411.99	1997-98
Operational*	FAHE	$1,051.20	1997-98
Operational*	Mississippi Industries	$1,207.00	1997-98
Operational*	HHCK	$1,371.48	1997-98
Operational*	HHCK	$2,385.00	1997-98
Operational*	Cellular One	$217.78	1997-98
Operational*	HHCK	$1,641.33	1997-98
Operational*	Club by Doubletree	$5,200.16	1997-98
Operational	Farmer's Bank	$3,753.00	1994-95
Operational*	Subway	$81.00	1997-98
Operational*	HHCK	$451.43	1997-98
Operational*	HHCK	$177.38	1997-98
Operational*	HHCK	$165.00	1997-98
Operational*	AT&T	$181.58	1997-98
Operational*	Lexington Herald Leader	$176.80	1997-98
Operational*	Alan Dahl	$407.87	1997-98
Operational*	Laura Mattingly	$510.34	1997-98
Evaluation	Evan Gay	$1,500.00	1994-95

Category of Cost	Payee	Amount	Program Year
Evaluation	HHCK	$2,500.00	1997-98
Administration	HHCK	$5,847.50	1997-98
Administration	Charles T. Mitchell Co.	$2,000.00	1997-98
Administration	Philadelphia Insurance	$1,036.60	1997-98
Administration	HHCK	$1,143.12	1997-98
Administration	HHCK	$1,897.19	1997-98
Administration	Louisville Courier Journal	$254.94	1997-98

* Our sample procedures covered 70% of 1997-98 operational expenses. The subgrantee could not provide support for 55% of the items sampled in this category. Because of this large non-statistical error rate, we estimated that 55% of the unsampled items would also be unsupported, resulting in additional estimated questioned costs of $5,620.

Eastern Kentucky University

Category of Cost	Payee	Amount	Program Year
Services	Hadley Carvin Wildon	$243.90	1998-99
Training	Points of Light Foundation	$350.00	1998-99

Kentucky State University

Category of Cost	Payee	Amount	Program Year
Travel	Diners Club	$144.00	1997-98
Recruitment	Frankfort Publishing	$108.00	1997-98
Postage	William Whitaker	$52.45	1997-98
Postage	Federal Express Corp.	$30.00	1997-98
Office Supplies	Lynn Blueprint & Supplies	$137.54	1997-98
Office Supplies	Lynn Blueprint & Supplies	$137.54	1997-98
Teaching	Walmart	$100.00	1997-98
Teaching	Walmart	$68.66	1997-98
Other Misc.	Parks Federal Credit	$200.00	1997-98

Community Action of Southern Kentucky, Inc.

Category of Cost	Payee	Amount	Program Year
Advertising	Daily News	$672.66*	1998-99

* Invoice supported a total amount of $521.40. Questioned costs were calculated by splitting the excess between federal and match based on the approved budget.

Simpson County Board of Education

Category of Cost	Payee	Amount	Program Year
Other member support	Susan Radley Brown	$1,500.00	1996-97
Operational	TMC of Southern Kentucky	$169.29	1996-97

Category of Cost	Payee	Amount	Program Year
Operational	VEMAC Travel	$155.00	1996-97
Operational	Southern School Support	$298.00	1996-97
Operational	Apple Computer	$2,168.00	1996-97
Operational	Pizza Hut	$173.00	1996-97
Operational	Mike Houston	$764.40	1996-97
Operational	Unknown	$945.12	1996-97
Operational	Mike Houston	$726.44	1996-97
Operational	Barnes & Noble	$1,086.86	1997-98
Operational	Ingram Library Services	$4,476.76	1997-98
Operational	Zero Old Projects	$42,355.65	1997-98
Operational – Travel	Veronica Gold	$334.50	1998-99
Operational – Equipment	Premier Net Inc.	$4,543.05	1998-99
Operational	Executive Inn	$527.70	1998-99
Operational – Supplies	Quill Corporation	$1,243.00	1998-99
Operational	Executive Inn	$2,384.43	1998-99
Operational – telephone	Davies County	$3,981.16	1998-99

Simpson County Board of Education also charged six expenses to the AmeriCorps program that we either determined were unrelated to the program or for which we could not determine that the expenses were incurred solely for the program. The related amounts in expenditures selected for review were as follows:

Category of Cost	Payee	Amount	Program Year
Operational	Delta Orlando	$378.85**	1996-97
Operational – Supplies	Quill Corporation	$7,261.55	1998-99
Operational – Supplies	Quill Corporation	$400.86	1998-99
Operational – Supplies	Quill Corporation	$1,124.32	1998-99
Operational – Supplies	Quill Corporation	$788.32	1998-99
Operational – Supplies	Quill Corporation	$779.44	1998-99

** Charges of $93.05 on corresponding hotel bill dated May 7, 1997 do not appear to be business-related.

The AmeriCorps General Provisions state that subgrantees must maintain adequate supporting documents for every expenditure (federal and non-federal) and in-kind contributions made under this grant. Costs must be shown in books or records (e.g. a

disbursement ledger or journal), and must be supported by a source document, such as a receipt, travel voucher, invoice, bill, in-kind voucher, or similar document.

5. *Administrative costs in excess of the maximum Corporation share were claimed (Questioned Claimed Costs of $24,693).*

The AmeriCorps General Provisions indicate that administrative costs cannot exceed 5% of total Corporation funds actually expended under the award.

The following subgrantees claimed administrative costs in excess of this maximum percentage:

Subgrantee	**Applicable program years**
Northern Kentucky United Way	1995-96
Green River Area Development District	1999-2000
Community Action of Southern Kentucky, Inc.	1997-98 & 1999-2000
Simpson County Board of Education	1999-2000
Community Action Council for Lexington, et al	1996-97 & 1997-98

6. *Funds were allocated to different budget cost categories without prior approval, when required (Questioned Claimed Costs of $14,382).*

The following subgrantees made unallowed departures from the approved budget without obtaining prior written approval:

Subgrantee	**Category from where funding was reduced**	**Applicable program years**
Kentucky State University	Member support costs Training & education	1997-98 1998-99
Homeless and Housing Coalition of Kentucky	Not applicable – relates to absorption of admin costs above the approved budget	1998-99

Eastern Kentucky University	Member support costs Member support costs Member support costs	1994-95 1996-97 1999-2000
Morehead State University	Member support costs Training & education Training & education	1994-95 1996-97 1998-99

The AmeriCorps Provisions state that the subgrantee must obtain the prior written approval of the Corporation before deviating from the approved budget in various ways, including:

- Reallocation of Funds from the "Member Support Cost" category to other categories of the approved budget. The specific line items covered by this subclause are:
  a. Living Allowance
  b. FICA, worker's compensation, and unemployment insurance and
  c. Healthcare
  (1994 – 2000 Provisions)
- Budgetary transfers to absorb administrative costs above the amount specified in the approved budget, if below the 5% maximum limit (1994 – 1999 Provisions).
- Within the "Other Member Costs" category, the subgrantee may not decrease funds budgeted for training and education without prior Corporation approval (1995 – 1999 Provisions).

7. *Subgrantee personnel could not provide sufficient explanations for variances in payroll expenditures (Estimated Questioned Claimed Cost of $22,264 and Estimated Questioned Match of $17,470).*

During our payroll/living allowance analytical procedures, we estimated such costs based on the number of members, the living allowance for the year, length of member service period, number of staff, the pay rate for staff, and employment term for staff. We considered a 10% variance between our estimate and actual claimed costs reasonable. We inquired of subgrantee personnel about any amounts in excess of a 10% variance, and when adequate explanations could not be provided, we considered the excess over 10% to be estimated questioned cost if actual exceeded our estimate.

Simpson County Board of Education – member/staff payroll

Estimated amount	Actual amount	Applicable program years
$516,915	$577,533	1998-99
$155,295	$192,380	2000-01 (first quarter)

Eastern Kentucky University – staff payroll

Estimated amount	Actual amount	Applicable program years
$25,372	$32,336	2000-01 (first quarter)

The AmeriCorps General Provisions state that subgrantees must maintain adequate supporting documents for every expenditure (federal and non-federal) and in-kind contributions made under this grant. Costs must be shown in books or records (e.g., a disbursement ledger or journal), and must be supported by a source document, such as a receipt, travel voucher, invoice, bill, in-kind voucher, or similar document.

8. *Certain calculation errors were made by subgrantee personnel (Questioned Claimed Costs of $22,250 and Questioned Match of $3,284).*

During our audit, we identified certain calculation errors made by subgrantee personnel related to the preparation of FSRs/reimbursement requests and payroll, as follows:

Kentucky State University

Error identified	Applicable program years
Mathematical error in schedule supporting the FSR/reimbursement request	1997-98
Excessive FICA rate used in schedule supporting the FSR/reimbursement request	1997-98 & 1998-99
Incorrect allocation made to identify federal and match expenses	1998-99

Community Action of Southern Kentucky, Inc.

Error identified	Applicable program years
Excessive rate used for health insurance benefits	1998-99

Under the AmeriCorps Provisions, the subgrantee must maintain adequate supporting documents for its expenditures (federal and non-federal) and in-kind contributions made under this grant. Costs must be shown in books or records (e.g., a disbursement ledger or journal), and must be supported by a source document, such as a receipt, travel voucher, invoice, bill, in-kind voucher, or similar document. In addition, the subgrantee must provide and account for the matching funds as agreed upon in the approved application and budget.

9. Matching requirements were not met (Questioned Claimed Costs of $1,496,815).

According to the AmeriCorps Provisions, the grantee must provide and account for the matching funds consistent with the approved application and budget. The Corporation requires, at a minimum, the following aggregate matches:

i) Member support costs of 15% - including living allowance, FICA, Unemployment Insurance, Worker's Compensation and Healthcare; and
ii) Program operating costs of 33% (25% prior to program year 1996-97) - including other member costs, staff, operating costs, internal evaluation and administration.

After taking questioned costs noted elsewhere in this incurred cost audit into consideration, the following subgrantees did not meet matching requirements for certain program years:

Subgrantee	**Applicable budget/FSR cost section**	**Applicable program years**
Morehead State University	Both Both Both Sections B-F Sections B-F Sections B-F Section A	1994-95 1995-96 1996-97 1997-98 1998-99 1999-2000 2000-01 (first quarter)
Christian County Public Schools	Both Both	1995-96 1996-97
Northern Kentucky United Way	Sections B-F	1994-95 & 1995-96 combined (could not test years separately)
Green River Area Development District	Section A Section A	1998-99 1999-2000
Homeless and Housing Coalition of Kentucky	Both Sections B-F Section A	1994-95 1995-96 1997-98
Simpson County Board of Education	Sections B-F Both Both Both Section A	1996-97 1997-98 1998-99 1999-2000 2000-01 (first quarter)
Eastern Kentucky University	Sections B-F Sections B-F Both Both Section A	1996-97 1997-98 1998-99 1999-2000 2000-01 (first quarter)

Kentucky State University	Both Both	1997-98 1998-99
Community Action Council for Lexington, et al	Sections B-F Sections B-F Sections B-F	1995-96 1997-98 1998-99

10. Documentation to support certain matching costs were destroyed (Questioned Match of $1,189,270).

The following subgrantees were unable to provide documentation that supported the existence and/or reasonableness of matching costs in certain years because the subgrantees had destroyed the records in accordance with their record retention policies.

Subgrantee	**Applicable program years**
Morehead State University	1995-96
Christian County Public Schools	1995-96 & 1996-97
Eastern Kentucky University	1994-95, 1995-96 & 1996-97 (travel only)
Northern Kentucky United Way	1994-95 & 1995-96
Homeless and Housing Coalition of Kentucky*	1996-97

* During program year 1996-97, this subgrantee's AmeriCorps program was administered by another entity because of the subgrantee's financial difficulties. No records related to that year were located.

