OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

AUDIT OF CORPORATION FOR NATIONAL AND COMMUNITY SERVICE GRANTS TO THE NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE USA

OIG Audit Report Number 02-12
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Prepared by:

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CORPORATION
FOR NATIONAL
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Introduction

In September 2000, CNCS OIG engaged the independent accounting firm of Leonard G. Birnbaum and Company to audit costs claimed by the National Council of Churches of Christ in the USA under two CNCS grants. The grants funded AmeriCorps programs to be operated by the Council and provided for education awards to be earned by AmeriCorps members. Under the budget for Grant No. 94ADNNY028, funding was provided for the program's operations, including AmeriCorps member support and administrative costs.

Initiation of audit work followed an OIG investigation that revealed programmatic and oversight issues for the Education Award Only programs and discrepancies between the number of AmeriCorps members claimed to have been enrolled by the National Council of Churches and the Corporation's records. The investigation was closed in May 2000 and the results reported to the Corporation. Since then, the Corporation has worked with the Council to resolve issues related to AmeriCorps member enrollment, documentation of their service, and eligibility for education benefits.

As discussed in Leonard G. Birnbaum and Company's report, Appendix A, the firm's preliminary efforts revealed that the National Council of Churches had obtained audits as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Although those audits resulted in unqualified opinions on the financial statements, the audit reports on the Council's internal controls and its compliance with federal regulations and grant provisions identified a number of material weaknesses as early as 1996. Many of these conditions directly impacted the Corporation's grants.

The firm also found that the Council's accounting system was inordinately complex and that the Council's federal financial status reports submitted to the Corporation to account for costs claimed under the grants could not be reconciled to its accounting records. This finding was included in the Circular A-133 audit reports, as well as in a 1996 OIG report on the results of a survey of the Council's compliance with federal accounting systems requirements.

Leonard G. Birnbaum and Company has concluded that the material weaknesses and other conditions are impediments that preclude the firm's ability to practicably audit the grants. Based on our review of their report and its underlying work papers as well as discussions with CNCS officials and Council representatives, OIG concurs. This decision

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and the results of our preliminary work were discussed with National Council of Churches' and CNCS' representatives at an exit conference on January 15, 2002.

Although the contracted audit firm was unable to audit Corporation grants awarded to the National Council of Churches of Christ, OIG recommends that the Corporation continue its initiative to clarify remaining issues concerning member enrollment, documentation of services performed, and individual eligibility for educational awards. Since the National Council of Churches no longer operates any AmeriCorps programs, OIG is not making any recommendations for additional corrective actions. However, the Corporation should consider the issues identified in this report in making any future grant award decisions concerning the National Council of Churches of Christ.

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APPENDIX A

Inspector General
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We were engaged to audit the amounts claimed by the National Council of Churches in Christ under Grant Nos. 94ADNNY028 (National Direct AmeriCorps Program) and 97EDNNY062 (Education Award Only Program), which had periods of performance of June 27, 1994 to December 31, 2000, and September 1, 1997 to November 30, 2000, respectively. Grant No. 94ADNNY028 was funded in the amount of $8,362,636; Grant No. 97EDNNY062 was funded in the amount of $3,286,555. NCC has drawn down the entire funding under the Education Award Only Program and all but $155,045 under the National Direct AmeriCorps Program.

Background

In 1996, the Office of Inspector General (OIG), Corporation for National and Community Service (CNCS) conducted a preliminary survey of NCC's performance of CNCS Grant No. 94ADNNY028. This survey revealed several weaknesses in the financial management of the grant, as follows:

- Matching share costs were not recorded in the accounting system.
- Participant support matching share reported did not meet the percentage required by the grant.
- The Federal Cash Transaction Report and the Financial Status Report were not reconciled to the general ledger.

NCC underwent several audits in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Under these audits, the CNCS AmeriCorps grant was considered to be a major program for the years ended December 31, 1995 through 1999, the latest year for which an audit

had been completed as of the date of this report. The OMB A-133 audits reported material weaknesses which relate to the CNCS programs since 1996, including:

- Amounts reported on Financial Status Reports could not be reconciled with amounts reflected in NCC's records.
- Controls that prevent and detect incorrect changes or additions to the existing chart of accounts were inadequate (balance sheet major account codes were combined with revenue and expense sub-account codes or vice versa).
- Disbursements were not properly approved or adequately documented.
- The functional allocation of expenses, including allocation of indirect costs, is not adequately supported.
- Delays were noted in the submission of required financial reports to funding sources.
- Deficiencies in internal control and compliance with federal government grant requirements were noted in the audit reports of the NCC's subrecipients.
- Payments for expenses of subrecipients and overseas offices were not adequately documented.
- The matching share required by certain federal award grants was not met.

Scope Limitation

Preliminary effort disclosed that NCC had developed and used an excessively complex set of account codes for grant accounting, one that presented a balance sheet and a statement of operations for each grant at, at least, the grant level, together with separate balance sheets and statements of operations for indirect costs. Costs incurred by NCC, other than subrecipient costs, were randomly charged against account codes for the Direct AmeriCorps Program and the Education Award Program without any apparent rationale. This was particularly true with respect to indirect costs. Subrecipient costs that, for the most part, represented the amount funded by NCC but not subrecipient match costs, were recorded either (1) in separate account code(s), (2) included in account codes intended for NCC's own costs, or (3) split between separate account

codes and NCC's account codes. Despite significant effort, we concluded that the amounts represented as claimed on Financial Status Reports could not be reconciled with NCC's records.

Over the past two years, NCC underwent a significant restructuring as a result of which staff who were associated with the AmeriCorps grant programs are no longer available to provide documentation or otherwise assist in an audit of these programs.

Disclaimer of Opinion

Because we were unable to reconstruct the amounts reported as expenditures incurred under Grant Nos. 94ADNNY018 and 97EDNNY062 in Financial Status Reports by NCC or apply other auditing procedures to satisfy ourselves that the reported expenditures are reconcilable with NCC's records and because the conditions discussed in the two preceding paragraphs make it impracticable to extend out audit procedures to assess the propriety of costs charged to the CNCS grants, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the amounts reported as expenditures under these grants in Financial Status Reports.

Report Use and Distribution

This report is intended for the information and use of the Office of Inspector General, Corporation for National and Community Service, the management of the Corporation, and National Council of Churches of Christ. However, this report is a matter of public record and its distribution is not limited.

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Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia
September 24, 2001