The AmeriCorps General Provisions state that subgrantees must maintain adequate supporting documents for every expenditure (federal and non-federal) and in-kind contributions made under this grant. Costs must be shown in books or records (e.g., a disbursement ledger or journal), and must be supported by a source document, such as a receipt, travel voucher, invoice, bill, in-kind voucher, or similar document. In addition, the subgrantee must retain and make available all financial records, supporting documentation, statistical records, evaluation data, member information and personnel records for 3 years from the date of the submission of the final Financial Status Report (SF 269A).

11. *Match amounts claimed are not properly supported (Questioned Match of $972,040).*

Homeless and Housing Coalition of Kentucky
The Homeless and Housing Coalition of Kentucky could not provide support for in-kind match expenses for program years 1994-95 and 1995-96. Therefore, we questioned all such expenses.

Simpson County Board of Education
Match expenses reported on Simpson County Board of Education's FSRs exceed the amounts recorded in the general ledger in program years 1996-97 through 1999-2000. Subgrantee personnel could not provide an explanation or support for these discrepancies. Therefore, we questioned all excess amounts reported.

Eastern Kentucky University
Eastern Kentucky University's FSRs for program year 1996-97 through the first quarter of program year 2000-01 included unsupported match expenses. Therefore, we questioned all such expenses.

The AmeriCorps General Provisions state that subgrantees must maintain adequate supporting documentation for every expenditure (federal and non-federal) and in-kind contributions made under this grant. Costs must be shown in books or records (e.g., a disbursement ledger or journal), and must be supported by a source document, such as a receipt, travel voucher, invoice, bill, in-kind voucher, or similar document.

B. Other Compliance Findings

12. Lack of documentation

- *Criminal record check*

The following subgrantees enrolled members who required a criminal record check; however, sufficient documentation to support that a criminal record check was conducted was not maintained. The AmeriCorps Special Provisions require that programs with members or employees who have substantial contact with children (as defined by state law) or who perform service in the homes of children or individuals considered vulnerable by the program shall, to the extent permitted by state and local law, conduct criminal record checks. The AmeriCorps Provisions require that this documentation be maintained within member or employee files.

Subgrantee	**Member files lacking documentation/ sample size**	**Applicable program years**
Christian County Public Schools	1 of 11	1995-96
Eastern Kentucky University	1 of 29	2000-01
Kentucky State University	5 of 15	1997-98

- *Position descriptions*

The AmeriCorps Special Provisions require that the subgrantee develop member position descriptions that provide for direct and meaningful service activities and performance criteria that are appropriate to the skill level of members. Activities may not include clerical work, research, or fund raising activities unless such activities are incidental to

the member's direct service activities. The subgrantee must ensure that each member has sufficient opportunity to complete the required number of hours to qualify for a post-service education award. In planning for the member's term of service, the subgrantee must account for holidays and other time off, and must provide each member with sufficient opportunity to make up missed hours.

Subgrantee	**Member files lacking documentation/ sample size**	**Applicable program years**
Morehead State University	2 of 57	2000-01
Homeless and Housing Coalition of Kentucky	3 of 52	1998-99 & 1999-2000
Community Action of Southern Kentucky, Inc.	3 of 11	1998-99 & 1999-2000
Simpson County Board of Education	26 of 74	1994-95 through 2000-01
Kentucky State University	4 of 15	1998-99 & 1999-2000

- *Member contracts*

The AmeriCorps Special Provisions require that the subgrantee ensure that all members sign contracts that, at a minimum, stipulated the following:

- The minimum number of service hours and other requirements (as developed by the program) necessary to successfully complete the term of service and to be eligible for the education award;
- Acceptable conduct;
- Prohibited activities;
- Requirements under the Drug-Free Workplace Act (41 U.S.C. 701 *et seq.*);
- Suspension and termination rules;
- The specific circumstances under which a member may be released for cause;
- The position description;
- Grievance procedures; and
- Other program requirements.

The following subgrantees failed to maintain documentation to support that members had signed contracts that included all required elements noted above.

Subgrantee	**Member files lacking documentation/ sample size**	**Applicable program years**
Lacking Documentation For: Signed Member Contracts		
Morehead State University	3 of 57	1995-96 & 2000-01
Northern Kentucky United Way	10 of 10	1995-96

Homeless and Housing Coalition of Kentucky	14 of 57	1994-95
Simpson County Board of Education	12 of 74	1994-95, 1996-97, &1997-98
Kentucky State University	3 of 15	1997-98 & 1999-2000
Lacking Documentation For: Member Contracts That Include All Required Elements		
Christian County Public Schools	1 of 11	1995-96
Community Action of Southern Kentucky, Inc. (specifically, prohibited activities)	11 of 11	1997-98 through 1999-2000
Eastern Kentucky University (specifically, grievance procedures)	29 of 29	1998-99 through 2000-01
Kentucky State University (specifically, prohibited activities)	3 of 12	1997-98

- *Orientation*

The AmeriCorps Special Provisions require that, consistent with the approved budget, the subgrantee must provide members with the training, skills, knowledge and supervision necessary to perform the tasks required in their assigned project positions, including specific training in a particular field and background information on the community served. The subgrantee must conduct an orientation for members and comply with any pre-service orientation or training required by the Corporation. This orientation should be designed to enhance member security and sensitivity to the community. Orientation should cover member rights and responsibilities, including the program's code of conduct, prohibited activities, requirements under the Drug-Free Workplace Act (41 U.S.C. 701 et seq.), suspension and termination from service, grievance procedures, sexual harassment, other non-discrimination issues, and other topics as necessary.

The following subgrantees failed to maintain documentation to support that an orientation was conducted for enrolled members.

Subgrantee	**Member files lacking documentation/ sample size**	**Applicable program years**
Christian County Public Schools	11 of 11	1995-96 & 1996-97
Northern Kentucky United Way	10 of 10	1995-96
Homeless and Housing Coalition of Kentucky	15 of 57	1994-95
Community Action of Southern Kentucky, Inc.	2 of 11	1998-99 & 1999-2000

Simpson County Board of Education	36 of 74	1994-95 through 1996-97 & 1998-99
Kentucky State University	15 of 15	1997-98 through 1999-2000

- *Member start and end dates/location of member's service*

The following subgrantees failed to maintain required documentation on member start and end dates or on a member's location of service and project assignment. The AmeriCorps Special Provisions require that the subgrantee maintain verifiable records documenting each member's participation, start date and end date, hours of service per week, location of service activities and project assignment.

Subgrantee	**Member files lacking documentation/ sample size**	**Applicable program years**
Northern Kentucky United Way	10 of 10	1995-96
Community Action Council of Lexington, et al	26 of 26	1995-96 through 1999-2000
Simpson County Board of Education	74 of 74	1994-95 through 2000-01

- *Mid-term and end-of-term evaluations*

The following subgrantees could not locate mid-term and end-of-term evaluations for certain members that were selected for review. The AmeriCorps Provisions require that each subgrantee conduct at least a mid-term and end-of-term written evaluation of each member's performance, focusing on such factors as:

- Whether the member has completed the required number of hours;
- Whether the member has satisfactorily completed assignments; and
- Whether the member has met other performance criteria that were clearly communicated at the beginning of the term of service.

Subgrantee	**Member files lacking documentation/ sample size**	**Applicable program years**
Lacking Documentation For: Mid-Term and End-of-Term Evaluations		
Christian County Public Schools	1 of 11	1995-96
Northern Kentucky United Way	10 of 10	1995-96
Homeless and Housing Coalition of Kentucky	29 of 62	1994-95 through 1997-98 & 1999-2000
Community Action Council of Lexington, et al	26 of 26	1995-96 through 1999-2000

Simpson County Board of Education	53 of 74	1994-95, 1995-96, 1998-99, & 2000-01
Kentucky State University	9 of 15	1997-98 through 1999-2000
Lacking Documentation For: Mid-Term or End-of-Term Evaluations		
Eastern Kentucky University	6 of 29	1998-99 & 1999-2000

- *Enrollment forms, change of status forms, and exit/end-of-term-of-service forms*

Certain standard forms required to be completed for members, as well as the timeframe for submission to be adhered to, were not complied with by the following subgrantees. The AmeriCorps Special Provisions require the following documents from the grantee:

- **Enrollment Forms.** State Commissions and parent organizations must submit member enrollment forms to the Corporation no later than 30 days after a member is enrolled.
- **Change of Status Forms.** State Commissions and parent organizations must submit member change of status forms to the Corporation no later than 30 days after a member's status is changed. By forwarding member change of status forms to the Corporation, State Commissions and parent organizations signal their approval of the change.
- **Exit/End-of-Term-of-Service Forms.** Programs must submit member exit/end-of-term-of-service forms to the Corporation no later than 30 days after a member exits the program or finishes his/her term of service early.

Subgrantee	**Member files lacking documentation/ sample size**	**Applicable program years**
Lacking Documentation For: Enrollment Form		
Morehead State University	4 of 57	1994-95
Northern Kentucky United Way	10 of 10	1995-96
Lacking Documentation For: Approved and Dated Enrollment Form		
Homeless and Housing Coalition of Kentucky	22 of 62	1994-95 & 1995-96
Kentucky State University	2 of 15	1999-2000
Lacking Documentation For: Timely Submission of Enrollment Form		
Homeless and Housing Coalition of Kentucky	2 of 62	1995-96 & 1996-97
Community Action of Southern Kentucky, Inc.	3 of 11	1999-2000

Subgrantee	Member files lacking documentation/ sample size	Applicable program years
Lacking Documentation For: Exit/End-of-Term Form		
Morehead State University	4 of 57	1994-95
Christian County Public Schools	3 of 11	1996-97
Northern Kentucky United Way	10 of 10	1995-96
Homeless and Housing Coalition of Kentucky	3 of 55	1994-95 & 1995-96
Community Action of Southern Kentucky, Inc.	1 of 11	1997-98
Community Action Council of Lexington, et al	9 of 26	1996-97 through 1999-2000
Eastern Kentucky University	2 of 29	1998-99
Lacking Documentation For: Approved and Dated Exit/End-of-Term form		
Homeless and Housing Coalition of Kentucky	13 of 55	1995-96 & 1996-97
Kentucky State University	1 of 15	1998-99
Lacking Documentation For: Timely Submission of Exit/End-of-Term form		
Homeless and Housing Coalition of Kentucky	11 of 55	1994-95, 1995-96 & 1999-2000
Community Action of Southern Kentucky, Inc.	3 of 11	1999-2000
Kentucky State University	4 of 15	1997-98 & 1998-99

- *Health Insurance Coverage*

The AmeriCorps Special Provisions require that subgrantees provide a health care policy to those members not otherwise covered by a health care policy at the time of enrollment into the AmeriCorps program, or to those members who lose coverage during their term of service as a result of participating in the program or through no deliberate act of their own. We identified documentation exceptions to this requirement at the following subgrantees:

Subgrantee	Member files lacking documentation/ sample size	Applicable program years
Lacking Documentation For: Health insurance waiver form		
Morehead State University	19 of 45	1994-95 through 1999-2000
Community Action Council of Lexington, et al	9 of 45	1995-96 through 1997-98
Simpson County Board of Education	7 of 45	1995-96 through 1997-98

- *W-4 Forms*

According to the AmeriCorps Provisions, the grantee must withhold federal personal income taxes from member living allowances, requiring each member to complete a W-4 form at the beginning of the term of service and providing a W-2 form at the close of the tax year. The grantee must comply with any applicable state or local tax requirements. At the following subgrantees, we identified member files that did not include W-4 forms:

Subgrantee	Member files lacking documentation/ sample size	Applicable program years
Morehead State University	6 of 45	1994-95, 1995-96, 1996-97 & 1999-2000
Community Action Council of Lexington, et al	6 of 45	1995-96

- *Financial Status Reports (FSRs) and Progress Reports*

According to the AmeriCorps Provisions, beginning in program year 1999-2000, FSRs are due May 1 for the period ending March 31 and October 31 for the period ending September 30. A grantee properly utilizing the Web-Based Reporting System (WBRS) meets financial reporting requirements when the grantee uses that system to submit reports within the approved time frames. A subgrantee must meet the submission deadlines set by the grantee for accurate and timely reporting. Prior to program year 1999-2000, FSRs were due 30 days after the end of each calendar quarter.

A subgrantee completing the final year of its grant must submit, in lieu of the last semi-annual FSR, a final FSR that is cumulative over the entire project period. This FSR is due within 90 days after the end of the project period.

A grantee completing the final year of its grant must submit, in addition to the Progress Report due on October 31, a final Progress Report that is cumulative over the entire project period. This progress report is due within 90 days after the close of the grant.

The AmeriCorps Provisions also require that each grantee set its own subgrantee reporting requirements consistent with its need for timely and accurate reports. As such, the Commission required its subgrantees to submit quarterly progress reports within 30 days of the end of the calendar quarter.

The following subgrantees did not maintain copies of FSRs or progress reports, the FSR or progress report was not dated, or the reports were not submitted timely.

Subgrantee	**Missing reports /sample size**
Lacking Documentation For: FSRs	
Northern Kentucky United Way	7 of 8
Homeless and Housing Coalition of Kentucky	4 of 12
Eastern Kentucky University	4 of 14
Simpson County Board of Education**	Only 2 FSRs were located for 1994-95
Lacking Documentation For: Timely Submission of FSR	
Green River Area Development District	1 of 12
Community Action Council for Lexington, et al	1 of 10
Homeless and Housing Coalition of Kentucky	2 of 8
Kentucky State University*	5 of 8
Simpson County Board of Education**	2 of 32
Lacking Documentation For: FSR submission date	
Christian County Public Schools	1 of 8
Eastern Kentucky University	1 of 10
Simpson County Board of Education**	8 of 32
Lacking Documentation For: Final FSRs and final progress reports	
Green River Area Development District	All missing
Community Action of Southern Kentucky, Inc.	All missing
Eastern Kentucky University	All missing
Simpson County Board of Education	All missing
Kentucky State University	All missing

Lacking Documentation For: Progress report	
Northern Kentucky United Way	None located
Community Action Council for Lexington, et al	2 of 2
Homeless and Housing Coalition of Kentucky	6 of 12
Kentucky State University*	2 of 8
Lacking Documentation For: Progress report submission date	
Community Action of Southern Kentucky, Inc.	9 of 12
Community Action Council for Lexington, et al	8 of 10
Kentucky State University	4 of 6

* In addition, Kentucky State University did not submit any FSRs or progress reports for program year 1999-2000.

** Simpson County Board of Education submitted monthly FSRs for program years 1994-95 through 1997-98. Therefore, our sample size was significantly larger for this subgrantee as compared to other subgrantees that only submitted quarterly FSRs.

13. Expenses recorded in the general ledger exceeded expenses reported on the FSRs.

When compiling or reviewing the Schedules of Award Costs for the following subgrantees, we identified unexplained excesses of expenses recorded in the general ledger over expenses reported on the FSRs:

Subgrantee	**Applicable program years**
Christian County Public Schools	1995-96 & 1996-97
Northern Kentucky United Way	1995-96 (cumulative amount for both program years)
Simpson County Board of Education	1994-95, 1996-97 and 1999-2000

According to the AmeriCorps Provisions, subgrantees must maintain financial management systems that include standard accounting practices, sufficient internal controls, a clear audit trail and written cost allocation procedures as necessary. Financial management systems must be capable of distinguishing expenditures attributable to a grant from expenditures not attributable to a grant. This system must be able to identify costs by programmatic year and by budget category and to differentiate between direct and indirect costs or administrative costs. Grantees' financial management responsibilities are detailed further in OMB Circular A-102, *Uniform Administrative Requirements for Grants and Agreements with State and Local Governments,* or A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations,* and their implementing regulations, as applicable.

14. Exceptions to member living allowance requirements.

Eastern Kentucky University
This subgrantee paid members less than the minimum living allowance in program year 1997-98.

Community Action Council for Lexington, et al
This subgrantee paid members on an hourly basis in program year 1995-96.

According to the AmeriCorps Provisions, a subgrantee must provide a living allowance to full-time members. The Corporation will only fund up to 85% of the minimum living allowance, which was $8,340 in program year 1997-98. In addition, programs must not pay a living allowance on an hourly basis, because the allowance is not a wage and should not fluctuate based on the number of hours members serve in a given time period. Programs should pay the living allowance in increments such as weekly or bi-weekly.

Given the age of these exceptions and the lack of more recent exceptions of a similar nature, no specific recommendation is considered necessary.

15. Other exceptions to matching requirements.

The following two subgrantees did not use all program revenue earned in each program year to fund match expenses of that year:

- Simpson County Board of Education
- Homeless and Housing Coalition of Kentucky

According to the AmeriCorps Provisions, "Income earned as a direct result of the Program's activities during the award period will be retained by the Grantee and used to finance the non-Corporation share of the Program."

In addition, the Homeless and Housing Coalition of Kentucky could not provide supporting documentation for 9 of 57 cash contributions selected for testing. However, because there is not always a direct correlation between cash contributions received and match expenses claimed, we have not questioned the related match amounts. However, according to the AmeriCorps Provisions, contributions, including cash and third party in-kind, must be verifiable from the subgrantee's records.

Recommendations Related to the AmeriCorps Grant

Except as otherwise noted, for all compliance findings and questioned costs discussed above related to the AmeriCorps grant, we recommend the following:

- The Corporation should follow up with the Commission to determine whether the questioned amounts should be disallowed and recovered.

- The Corporation should issue guidance to clarify what is meant by a final FSR to ensure that subgrantees understand when the 3 year retention period specified in the AmeriCorps Provisions begins.
- The Commission should provide additional guidance to existing subgrantees on record retention and documentation standards for such items as eligibility, time sheets, member service hours, AmeriCorps roster updates on member status, other claimed costs submitted for reimbursement, matching costs reported, and contributions received. The Commission should then verify subgrantee compliance with this guidance during periodic site visits.
- The Commission should enhance its policies and procedures for review of subgrantee member support and program operating matching requirements to ensure compliance.
- The Commission should ensure that current subgrantees have developed and implemented procedures to ensure that administrative costs claimed do not exceed the maximum percentage allowable in each program year and to ensure that they receive prior written approval for budgetary transfers, when required.
- The Commission should ensure that current subgrantees have developed and implemented periodic budget to actual monitoring procedures for the AmeriCorps grant to ensure costs charged against it are reasonable given the amount of the grant period that has expired.
- The Commission should ensure that its current subgrantees have a process in place to compare earned program revenue to claimed matching expenditures for each program year to ensure that all earned program revenue is used for program purposes during the program year.
- The Commission should require existing subgrantees to document and adhere to file maintenance procedures that will ensure compliance with the AmeriCorps Provisions. Procedures should include, where applicable, a checklist for all required documentation, a training program for personnel who are responsible for maintenance of member files, and a periodic review process where selected member files are checked for compliance with documented procedures. The Commission should then verify subgrantee compliance with these file maintenance procedures during periodic site visits.

Learn & Serve Grant

C. Compliance Findings Resulting in Questioned Costs

The specific amounts questioned related to the findings discussed below are included in the Consolidated Schedule of Award Costs at Exhibit B and in the Summary of Questioned Costs included as Note 2 to the Consolidated Schedule of Award Costs. This Note reconciles the amounts identified as questioned costs in the following paragraphs to the consolidated amounts of questioned costs reflected in Exhibit B.

16. Inability to gain access to subgrantee records (Questioned Claimed Costs of $50,215 and Questioned Match of $13,500)

In March 2001, the Commission contacted MicroCity to inform the subgrantee of KPMG's audit and to request that access to program documents be provided. Subsequent to that notification, we contacted the MicroCity program director four times to arrange a time to perform audit fieldwork. On the final call, the program director indicated that she did not believe she would be ready for our visit in the near future. Based on this information, we explained the consequences of not allowing us to do our work (i.e., we would question all costs). We received no further response from this subgrantee.

17. Matching requirements were not met (Questioned Claimed Costs of $4,118).

After taking other costs questioned as part of this incurred cost audit into consideration, the Kentucky River Foothills Development Council did not meet matching requirements in program years 1994-95, 1995-96 and 1998-99.

The Learn & Serve Provisions state that the subgrantee must provide and account for the matching funds as agreed upon in the approved application and budget. All programs are encouraged to raise some funds from the private sector, i.e., non-federal funds.

18. Match amounts claimed are not properly supported (Questioned Match of $3,755).

The Kentucky River Foothills Development Council could not provide supporting documentation for claimed match expenses for program year 1998-99. In addition, no supporting documents were located for 1 of 11 in-kind match expenses selected for testing (1995-96, contributor – volunteer services, $607).

According to the Learn & Serve Provisions, the subgrantee must maintain adequate supporting documents for it expenditures (federal and non-federal) and in-kind contributions made under this grant. Costs must be shown in books or records (e.g., a disbursement ledger or journal), and must be supported by a source document, such as a receipt, travel voucher, invoice, bill, in-kind voucher, or similar document.

D. Other Compliance Findings

19. Submission of FSRs and progress reports

For the Kentucky River Foothills Development Council, we could not verify the timely submission of FSRs for the first 3 program years (1994-95, 1995-96, and 1996-97) as neither the subgrantee nor the Commission possessed copies. Only one cumulative FSR (for the period ending August 31, 1997) could be located. In addition, the Kentucky River Foothills Development Council did not submit a final FSR or progress report.

According to the Special Provisions, Learn and Serve America: School-Based Programs, subgrantees must submit FSRs to report the status of all funds. Subgrantees must submit timely cumulative FSRs in accordance with Corporation guidelines. Additionally, programs completing the final year of their grant must submit a final FSR that is cumulative over the entire grant period. This FSR is due 90 days after the close of the grant.

The Special Provisions, Learn and Serve America: School-Based Programs, also state that programs completing the final year of their grant must submit, in lieu of a semi-annual progress report, a final progress report that is cumulative over the entire grant period. This progress report is due 90 days after the close of the grant.

20. Retention of grant-related records

The Kentucky River Foothills Development Council destroyed the pay register for program year 1998-99. Therefore, we could not verify the payroll deductions and taxes for program year 1998-99.

According to the Special Provisions, Learn and Serve America: School-Based Programs, the grantee must retain and make available all financial records, supporting documentation, statistical records, evaluation data, member information and personnel records for 3 years from the date of the submission of the final FSR. If an audit is started prior to the expiration of the 3-year period, the records must be retained until the audit findings involving the records have been resolved and final action taken.

Recommendations Related to the Learn & Serve Grant

No recommendations are considered necessary for the findings related to the Learn & Serve grant as the Commission no longer administers this grant.

Administrative and Program Development and Training (PDAT) Grants

E. Compliance Findings Resulting in Questioned Costs

The specific amounts questioned related to the findings discussed below are included in the Schedules of Award Costs at Exhibits C and D and in the Summary of Questioned Costs included as Note 2 to the Consolidated Schedule of Award Costs. This Note reconciles the amounts identified as questioned costs in the following paragraphs to the consolidated amounts of questioned costs reflected in Exhibits C and D.

21. Documentation to support selected payments claimed under the grant was not maintained (Questioned Claimed Cost of $273,622).

The Commission was unable to provide documentation supporting costs related to November 1995 and calendar year 1996. Therefore, we questioned $75,463 of PDAT expenses and $191,736 of Administrative expenses incurred during those periods.

In addition, the Commission was unable to provide documentation that supported the existence and/or reasonableness of selected payments claimed for reimbursement from the Corporation under the Administrative grant, as follows:

Category of Cost	Payee	Amount	Program Year
Travel	Crowley	$618.75	1995
Supplies/Materials	Printing	$3,322.92	1995
Supplies/Materials	Printing Services/Transition	$542.11	1999
Supplies/Materials	Duplicator Sales and Service	$1,039.50	2000
Other	Security Guard Services	$900.00	1999

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, section C(1) states "To be allowable under Federal awards, costs must...be adequately documented."

Recommendation

We recommend that the Commission enhance its record-keeping procedures to ensure that supporting documentation for its expenses is maintained as required by OMB and the grant agreement.

22. Matching requirements were not met (Questioned Claimed Costs of $94,015).

After taking other costs questioned as part of this incurred cost audit into consideration, the Commission did not meet matching requirements in program years 1994 and 1995.

Title 42 USC, section 12571 (e)(1), specifies "Except as provided in section 12594 of this title, the Federal share of the cost of carrying out a national service program that receives the assistance under subsection (a) of this section, whether the assistance is provided directly or as a subgrant from the original recipient of the assistance, may not exceed 75 percent of such cost." Each year's approved Administrative grant budget identifies the required match for the year.

Recommendation

No recommendation is considered necessary since similar exceptions were not identified in more recent program years.

23. Match amounts claimed are not properly supported (Questioned Match of $266,463)

The Commission could not provide supporting documentation for in-kind contributions claimed under the Administrative grant as match for program years 1994 through 1997. In addition, the Commission could not provide supporting documentation for one match expense selected for testing (June 16, 2000, payee – Duplicator Sales and Services, $1,039.50 claimed as match).

Recommendation

We recommend that the Commission enhance its record-keeping procedures to ensure that supporting documentation for its expenses is maintained as required by OMB and the grant agreement.

F. Other Compliance Findings

24. Submission of FSRs

Of 14 Administrative grant FSRs selected for testing, 13 were not submitted timely. In addition, of 14 PDAT grant FSRs selected for testing, 8 were not submitted timely.

According to Grant Provisions, section 11(c): "Financial reports shall be submitted quarterly on the Financial Status Report form SF 269 or SF269A. Reports are due 30 days after the end of the calendar quarters of March 31, June 30, September 30 and December 31."

This reporting requirement became a semi-annual requirement in 1999, according to the Special Grant Provisions, section 7(c) (within 30 days of March 31 and September 30).

We also noted upon review of grant award documents for 1999 and 2000 that the Administrative grant FSRs submitted for December 31, 1999 and December 31, 2000 are incorrect. The correct awards that should be listed on the FSRs for 1999 and 2000 as "total federal funds authorized' are $1,219,901 and $1,385,156, respectively.

Recommendation

We recommend that the Commission continue its implementation of procedures to ensure that FSRs submitted to the Corporation are complete, accurate, and timely.

25. Misclassification of certain PDAT costs

We identified one subgrantee that did receive a PDAT subgrant during program year 1997-98 (i.e., Green River Area Development District) and one subgrantee that may have received a PDAT subgrant in the same program year (i.e., Homeless and Housing Coalition of Kentucky). However, on the PDAT Schedule of Award Costs, no costs are

claimed under the "Sub-contracts, Sub-grants" category. Instead, such costs were erroneously included as a component of "Other." As a result, the PDAT Schedule of Award Costs is not presented in accordance with the terms of the grant.

Recommendation

We recommend that the Commission begin tracking its grant expenses by approved cost categories by program year. If a system outside of the State's accounting system must be maintained in order to achieve this objective, the Commission should reconcile the data in this other system to the State's accounting system monthly.

Other Procedures

We inquired of the Commission, and its subgrantees selected for audit, about their awareness of the Corporation's GPRA goals and whether the Commission had provided specific information to the subgrantees related to the goals. However, the Commission staff was not specifically knowledgeable of the GPRA. Present management of several subgrantees that are no longer receiving AmeriCorps grant funds, were not aware of whether their former counterparts that managed the AmeriCorps programs were aware of GPRA goals. Of the subgrantees that are currently receiving AmeriCorps grant funds, the program directors were also not specifically aware of GPRA. However, these subgrantees do submit periodic progress reports describing their accomplishments against their goals.

RESPONSIBILITIES

Management's Responsibility

The Kentucky Commission on Community Volunteerism and Service is responsible for:

- preparing FSRs in accordance with the terms and conditions of its grant awards from the Corporation. These reports provide the information that is used to prepare the Schedules of Award Costs;
- establishing and maintaining internal controls over financial reporting; and
- complying with laws and regulations, including those related to monitoring of its subgrantees.

In fulfilling its responsibilities management's estimates and judgments are required to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibility

Our responsibility is to issue our report on the Schedules of Award Costs.

Although our report included a disclaimer of opinion on the Schedules of Award Costs, we conducted our incurred cost audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Program for Full Scope Incurred Cost Audit of Corporation Awards with Subrecipients* (the Audit Program), issued by the Corporation's Office of Inspector General. Those standards and the Audit Program require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed against the award, as presented in the Schedules of Award Costs (Exhibits A through E), are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall Schedules of Award Costs presentation.

In planning and performing our incurred cost audit, we considered the Commission's internal control over financial reporting by obtaining an understanding of the Commission's internal controls, determining whether these internal controls have been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedules. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards.*

As part of obtaining reasonable assurance about whether the Schedules of Award Costs are free of material misstatement, we performed tests of the Commission's compliance with certain provisions of applicable laws, regulations and provisions of the Corporation's grant agreements, noncompliance with which could have a direct and material effect on the determination of Schedule amounts. We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to the Commission.

We provided a draft of this report to the Commission and Corporation. The Commission's and Corporation's responses to our report are included as Appendix A and B, respectively. Our comments on the Commission's response are included as Appendix C.

DISTRIBUTION

This report is intended solely for the information and use of the Office of the Inspector General and management of the Corporation for National and Community Service, the management of the Kentucky Commission on Community Volunteerism and Service, and the United States Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 23, 2001

Kentucky Commission on Community Volunteerism and Service
Homeless and Housing Coalition of Kentucky
Schedule of Award Costs
From September 1, 1994 to December 31, 2000

Cost Category	Approved Budget	Claimed Costs	Questioned Costs
Member Support Costs:			
Living Allowance	$ 1,882,916	$ 1,570,727	$ 292,103
FICA & Workers Comp.	189,328	139,079	8,825
Health Care	229,226	168,773	28,584
Subtotal	2,301,470	1,878,579	329,512
Other Member Costs:			
Training & Education	48,107	55,331	9,641
Uniforms	435	506	-
Other	-	-	-
Subtotal	48,542	55,837	9,641
Staff:			
Salaries	429,098	380,815	111,807
Benefits	51,397	33,210	3,418
Training	2,850	3,253	-
Other	-	-	-
Subtotal	483,345	417,278	115,225
Operating Costs:	219,174	199,667	72,403
Internal Evaluation:	30,000	35,365	10,000
Administration:	93,294	58,791	11,219
Adjustment to Agree General Ledger to FSRs:	-	461	-
Federal Costs Claimed in Excess of Approved Percentage:			
Section A	-	-	-
Section B-F	-	-	360,096
Total Corporation Funds:	3,175,825	2,645,978	908,096
Total Matching Funds:	2,077,871	1,889,097	566,431
Total Funds:	$ 5,253,696	$ 4,535,075	$ 1,474,527

Kentucky Commission on Community Volunteerism and Service
Kentucky State University
Schedule of Award Costs
From September 1, 1997 to August 31, 1999

Cost Category	Approved Budget	Claimed Costs	Questioned Costs
Member Support Costs:			
Living Allowance	$ 170,136	$ 140,088	$ -
FICA & Workers Comp.	13,014	9,005	-
Health Care	18,849	10,991	-
Subtotal	201,999	160,084	-
Other Member Costs:			
Training & Education	456	-	-
Uniforms	-	161	-
Other	-	-	-
Subtotal	456	161	-
Staff:			
Salaries	52,465	59,899	33,286
Benefits	14,690	12,771	6,388
Training	-	-	-
Other	-	-	-
Subtotal	67,155	72,670	39,674
Operating Costs:	3,000	6,041	934
Internal Evaluation:	-	-	-
Administration:	2,948	2,948	-
Federal Costs Claimed in Excess of Approved Percentage:			
Section A	-	-	-
Section B-F	-	-	88,681
Total Corporation Funds:	275,558	241,904	129,289
Total Matching Funds:	184,199	69,529	9,476
Total Funds:	$ 459,757	$ 311,433	$ 138,765

Kentucky Commission on Community Volunteerism and Service
Community Action of Southern Kentucky, Inc.
Schedule of Award Costs
From September 1, 1997 to August 31, 2000

Cost Category	Approved Budget	Claimed Costs	Questioned Costs
Member Support Costs:			
Living Allowance	$ 352,782	$ 221,600	$ -
FICA & Workers Comp.	34,843	17,122	-
Health Care	39,085	17,720	-
Subtotal	426,710	256,442	-
Other Member Costs:			
Training & Education	7,585	5,909	-
Uniforms	-	-	-
Other	-	-	-
Subtotal	7,585	5,909	-
Staff:			
Salaries	87,383	83,942	-
Benefits	24,565	27,613	5
Training	750	742	-
Other	-	-	-
Subtotal	112,698	112,297	5
Operating Costs:	42,994	40,905	79
Internal Evaluation:	-	-	
Administration:	30,068	30,068	8,214
Adjustment to Agree General Ledger to FSRs:	-	238	238
Total Corporation Funds:	620,055	445,859	8,536
Total Matching Funds:	299,008	358,644	78
Total Funds:	$ 919,063	$ 804,503	$ 8,614

Kentucky Commission on Community Volunteerism and Service
Big Sandy Area Development District
Schedule of Award Costs
From September 1, 1996 to December 31, 2000

Cost Category	Approved Budget	Claimed Costs	Questioned Costs
Member Support Costs:			
Living Allowance	$ 706,529	$ 550,623	$ -
FICA & Workers Comp.	61,345	45,478	-
Health Care	81,192	40,072	-
Subtotal	849,066	636,173	-
Other Member Costs:			
Training & Education	3,980	3,980	-
Uniforms	1,768	1,083	-
Other	2,842	2,376	-
Subtotal	8,590	7,439	-
Staff:			
Salaries	100,542	75,728	-
Benefits	30,015	22,500	-
Training	5,010	4,948	-
Other	5,602	5,367	-
Subtotal	141,169	108,543	-
Operating Costs:	105,619	70,680	-
Internal Evaluation:	6,275	4,031	-
Administration:	39,052	26,308	-
Total Corporation Funds:	1,149,771	853,174	-
Total Matching Funds:	604,176	465,437	-
Total Funds:	$ 1,753,947	$ 1,318,611	$ -

Kentucky Commission on Community Volunteerism and Service
Morehead State University
Schedule of Award Costs
From September 1, 1994 to December 31, 2000

Cost Category	Approved Budget	Claimed Costs	Questioned Costs
Member Support Costs:			
Living Allowance	$ 1,997,994	$ 1,707,714	$ -
FICA & Workers Comp.	170,120	144,218	-
Health Care	238,680	131,426	42,136
Subtotal	2,406,794	1,983,358	42,136
Other Member Costs:			
Training & Education	65,702	59,879	20,824
Uniforms	-	-	-
Other	72	-	-
Subtotal	65,774	59,879	20,824
Staff:			
Salaries	422,564	380,096	220
Benefits	124,529	111,973	-
Training	250	-	-
Other	-	-	-
Subtotal	547,343	492,069	220
Operating Costs:	350,032	312,404	143,648
Internal Evaluation:	-	-	-
Administration:	-	-	-
Federal Costs Claimed in Excess of Approved Percentage:			
Section A	-	-	89,061
Section B-F	-	-	271,941
Total Corporation Funds:	3,369,943	2,847,710	567,830
Total Matching Funds:	657,567	442,470	41,678
Total Funds:	$ 4,027,510	$ 3,290,180	$ 609,508

Kentucky Commission on Community Volunteerism and Service
Community Action Council for Lexington-Fayette, Bourbon, Harrison & Nicholas Counties, Inc.
Schedule of Award Costs
From September 1, 1995 to August 31, 2000

Cost Category	Approved Budget	Claimed Costs	Questioned Costs
Member Support Costs:			
Living Allowance	$ 845,040	$ 658,180	$ -
FICA & Workers Comp.	72,549	53,680	-
Health Care	99,216	50,410	
Subtotal	1,016,805	762,270	-
Other Member Costs:			
Training & Education	91,426	4,205	-
Uniforms	200	-	-
Other	23,988	-	-
Subtotal	115,614	4,205	-
Staff:			
Salaries	231,701	195,156	-
Benefits	67,602	52,194	-
Training	2,603	903	-
Other	-	-	-
Subtotal	301,906	248,253	-
Operating Costs:	131,524	76,953	-
Internal Evaluation:	6,000	7,547	-
Administration:	60,777	49,007	809
Federal Costs Claimed in Excess of Approved Percentage:			
Section A	-	-	-
Section B-F	-	-	11,204
Total Corporation Funds:	1,632,626	1,148,235	12,013
Total Matching Funds:	409,697	366,120	-
Total Funds:	$ 2,042,323	$ 1,514,355	$ 12,013

Kentucky Commission on Community Volunteerism and Service
Simpson County Board of Education
Schedule of Award Costs
From September 1, 1994 to December 31, 2000

Cost Category	Approved Budget	Claimed Costs	Questioned Costs
Member Support Costs:			
Living Allowance	$ 2,141,030	$ 267,686	$ 267,686
FICA & Workers Comp.	173,883	9,549	9,549
Health Care	158,959	79,946	25,919
Subtotal	2,473,872	357,181	303,154
Other Member Costs:			
Training & Education	81,612	113,154	47,244
Uniforms	1,200	3,259	-
Other	8,976	-	-
Subtotal	91,788	116,413	47,244
Staff:			
Salaries	431,642	57,959	57,959
Benefits	62,677	8,192	8,192
Training	24,100	-	-
Other	-	-	-
Subtotal	518,419	66,151	66,151
Salaries/Living Allowance	-	1,598,802	19,802
Benefits/FICA	-	144,510	-
Operating Costs:	252,417	353,712	131,126
Internal Evaluation:	18,433	-	-
Administration:	162,745	42,090	9,643
Adjustment to Agree General Ledger to FSRs:	-	70,550	97,284
Federal Costs Claimed in Excess of Approved Percentage:			
Section A	-	-	138,366
Section B-F	-	-	229,687
Total Corporation Funds:	3,517,674	2,749,409	1,042,457
Total Matching Funds:	1,739,696	939,669	507,188
Total Funds:	$ 5,257,370	$ 3,689,078	$ 1,549,645

Kentucky Commission on Community Volunteerism and Service
Christian County Public Schools
Schedule of Award Costs
From September 1, 1995 to August 31, 1997

Cost Category	Approved Budget	Claimed Costs	Questioned Costs
Member Support Costs:			
Living Allowance	$ 264,568	$ 243,084	$ 243,084
FICA & Workers Comp.	21,749	19,080	19,080
Health Care	-	-	-
Subtotal	286,317	262,164	262,164
Other Member Costs:			
Training & Education	-	-	-
Uniforms	-	-	-
Other	576	-	-
Subtotal	576	-	-
Staff:			
Salaries	74,836	65,078	-
Benefits	7,176	1,772	-
Training	2,000	-	-
Other	16,401	25,648	-
Subtotal	100,413	92,498	-
Operating Costs:	53,119	49,439	-
Internal Evaluation:	-	-	-
Administration:	10,603	-	-
Missing General Ledger Detail:	-	71,203	71,203
Adjustment to Agree General Ledger to FSRs:	-	(42,014)	-
Federal Costs Claimed in Excess of Approved Percentage:			
Section A	-	-	4,086
Section B-F	-	-	18,545
Total Corporation Funds:	451,028	433,290	355,998
Total Matching Funds:	202,834	177,014	177,014
Total Funds:	$ 653,862	$ 610,304	$ 533,012

Kentucky Commission on Community Volunteerism and Service
Eastern Kentucky University
Schedule of Award Costs
From September 1, 1994 to December 31, 2000

Cost Category	Approved Budget	Claimed Costs	Questioned Costs
Member Support Costs:			
Living Allowance	$ 1,627,235	$ 1,326,604	$ 1,326,604
FICA & Workers Comp.	127,209	104,953	104,953
Health Care	149,401	88,778	88,778
Subtotal	1,903,845	1,520,335	1,520,335
Other Member Costs:			
Training & Education	28,500	19,403	19,403
Uniforms	-	-	-
Other	3,416	-	-
Subtotal	31,916	19,403	19,403
Staff:			
Salaries	335,083	393,847	64,906
Benefits	107,111	95,464	18,709
Training	11,000	10,796	2,671
Other	-	-	-
Subtotal	453,194	500,107	86,286
Operating Costs:	127,779	128,707	59,947
Internal Evaluation:	3,200	123	-
Administration:	131,912	23,381	-
Federal Costs Claimed in Excess of Approved Percentage:			
Section A	-	-	131,162
Section B-F	-	-	93,976
Total Corporation Funds:	2,651,846	2,192,056	1,911,109
Total Matching Funds:	1,640,356	1,399,612	1,144,014
Total Funds:	$ 4,292,202	$ 3,591,668	$ 3,055,123

Kentucky Commission on Community Volunteerism and Service
Northern Kentucky United Way
Schedule of Award Costs
From September 1, 1994 to September 30, 1996

Cost Category	Approved Budget	Claimed Costs	Questioned Costs
Member Support Costs:			
Living Allowance	$ 135,060	$ 109,591	$ 109,591
FICA & Workers Comp.	14,012	8,384	8,384
Health Care	20,400	12,918	12,918
Subtotal	169,472	130,893	130,893
Other Member Costs:			
Training & Education	10,450	4,795	4,795
Uniforms	1,008	1,056	1,056
Other	-	-	-
Subtotal	11,458	5,851	5,851
Staff:			
Salaries	66,696	68,761	-
Benefits	17,823	18,716	-
Training	4,500	4,066	-
Other	-	-	-
Subtotal	89,019	91,543	-
Operating Costs:	28,680	31,632	11,442
Internal Evaluation:	4,500	3,000	-
Administration:	8,384	10,267	5,630
Adjustment to Agree General Ledger to FSRs:	-	(37,978)	-
Federal Costs Claimed in Excess of Approved Percentage:			
Section A	-	-	-
Section B-F	-	-	46,039
Total Corporation Funds:	311,513	235,208	199,855
Total Matching Funds:	-	122,159	122,159
Total Funds:	$ 311,513	$ 357,367	$ 322,014

Kentucky Commission on Community Volunteerism and Service
Green River Area Development District
Schedule of Award Costs
From September 1, 1997 to December 31, 2000

Cost Category	Approved Budget	Claimed Costs	Questioned Costs
Member Support Costs:			
Living Allowance	$ 487,483	$ 350,272	$ 13,891
FICA & Workers Comp.	40,404	28,777	1,062
Health Care	52,228	31,448	1,481
Subtotal	580,115	410,497	16,434
Other Member Costs:			
Training & Education	1,002	718	-
Uniforms	800	995	-
Other	1,520	773	-
Subtotal	3,322	2,486	-
Staff:			
Salaries	86,343	66,417	-
Benefits	28,636	22,832	-
Training	-	165	-
Other	8,712	9,359	-
Subtotal	123,691	98,773	-
Operating Costs:	32,380	28,477	-
Internal Evaluation:	1,938	-	-
Administration:	38,020	27,654	397
Federal Costs Claimed in Excess of Approved Percentage:			
Section A	-	-	13,971
Section B-F	-	-	-
Total Corporation Funds:	779,466	567,887	30,802
Total Matching Funds:	207,927	170,092	2,900
Total Funds:	$ 987,393	$ 737,979	$ 33,702

Kentucky Commission on Community Volunteerism and Service
Jefferson County Public Schools
Schedule of Award Costs (unaudited)
From September 1, 1994 to August 31, 1996

Cost Category	Approved Budget	Claimed Costs	Questioned Costs (N/A)
Member Support Costs:			
Living Allowance	$ 256,015	$ 239,236	$ -
FICA & Workers Comp.	19,698	16,491	-
Health Care	34,909	33,234	-
Subtotal	310,622	288,961	-
Other Member Costs:			
Training & Education	14,000	10,183	-
Uniforms	1,540	-	-
Other	2,250	2,250	-
Subtotal	17,790	12,433	-
Staff:			
Salaries	78,375	90,442	-
Benefits	10,093	11,511	-
Training	-	-	-
Other	3,125	3,303	-
Subtotal	91,593	105,256	-
Operating Costs:	43,605	29,049	-
Internal Evaluation:	-	-	-
Administration:	12,735	(24)	-
Total Corporation Funds:	476,345	435,675	-
Total Matching Funds:	178,522	194,512	-
Total Funds:	$ 654,867	$ 630,187	$ -

Kentucky Commission on Community Volunteerism and Service
City of Leitchfield
Schedule of Award Costs (unaudited)
From September 1, 1997 to August 31, 1999

Cost Category	Approved Budget	Claimed Costs	Questioned Costs (N/A)
Member Support Costs:			
Living Allowance	$ 178,075	$ 159,004	$ -
FICA & Workers Comp.	21,743	15,649	-
Health Care	5,544	7,069	-
Subtotal	205,362	181,722	-
Other Member Costs:			
Training & Education	2,544	2,386	-
Uniforms	-	-	-
Other	-	55	-
Subtotal	2,544	2,441	-
Staff:			
Salaries	47,480	42,139	-
Benefits	5,617	4,971	-
Training	1,000	1,000	-
Other	2,485	4,227	-
Subtotal	56,582	52,337	-
Operating Costs:	39,697	18,128	-
Internal Evaluation:	1,000	1,350	-
Administration:	15,871	10,136	-
Adjustment to Agree General Ledger to FSRs:	(83,475)	(53,635)	-
Total Corporation Funds:	237,581	212,479	-
Total Matching Funds:	83,475	53,635	-
Total Funds:	$ 321,056	$ 266,114	$ -

Status of Findings from
OIG Audit Report #00-11, *Pre-Audit Survey Report of the Kentucky Commission on Community Volunteerism and Service*

The Commission did not begin to implement significant corrective action related to the pre-audit survey findings until October 2000, after the hiring of a new Executive Director in August 2000. We reviewed action taken by the Commission through March 2001 on the findings, reported by the independent accounting firm of Urbach Kahn & Werlin, PC.

Selecting Subgrantees

The Commission did not maintain dated conflict of interest forms prior to the 1999 program year.

"Reviewers sign conflict of interest statements for the applications mailed to them for their review. Because the conflict of interest statement forms were not dated and maintained with the grant review forms for the 1995 though 1998 program years, we were unable to determine the program year and applications to which they related. However, during the 1999 program year, the conflict of interest statements were signed, dated and stapled to the grant reviewer evaluations."

Some documentation supporting grant-making decisions was unavailable.

"The Commission was unable to provide us with certain documentation to support the selection process."

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. The grant application form provided by the Corporation does not specifically address the applicant's financial systems. In addition, Commission selection procedures do not require Commission personnel to request information from the applicants related to their financial systems or to otherwise assess an applicant's financial system."

The Commission did not maintain documentation to support the advertisement of the availability of grant funds.

"Commission procedures indicate that the availability of funds is announced through news releases, direct mailings and public grant information meetings. However, no supporting documentation exists that such announcements were made during the 1995 through 1998 program years."

Recommendations

The report recommended that the Commission:

- Enforce current procedures and require that signed and dated conflict of interest forms be maintained for each grant applicant on file in accordance with Corporation requirements.
- Enforce its policies and procedures requiring the retention of documentation supporting the award or rejection of subgrantee applicants.
- Evaluate and document the adequacy of the applicants' financial systems during the selection process.
- Revise its procedures to require the retention of documentation to support the advertisement of the availability of grant funds.

Status

The Commission has developed and implemented procedures that require each new Commission member and peer reviewer to sign and date conflict of interest forms prior to commencement of their duties. Our follow-up procedures over the pre-audit survey findings indicated that the Commission is now properly obtaining conflict of interest statements from Commission members. However, we could not test the receipt of signed and dated conflict of interest forms from peer reviewers because no new applicants applied for the 2000-01 program year and the forms are only required if new applicants apply.

The Commission is currently implementing an application review process based on guidance received from the Corporation. As part of this implementation, the Commission has designed a new pre-selection evaluation form and is creating guidelines for reviewers of new applicants. Programs that are eligible for renewal are evaluated by Commission personnel based on their renewal application and site visit evaluations. A Recommendation Summary is prepared by Commission personnel based on this information and approved by the Commission Chair. Our follow-up procedures over the pre-audit survey findings indicated that the Commission is following its new procedures for renewal applicants, except as noted below related to site visit evaluations. However, we could not test its procedures related to new applicants because no new applicants applied for the 2000-01 program year.

The Commission has developed procedures that require all new applicants to submit a form certifying that they have the fiscal capacity to administer the grant. The applicant's independent auditor will complete this certification form. In addition, the Commission will require all new and renewal applicants to submit with the application a copy of the latest OMB Circular A-133 audit report or other audit report. The Commission will also evaluate the financial systems of renewal applicants through the results of site monitoring during the previous year. However, we could not adequately follow-up on the implementation of these new procedures because (1) no new applicants applied for the 2000-01 program year and (2) no fiscal site monitoring occurred through March 2001.

Under the Commission's new administrative entity, the Cabinet for Families and Children (CFC), the Commission will now follow CFC's advertising policies, which include the use of newspapers with statewide reach and radio and television advertisements. Documentation to support these announcements will be kept on file at the Commission. However, we could not adequately follow-up on the implementation of these new procedures. The most recent advertising period would have been for the 2001-02 program year, which is not a renewal year. Therefore, the Commission did not advertise.

Administering Grant Funds

Lack of evidence of Financial Status Report review, including matching recalculation.

"Commission procedures indicate that subgrantee Financial Status Reports are to be reviewed and matching requirements recalculated." However, various exceptions were noted related to FSRs. "In addition, Commission personnel do not compare the FSRs to the subgrantees' accounting records or other supporting documentation during site visits."

Late submission of FSRs.

The independent accounting firm identified 11 instances where the Commission submitted FSRs more than ten days late to the Corporation and 14 instances where subgrantees did not submit FSRs timely to the Commission.

Inability to determine the timeliness of the receipt of FSRs.

"The Commission does not routinely date-stamp FSR reports from subgrantees as they are received. Thus, the Commission can not determine if these documents are submitted timely in compliance with the grant agreement." Because of the implementation of the Web-Based Reporting System (WBRS) in October 1999, no recommendation was made related to this finding.

The Commission did not maintain all required FSRs.

The independent accounting firm identified several instances where Commission and subgrantee FSRs and related supporting documentation could not be located.

Recommendations

The report recommended that the Commission:

- Develop standard procedures to review subgrantee FSRs, recalculate matching requirements and formally document the results of the review.
- Implement site visit monitoring procedures that require the reconciliation of the subgrantees' FSRs to the subgrantees' accounting records and other supporting documentation.

- Enforce current policies and procedures requiring the submission of FSRs in accordance with Corporation guidelines.
- Maintain copies of, and support for, all FSRs it submits to the Corporation and copies of subgrantee FSRs and supporting documentation.

Status

Under new procedures, subgrantees will be fiscally monitored by members of the Contracts Accountability Branch of CFC. This monitoring will include the review of FSRs submitted by the subgrantees. However, because these new procedures had not been fully implemented as of March 2001, we could not adequately follow-up on their performance.

The Commission continues to require that subgrantees submit quarterly FSRs, a requirement in excess of current Corporation requirements. Although untimely submission of subgrantee information and reports is addressed via telephone by the Financial Officer, no formal follow-up procedures are in place at the Commission to ensure that FSRs are submitted timely. Regarding the submission of Commission-level FSRs, we reviewed the December 31, 2000 FSRs for the PDAT and Administrative grants, noting that both were submitted timely. See related findings on pages 42, 46 and 48 of this report.

The Commission's Financial Officer is responsible for maintaining all fiscal materials, including FSRs submitted. However, since the implementation of WBRS and electronic submission of FSRs, the maintenance of hard copies of subgrantee FSRs has not been closely monitored or enforced, and complete files do not exist. Regarding Commission-level FSRs, the Commission provided us with copies of the December 31, 2000 FSRs for the PDAT and Administrative grants.

Evaluating and Monitoring Subgrantees

The evaluating and monitoring system for subgrantees needs to be improved at the Commission.

The Commission was unable to provide requested information related to the Learn and Serve program (e.g., funding awarded to subgrantees during 1995), and documentation supporting the Commission's monitoring procedures was not consistently maintained. In addition, the independent accounting firm found the following deficiencies in the Commission's monitoring procedures:

- Lack of verification of reported member service hours to supporting documentation;
- Lack of identification of member files reviewed and member files with exceptions; and
- Inclusion of only general comments on the program review instrument, preventing the reperformance of procedures completed by Commission personnel.

Lack of documentation of review of OMB Circular A-133 Reports or other audit reports from subgrantees

"The Commission does not document its review of subgrantee OMB Circular A-133 audits or other audit reports as part of the monitoring process. In addition, the Commission does not have a process to support, document, and track subgrantee audit reviews and findings."

Recommendations

The report recommended that the Commission:

- Revise its written policies and procedures to require that specific information be included in the documentation of site visits (e.g., sample sizes, exceptions, recommendation, and follow-up).
- Maintain a schedule of subgrantees subject to OMB Circular A-133 requirements and ensure that the audits are performed.
- Establish policies and procedures requiring the review of OMB Circular A-133 audit reports and that review results are documented.

The report also recommended that the Corporation revise its guidance to specify minimum procedures to be performed during site visits and minimum related documentation requirements.

Status

The Commission is currently developing and implementing a new subgrantee monitoring process using the Corporation's example program review instrument. This process includes annual site visits to each subgrantee and requires the review of compliance and performance results. However, as noted on page 20 of this report, further enhancements to this process should be made. The Commission did complete one site visit under this new process in February 2001; we reviewed related documentation, including the completed program review instrument and the communication to the subgrantee of a deficiency related to program results documentation. Fiscal monitoring did not occur during this visit, but is expected to commence in program year 2001-02.

As noted above, members of the Contracts Accountability Branch of CFC will perform fiscal monitoring of subgrantees. This monitoring includes the review of submitted OMB Circular A-133 reports, which are maintained by the Commission. Any AmeriCorps-related findings will be tracked to ensure appropriate resolution. Our follow-up procedures over the pre-audit survey findings indicated that the Commission has copies of the fiscal year 2000 OMB Circular A-133 audit reports for four of the six program year 2000-01 subgrantees (the other two were not yet due), and Commission personnel were aware of the contents. However, because the reports did not include any AmeriCorps-related issues, we could not adequately determine if the tracking procedures noted above had been fully implemented.

APPENDIX A

KENTUCKY COMMISSION ON COMMUNITY VOLUNTEERISM AND SERVICE

http://volunteerky.state.ky.us

COMMISSION OFFICERS
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VICE CHAIR
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KCCVS STAFF
Eileen Cackowski
Howard Velosky
Robert Martin
Carrie Copeland
Karen Asher
Marzelle Wurtsmith
Andrea Sieloff

March 27, 2002

Office of the Inspector General
Corporation for National and Community Service
1201 New York Avenue NW
Washington DC 20525

Greetings,

During the month of April 2001, KPMG performed an incurred cost audit of the costs claimed by The Kentucky Commission on Community Volunteerism and Service and its sub grantees. The audit took place from January 28, 1994 through December 31, 2000. Since that time many improvements have been instituted. The Commission has been through many changes since its inception in 1994. The personnel of the Commission has completely changed along with a change in administrative oversight. The current Commission and staff, by Executive order of the Governor, was placed under the Commonwealth of Kentucky Cabinet for Families and Children (CFC) in January of 2000. As part of the administrative structure of the CFC, the Commission now functions within the administrative process of the CFC.

The Kentucky Commission on Community Volunteerism and Service now has a comprehensive risk based pre-award assessment and a risk based monitoring tool that covers both program and fiscal monitoring. This 25 page document is used for the annual program/financial site visit. The number and scope of the visits are determined by the individual needs of the agency.

Without the accompanying work papers, we cannot fully respond to each of the findings, therefore, we respectfully request a copy of all work papers. The majority of the questioned costs occurred from 1994-1997 as a result from the audit interpretation of the time frame for the retention of records. The programs in question have supplied materials either from new independent audits or from their files that they feel will answer the findings in a positive manner.

If you have any questions or concerns, please feel free to contact me.

Eileen Cackowski

Eileen Cackowski
Executive Director

Cc: Karen Schmalzbauer, Commission Chair
Secretary Viola Miller, Cabinet for Families and Children

275 E Main St 3W-C, Frankfort, Kentucky 40621, Phone 502-564-7420, Fax 502-564-7478, email: kccvs@mail.state.ky.us

Kentucky Commission on Community Volunteerism and Service
Response to Audit Findings
OIG Audit Report 02-10

A. Compliance Findings Resulting in Questioned Costs

Lack of Documentation

Finding # 1a
Compliance Findings Resulting in Questioned Costs
Condition *Eligibility requirements were not met (Questioned Claimed Costs of $1,699,924, Questioned Match Amounts of $220,806 other match amounts questioned in additional findings reported below, and Questioned Education Awards of $529,164).*
Commission Comment
The Commission disagrees with this finding. State record retention regulations require contractors to retain records for three years or until audit issues regarding their contract/state fiscal year are resolved. Sub grantees interpreted the instructions regarding record retention, "All financial records, supporting documentation, statistical records, evaluation data, participation information and personnel records for three years" etc. as referring to the FSR of the sub grantee since nothing in the earliest or current handbooks clarify that the "end of the grant" or "final Financial Status Report" is referring to the grant/reports of the Commission rather than the sub grantee. The audit interpretation of records retention as three years from the date of submission of the final Financial Status Report by the Commission, is being applied from the current time back to the start up of programs in 1994.

We agree that all AmeriCorps members should have proper documentation as required. KCCVS has provided a printed file folder for each member listing each document that should be contained therein. The Commission has further recommended that programs not sign member contracts until all documentation is in the member file. This is noted in their contract. In order to be able to document compliance we would need work papers of the auditor for names etc. We request those work papers.

Finding #1b.
Condition
Documentation to support time and attendance records and proper authorization of timesheets was not evident, including lack of support for AmeriCorps members' terms of service (Questioned Claimed Costs of $384,034; Questioned Match Amounts of $6,544 and Questioned Education Awards of $298,398).
Commission Comment
The Commission disagrees with this finding. Sub grantees interpreted the audit interpretation of records retention, as three years from the date of their own agency independent audit not the CNCS audit of the Commission and its sub grantees. Procedures have been put in place to insure record retention. In order to be able to document compliance we would need work papers of the auditor for names etc. We request those work papers.

Finding # 2
Condition
General Ledger and/or payroll records were not maintained, or expenses reported in the FSR's exceeded expenses recorded in the general ledger, (Questioned Claimed Costs of $646,572 and Questioned Match Amounts of $145,722,)
Commission Comment
The Commission disagrees with this finding. Independent audits are available for Community Action of Southern Kentucky. Documentation is on hand from Simpson County Board of Education that refutes the finding and The Christian County Board of Education stated that

difference in fiscal years and the fact that they had overmatch caused the conclusions reached by the auditors. The Commission requests work papers to support the finding.

Finding # 3
Condition
Documentation to support certain federal costs were destroyed in accordance with sub grantee record retention policies (Questioned Claimed Cost of $742,622).
Commission Comment
We disagree with this finding. Sub grantees interpreted the audit interpretation of records retention, as three years from the date of their own agency independent audit not the CNCS audit of the Commission and its sub grantees. HHCK also found that a computer with financial information was surplused to a former employee by mistake and the information from that computer was lost.

Finding # 4
Condition
Documentation to support selected payments claimed under the grant was not maintained (Questioned Claimed Cost of $112,429 and Questioned Match Amounts of $15,802).
Commission Comment
The Commission disagrees with this finding. Sub grantees interpreted the policy of records retention, as three years from the date of their own agency independent audit not the CNCS audit of the Commission and its sub grantees. Procedures have been put in place to insure record retention. In order to be able to document compliance we would need work papers of the auditor for names etc. We request those work papers.

Finding #5
Condition
Administrative costs in excess of the maximum Corporation share were claimed (Questioned Claimed Costs of $24,693).
Commission Comment
The Commission disagrees with this finding. Records on hand from Simpson County Board of Education refute this finding. Annual independent audits from Northern Kentucky United Way, Green River Development District, Community Action of Southern Kentucky and Community Action Council of Lexington do not indicate any significant findings regarding AmeriCorps grantees. Paperwork is still coming in to refute the finding.

Finding #6
Condition
Funds were allocated to different budget cost categories without prior approval, when required (Questioned Claimed Cost $14,382).
Commission Comment
The Commission disagrees with this finding. While there may have been a variance in the budget line items, the overall budget was not exceeded and the sub grantees operated with the understanding that they were able to change budget items that did not exceed the amount of the full budget.

Finding # 7
Condition
Sub grantee personnel could not provide sufficient explanations for variances in payroll expenditures (Estimated Questioned Claimed Cost of $22,264 and Estimated Questioned Match of $17,470)
Commission Comment
We disagree with this finding. Without auditor worksheets, the $22,264 Claimed Costs and the $17,470 estimated match spread over four contractors over a five-year period is impossible to

determine. In order to determine precise costs, KCCVS requires the audit work papers that indicate the computation and methodology used to calculate these costs. Based on the letters and the documents from the Simpson County Board of Education and Eastern Kentucky University, this finding is incorrect. The methodology used mixing paid staff with AmeriCorps members as well as the total cost makes it impossible to respond without work papers. We request those work papers.

Finding # 8
Condition
Certain calculation errors were made by sub grantee personnel (Questioned Claimed Costs of $22,250 and Questioned Match of $3,284).
Commission Comment
The Commission disagrees with this finding. Audits are available for the Community Action Agency of Southern Kentucky, for the time period in question. FY 2000 audit for this agency shows no relevant findings related to the AmeriCorps program. Audit work papers are requested to answer the individual claims.

Finding # 9
Condition
Matching requirements were not met (Questioned Claimed Costs of $1,496,815).
Commission Comment
The Commission disagrees with this finding. According to documents received by this Commission the match was met for the majority of the programs. In order to respond to specific amounts per program, the Commission respectfully request the auditors work papers.

Finding # 10
Condition
Documentation to support certain matching costs were destroyed (Questioned Match of $1,189,270).
Commission Comment
Sub grantees interpreted the instructions regarding record retention, "All financial records, supporting documentation, statistical records, evaluation data, participation information and personnel records for three years" etc. as referring to the FSR of the sub grantee since nothing in the earliest or current handbooks clarify that the "end of the grant" or "final Financial Status Report" is referring to the grant/reports of the Commission rather than the sub grantee.

Finding # 11
Condition
Match amounts are not properly supported (Questioned Match of $972,040)
Commission Comment
Sub grantees interpreted the instructions regarding record retention, "All financial records, supporting documentation, statistical records, evaluation data, participation information and personnel records for three years" etc. as referring to the FSR of the sub grantee since nothing in the earliest or current handbooks clarify that the "end of the grant" or "final Financial Status Report" is referring to the grant/reports of the Commission rather than the sub grantee.

B. Other Compliance Findings

Finding #12
Conditions
Lack of Documentation *to include: Criminal record check; Position descriptions; Member contracts; Orientation; Member start and end dates/location of member's service; Mid-term and end-of-term evaluations; Enrollment forms; change of status forms; exited and end- of-term-of-*

service-forms; Health insurance forms;W-4 forms; Financial Status Reports and Progress Reports

Commission Comment

The Commission agrees that all AmeriCorps members should have proper documentation as required. KCCVS has provided a printed file folder to each program to fill out for each member. The front of the folder lists each document that should be contained therein. The Commission has further recommended that programs not sign member contracts until all documentation is in the member file. The Commission also understands that the exact kind of documentation has changed over the years. As the federal program has grown so has the need for more specific kinds of documentation. Sub grantees interpreted the instructions regarding record retention, "All financial records, supporting documentation, statistical records, evaluation data, participation information and personnel records for three years" etc. as referring to the FSR of the sub grantee since nothing in the earliest or current handbooks clarify that the "end of the grant" or "final Financial Status Report" is referring to the grant/reports of the Commission rather than the sub grantee The Commission works diligently to ensure all proper documentation is in place.

Finding # 13

Condition

Expenses recorded in the general ledger exceeded expenses reported in the FSRs

Commission Comment

The Commission disagrees with this finding. Letters and documents (Iidependent audits) indicate no findings regarding the AmeriCorps program. We would need the auditors work papers in order to respond.

Finding #14

Condition

Exceptions to member living allowance requirements

Commission Comment

The Commission concurs that "Given the age of the exception and the lack of more recent exceptions of a similar nature, no specific recommendation is necessary".

Finding # 15

Other exceptions to matching requirements

Commission Comments

Simpson County Board of Education and the Homeless and Housing Coalition of Kentucky have produced documents to support their match.

Recommendations Related to the AmeriCorps Grant

- *The Commission should provide additional guidance to existing sub grantees on record retention, and documentation standards for such items as eligibility, time sheets, member service hours, AmeriCorps roster updates on member status, other claimed costs submitted for reimbursement, matching costs reported, and contributions received. The Commission should then verify sub grantee compliance with this guidance during periodic site visits.*

Commission Comment

Currently, the Kentucky Commission on Community Volunteerism and Service now has a very comprehensive risk based pre-award assessment and a risk based monitoring tool that covers both program and fiscal monitoring. This 25-page document is used for the annual program/financial site visit. Should the risk of the program indicate, appropriate technical assistance visits are developed. The number and scope of the visits are determined by the individual agency need.

- *The Commission should enhance its policies and procedures for review of sub grantee member support and program operating matching requirements to ensure compliance.*

- *The Commission should ensure that current sub grantees have developed and implemented procedures to ensure that administrative costs claimed do not exceed the maximum percentage allowable in each program year and to ensure that they receive prior written approval for budgetary transfers, as required.*
- *The Commission should assure that current sub grantees have developed and implemented periodic budget monitoring procedures for the AmeriCorps grant to ensure costs charged against it are reasonable given the amount of the grant period that has expired.*
- *The commission should assure that the current sub grantees have a process to compare earned program revenue to claimed matching expenditures for each program year to ensure that all earned program revenue is used for program purposes during the program year.*

Commission Comments

The new Grant Officer for the Commission has developed an EXCEL spreadsheet for each program. She monitors the programs on a monthly basis to ensure compliance and matching requirements. She monitors actual dollars and percentages, and projects average monthly expenditures. Programs are notified immediately if there is a question regarding match or any program cost. The entire program information is recapitulated yearly.

The Commission now has a comprehensive "Fiscal Policies and Procedures" Manual. This manual covers: grant awards from Request for Proposals to pre-risk survey to award; fiscal audit process; oversight of audits, everything from internal purpose and policy, from A-133 to other audits and gives procedures taken by this office relating to sub grantee audits; disbursement of funds and methods of payments, including manner of reimbursement; Financial Status Reports, their purpose, submission timeline, both hard copy and Web Based Reporting System (WBRS), periodic expense reports, extensions and checklists; matching funds requirements, determining appropriate match, documentation and proof of match; budget requirements, administrative costs and indirect costs, AmeriCorps living allowance, taxes, insurance, member gear, child care, and impact of member living allowances/waiving the living allowance; financial management requirements; regulatory requirements; financial policies and procedures; additional requirements to include the National Trust forms, meetings, and site visits and finally, closeout procedures. The last includes documents needed, OMB regulations, KCCVS process, equipment allowable, title to and inventory of and carryover results, and follow-up action. Many of these requirements are also included in or incorporated into the contract between the Cabinet and its contracts

There is a companion booklet, KCCVS Internal Control Procedures to ensure the completeness, accuracy and security of information to accurately carryout and report the Commission's activities. This covers the Commonwealth of Kentucky Management and Reporting System (MARS), detailed itemization spreadsheets that are reconciled monthly; federal monthly expenditure reports; state monthly expenditure reports; expenditures by sub-object for indirect cost; budget to actual reports; contractor reimbursements; sub-grantee advances (prohibited) and documentation of KCCVS sub grantee match. Internal controls are also offered for: federal grants draw downs, with full procedures, Financial Status Report requirements, purposes and procedures, reconciliation and reporting schedule. The WBRS system is covered to include the reporting schedule. The Cabinet's Procurement System, utilized by KCCVS both invoice submission and reimbursement (Expense Account) remission process; personnel matters, timesheets and payroll, staff evaluation; grant allocation, timesheets, policy and procedure. Finally there is a section detailing the annual physical inventory procedure.

- *The Commission should require existing sub grantees to document and adhere to file maintenance procedures that will ensure compliance with the AmeriCorps Provisions. Procedures should include, where applicable, a checklist for all required documentation, a training program for personnel who are responsible for maintenance of member files, and a periodic review process where selected member files are checked for compliance with these file maintenance procedures during periodic site visits.*

Commission Comment
The Kentucky Commission on Community Volunteerism and Service has implemented such a requirement. Along with the file folder referred to in other comments, the Program Officer and the Grants Officer work with each program to ensure standard filing practices. Member folders are pulled using a random selection process. Financial folders, invoices, receipts are checked for financial compliance. The new KCCVS "Programmatic Monitoring Tool" requires the monitor(s) to review program and member records and documents the records reviewed during monitoring visits. If the files are not in order, deficiencies are noted on the monitoring tool, a monitoring report is generated and sent to the program describing all deficiencies. The report advises the program what action is required to correct deficiencies and the timeframe in which the corrections must be completed and documentation returned to the Commission. Commission staff "follow-up" on the implementation of corrective actions during subsequent visits.

KCCVS is very interested in how each of its AmeriCorps programs have developed and strengthened financial and program accountability processes. Our programs have survived and excelled; some to be replicated nationally. There have been no instances of fraud, abuse or misappropriation identified in the audit. Through a period when the Commission support of the programs may have been less than optimal, the programs continued to thrive, support their members and comply to the best of their ability to what they believed to be programmatic compliance.

Misplaced or lost files are most likely due to the result of lapsed time, space restrictions required for records to be stored year after year and the result of offices moving more frequently than desired. At times, programs had to rent space or occupy assigned space and that space was subject to forces beyond the control of anyone (ruptured pipes are a good example). Further, the very extensive Risk Based Assessment to be filled out by an organization when applying for a grant; an entirely new Programmatic Compliance Monitoring Tool, already in use that includes everything from documentation to a complete financial picture; a site visit review and feedback protocol fit together make an enhanced system.

Copies of all of these tools are available for inspection. The new Processes Manuals will ensure compliance of all provisions of the Corporation. Monthly spreadsheets now give a complete financial picture of the programs coupled with extensive monitoring and site visits. The move of KCCVS from the Council of Post Secondary Education to the Cabinet for Families and Children also gave the Commission the availability of professionals in the contracts and finance functions of the Cabinet as well as access to legal, communications and a statewide system of state offices to assist the Commission in the administration and development of service and volunteerism programs within the state. KCCVS is a part of and must adhere to the rules, regulations, policies and procedures of the Cabinet for Families and Children. The KCCVS contract, fiscal, personnel and administrative process is the Cabinet process. Staff time is maintained by the Cabinet and staff is managed and reimbursed for time and travel expenses according to state personnel regulations. Issues from the pre 2000 Commission are no longer issues with this Commission. Regular monitoring of every aspect of the programs along with constant attention to the smallest financial detail are hallmarks of the of the current Commission.

Learn & Serve Grant

C. Compliance Findings Resulting in Questioned Costs
Finding #16
Condition
Inability to gain access to sub grantee records (Questioned Claimed Costs of $50,215 and Questioned Match of $13,500).

Commission Comments
The Commission disagrees with this determination. According to Nathan Sullivan, they are willing to cooperate with an audit. Apparently a part time employee who was charged with packing the office, not the program director, as indicated in the draft report, was contacted and did not understand the importance of the auditors call.

Finding # 17
Condition
Matching requirements were not met (Questioned Claimed Costs of $4,118).
Commission Comment
The Commission disagrees with this finding based on documentation received by the Commission since the audit.

Finding # 18
Condition
Match amounts claimed are not properly supported (Questioned Match of $3,755)
Commission Comment
The Commission disagrees with this finding based on the age of the documents to be matched, the response from the independent audit and the response of the program. KCCVS requests work papers to cover this finding.

D. Other Compliance Findings

Finding # 19
Condition
Submission of FSR's and progress reports
Commission Comment
Sub grantees interpreted the instructions regarding record retention, "All financial records, supporting documentation, statistical records, evaluation data, participation information and personnel records for three years" etc. as referring to the FSR of the sub grantee since nothing in the earliest or current handbooks clarify that the "end of the grant" or "final Financial Status Report" is referring to the grant/reports of the Commission rather than the sub grantee.

Finding #20
Condition
Retention of grant-related records
Commission Comment
Sub grantees interpreted the Provision of record retention, "All financial records, supporting documentation, statistical records, evaluation data, participation information and personnel records for three years from the date of the final submission of the Financial Status Report", as meaning the FSR of the sub grantee.

Finding # 21
Condition
Documentation to support selected payments claimed under the grant was not maintained (Questioned Claimed Cost of $273,622)
Commission Comment
The Commission disagrees with this finding. Work papers will be necessary to respond to individual costs. Some invoices are with the Cabinet for Families and Children, but those dated pre 2000 should be with the Council on Post Secondary Education. We request the work papers on this finding.
KCCVS has "...enhanced its record keeping procedures to ensure that supporting documentation for its expenses is maintained as required by OMB and the grant agreement."

Two manuals have been developed. Kentucky AmeriCorps: Fiscal Policies and Procedures Manual and KCCVS Internal Control Procedures. These can be reviewed at the KCCVS office.

Finding # 22
Condition
Matching requirements were not met (Questioned Claimed Costs of $94,015)
Commission Comment
The Commission disagrees with this finding. From what the current Commission understands, the Commission, in place at that time, felt that the state requirement of record retention for three years after the audit of their financial agent was the prevailing philosophy and they no longer had to retain records. The Commission did not destroy records for any other than what they thought to be appropriate reasons. With the new record keeping system this could never happen again. Records are kept, checked and rechecked by both the Commission and the Cabinet for Families and Children.

Finding # 23
Condition
Match amounts claimed are not properly supported. (Questioned Match of $266,463).
Commission Comments
The Commission disagrees with this finding. Our understanding is that the Commonwealth of Kentucky has always provided state general funds as cash match for CNS administrative funds. In order to reconstruct what may have happened at the time in question we request the auditors working papers.

KCCVS has embraced the recommendation of the auditors and has "...enhanced its record keeping procedures to ensure that supporting documentation for its expenses is maintained as required by OMB and the grant agreement." Two manuals have been developed. Kentucky AmeriCorps: Fiscal Policies and Procedures Manual and KCCVS Internal Control Procedures. These can be reviewed at the KCCVS office.

F. Other Compliance Issues

Finding # 24
Condition
Submission of FSRs
Commission Comment
The Commission agrees with this finding. KCCVS notes the recommendation of the auditors. For the past 12 months the Commission reports have been filed timely and accurately.

Finding # 25
Condition
Misclassification of Certain PDAT Costs
Commission Comments
The Commission agrees with this finding. Beginning July 1, 1999, a new State Accounting System, Management Administrative and Reporting System, (MARS) went into existence. This system will not allow a contract to be cut or a payment made to an outside agency unless funds to support that expenditure were appropriately budgeted within the grant line item and obligated by means of a contract or purchase order.

Other Procedures
In view of the significance placed on the Corporations GPRA goals, we object to the notation and refer to CNS for resolution.

APPENDIX B

CORPORATION FOR NATIONAL SERVICE

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To: Terry Bathen, Deputy Inspector General for Audits and Policy

Through: William Anderson, Deputy Chief Financial Officer

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

Date: March 29, 2002

Subj: Response to OIG Draft Audit Report 02-10: Incurred Cost Audit of Grants Awarded to the Kentucky Community Service Commission

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We have reviewed the draft audit report of the Kentucky Community Service Commission grants. Due to the limited timeframe for response, we have not yet conducted a comprehensive review nor analyzed documentation from the Kentucky Commission supporting the questioned costs. We will respond to all findings and recommendations when the audit is issued and we have reviewed the findings in detail. The Kentucky Commission has provided an extensive response and begun corrective action as needed.

The draft audit report summary statement questions significant costs due to the lack of records at some subgrantees. We believe that the record retention requirements are clear. We agree with the need identified in your transmittal letter to address this issue and examine the impact on questioned costs attributable to lack of records and supporting documentation for periods when record retention requirements may have expired.

In addition, the draft audit report seems to link grantee and subgrantee record retention requirements with Corporation close out of the grants, suggesting that records must be maintained until the Corporation closes the grant. This is not the case. Corporation closeout processes and timelines do not affect grantee record retention requirements.

Finally, we have recently completed addressing the system issues identified in the IG pre-audit survey although this would have no direct impact on this audit which addressed prior periods.

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KPMG's Comments on the Commission's Response

The following paragraphs present KPMG's comments on the Commission's responses to the findings and recommendations included in this report. We continue to believe our findings are valid, based on the results of the incurred cost audit performed on the costs claimed by the Commission and its subgrantees. Further, our recommendations, once fully implemented, should result in improvements to internal controls over the operations of the Commission and those of its subgrantees.

Request for Work Papers

Under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States, work papers are the property of the auditor. Auditors are sometimes required by law, regulation or audit contract to provide a regulator, or a duly appointed representative, access to the work papers. However, the Commission and its subgrantees are considered the auditees of this incurred cost audit, and copies of work papers are not provided to auditees. In addition, the audit report and the detailed findings provided in writing to the Commission and its subgrantees prior to the exit conference include most information that the Commission has requested in its response (e.g., member names and invoice information). Therefore, we will not provide the Commission copies of our work papers. However, the Corporation's Office of Inspector Generals (OIG) has access to our work papers and any requests for access to the audit work papers should be referred to the OIG for determination on a case-by-case basis during the audit resolution process.

To clarify two findings for which detailed calculation information is not included in either the audit report or detailed findings, our calculations of minimum matching requirements and maximum administrative cost took into consideration costs questioned as part of the incurred cost audit. For example, to calculate the maximum allowed administrative cost at a particular subgrantee, we reduced expenditures claimed from the Corporation by questioned costs identified that related to such expenditures, and multiplied by the 5% maximum. We then compared this result to the administrative cost claimed from the Corporation by the subgrantee, and we questioned any claimed amount in excess of the 5% calculation result.

Record Retention Requirements

Throughout its response, the Commission expressed concern over KPMG's interpretation of the AmeriCorps and Learn & Serve record retention requirement which has given rise to a significant portion of the questioned costs. As indicated in our report, the AmeriCorps Provisions and Learn & Serve Provisions state that the grantee must retain and make available all financial records, supporting documentation, statistical records, evaluation data, member information and personnel records for 3 years from the date of the submission of the final expenditure report (Financial Status Report). Several subgrantees we audited had not submitted the final Financial Status Report (FSR) for all program years under audit. In those instances where subgrantees had submitted final FSRs, the Corporation had not administratively closed out the sub-grants; therefore, they

remained subject to our audit scope. The Commission should address this concern with the Corporation during the audit resolution process.

In addition, many of the findings for which this response is given cite several exceptions that occurred within 3 years prior to our fieldwork dates (March and April 2001). Therefore, under the Commission's and subgrantees' interpretation of this requirement, such documentation should have been available during our audit.

Results of Independent Audits

The Commission's response makes several references to annual independent audits of subgrantees and the lack of significant findings related to Corporation-funded grants in these audit reports. Entities such as the Commission's subgrantees generally may receive two types of annual independent audits, a financial statement audit and an audit in accordance with Office of Management and Budget (OMB) Circular A-133.

The purpose of a financial statement audit is to report on the fair presentation of the entity's financial statements. In order to achieve this purpose, the auditors are not generally required to test for compliance with Corporation grant requirements and may not even test a financial transaction related to Corporation-funded grants, depending on the size of those grants in relation to the entity's other revenues and expenditures.

Although OMB Circular A-133 audits are specifically related to federal grants, auditors only test internal controls and compliance for a specific grant if the grant is considered a major program for the audit. Based on our review of OMB Circular A-133 audit reports issued related to the Commission's subgrantees subject to our audit procedures, we noted numerous instances where Corporation-funded grants were not considered major programs. In addition, auditors performing OMB Circular A-133 audits are only required to test compliance requirements that are considered to have a direct and material effect on a major federal program. Therefore, based on auditor's judgment, the auditors responsible for the OMB Circular A-133 audits for Commission subgrantees in which Corporation-funded grants were considered major programs may not have performed audit procedures over all Corporation grant requirements tested during our incurred cost audit.

As a result, we do not consider it appropriate to draw conclusions about compliance with Corporation grant requirements based on the subgrantees' annual independent audit reports.

Specific Responses

We believe the responses specific to the following findings require additional comment:

- Finding No. 6 – The Commission indicated that subgrantees operated with the understanding that they could revise individual budget line items as long as the total budget was not exceeded. The exceptions we identified in our report are in violation of requirements specifically identified in the AmeriCorps Provisions of the applicable

years. As part of their subgrant agreements, subgrantees must comply with such specific requirements.

- Finding No. 7 – The Commission indicated that the questioned costs cover a five-year period; the audit report specifically identifies the two program years in question. In addition, the Commission indicated that the methodology used combined paid staff with AmeriCorps members; this is only true in the case of Simpson County Board of Education because the subgrantee did not separately account for member living allowances and staff salaries, as discussed in our Report on Internal Control over Financial Reporting. Finally, the Commission requests additional information on the calculation methodology; the estimate methodology was discussed with the applicable subgrantees when we inquired about the variances, and our report clearly indicates how we computed the questioned costs.
- Finding No. 16 – The Commission responded that we contacted a subgrantee employee other than the program director when attempting to schedule fieldwork at the Learn & Serve subgrantee in question. We used the name and telephone number provided by the Commission's staff when attempting to contact this subgrantee; we understood that the contact information provided was for the program director, as requested. In addition, on April 13, 2001, we formally communicated via an email message to the Commission's Executive Director and Finance Director the issues we had with this subgrantee; this email message specifically identified the subgrantee employee we had contacted and noted that all claimed costs would be questioned. We received no response to this email message.

Overall, our findings were based on relevant AmeriCorps Provisions, Learn & Serve Provisions, and the documentation made available to us by the subgrantees or Commission during our audit fieldwork. Any additional documentation that the Commission has subsequently located that it believes will clear the reported findings, should be forwarded to the Corporation as part of the audit resolution process.