OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Incurred-Cost Audit of Grants Awarded to the Michigan Community Service Commission

OIG Audit Report No. 02-14
June 28, 2002

Financial Schedules and
Independent Auditors' Report
For the Period
October 1, 1997, to March 31, 2001

Prepared by:

COTTON & COMPANY LLP
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Alexandria, Virginia 22314

This report was issued to Corporation management on September 30, 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 March 31, 2003, and complete its corrective actions by September 30, 2003. 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 02-14

Audit of Corporation for National and Community Service Grants Awarded to the Michigan Community Service Commission

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, under 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 who execute the programs. Through these subgrantees, AmeriCorps members perform service to meet educational, human, environmental, and public safety needs.

The Office of Inspector General (OIG) retained Cotton and Company to audit Corporation grants to the Michigan Commission for AmeriCorps, Learn and Serve, Program Development and Training, Promise Fellows, Disability, Make a Difference Day and Administrative costs from October 1, 1997 through March 31, 2001. The audit's objectives were to determine whether (1) the Commission's financial reports presented fairly the financial results of the awards; (2) the internal controls adequately safeguarded Federal funds; (3) the Commission and its subgrantees had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations, and award conditions; (4) costs were documented and allowable under the awards' terms and conditions; and (5) the Commission had established adequate financial and program management oversight of its subrecipients.

The Commission had total claimed costs of $13,823,399, of which the auditors questioned $55,817 for allowability and $253,025 for support, approximately 2.2 percent of the total claimed costs. Costs questioned for allowability represent amounts for which documentation shows that recorded costs were expended in violation of regulations, or specific award conditions, or costs that require interpretation of allowability. Costs questioned for support require additional documentation to substantiate that the cost was incurred and is allowable. The auditors concluded that the Schedules of Award Costs present fairly the costs claimed by the Commission, except for the questioned and unsupported costs identified in the report, and the effects of any adjustments.

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

OIG provided the Commission and the Corporation a draft of this report for their review and comment. Their responses are included in their entirety as Appendices A and B, respectively.

Inspector General
1201 New York Avenue, NW
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OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
INCURRED COST AUDIT OF GRANTS AWARDED TO THE
MICHIGAN COMMUNITY SERVICE COMMISSION

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AUDIT SCOPE

At your request, we performed an incurred cost audit of costs claimed by the Michigan Community Service Commission (Commission) and its subrecipients for the period October 1, 1997, through March 31, 2001. Our audit covered financial transaction, compliance, and internal control testing of the following program awards funded by the Corporation for National and Community Service (Corporation):

Program	Award No.	Award Period	Audit Period
AmeriCorps	94ASCMI023	08/01/94-12/31/00	10/01/97-12/31/00
Program Development Assistance and Training (PDAT)	95PDSMI022	01/05/95-12/31/01	10/01/97-12/31/00
Administrative	94SCSMI022	01/27/94-12/31/00	10/01/97-12/31/00
Learn and Serve	94LCSMI007	09/01/94-12/31/00	10/01/97-12/31/00
AmeriCorps	00ASCMI023	08/01/00-07/31/01	08/01/00-03/31/01
AmeriCorps	00ASFMI023	09/01/00-08/31/01	09/01/00-03/31/01
Education Award	97EDSMI018*	04/11/97-12/31/99	10/01/97-12/31/99
Promise Fellows	98APSMI023*	11/01/98-12/31/99	11/01/98-12/31/99
Promise Fellows	99APSMI023*	09/15/99-12/31/01	09/15/99-03/31/01
Learn & Serve	00LCSMI023	09/01/00-08/31/01	09/01/00-12/31/00
Administrative	01SCSMI022	11/01/00-12/31/01	11/01/00-12/31/00
Disability Funds	98DSCMI025	04/28/00-12/31/00	04/28/00-12/31/00
Make a Difference Day	99MDDMI009	10/20/99-12/31/99	10/20/99-12/31/99
Education Award	00EDSMI018*	09/01/00-08/31/01	09/01/00-03/31/01

* The grant is a fixed-amount award; the Commission is not required to submit Financial Status Reports (FSRs). Our audit scope was limited to testing Commission compliance with member eligibility and staffing requirements.

Audit objectives were to determine if:

- The Commission's financial reports presented fairly the financial results of the awards;
- Internal controls were adequate to safeguard Federal funds;
- The Commission and its subrecipients had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations, and award conditions;
- Award costs reported to the Corporation were documented and allowable in accordance with the award terms and conditions; and
- The Commission had established adequate financial and program management oversight of its subrecipients.

SUMMARY OF RESULTS

Audit Report Summary

Our audit report expresses a qualified opinion on the Consolidated Schedule of Award Costs based upon the questioned costs detailed below and the following limitations on the scope of our audit. At the request of the Office of Inspector General (OIG) we did not expand the scope of out audit as a result of the audit findings, as would be required in accordance with auditing standards generally accepted in the United States of America. Additionally, we were unable to obtain supporting documentation for one subrecipient selected for detailed testing necessary to determine whether the amount of claimed costs incurred for that subrecipient were fairly stated and we were unable to satisfy ourselves through other auditing procedures. Accordingly, the costs incurred by this subrecipient as presented, were not audited and therefore the OIG has instructed us not to question the claimed costs incurred by that subrecipient.

Our report on compliance with laws, regulations, contracts and grants applicable to the audit of the Consolidated Schedule of Award Costs disclosed five material instances of noncompliance that are required to be reported under *Government Auditing Standards.* These findings are as follows:

1. Partial education awards were granted without adequate justification.

2. Members were paid as if hourly wage employees.

3. The Commission claimed costs that were either not allowable or for which no support for allowability was provided.

4. Financial reports were not submitted timely.

5. Subrecipients were not adequately monitored by the Commission.

Our report on internal control disclosed three reportable conditions, as follows:

1. Financial monitoring of subrecipients was not performed by the Commission on a regular basis.

2. Documentation retention requirements were not communicated by the Commission to subrecipients.

3. During the subgrant award process the Commission did not adequately evaluate subrecipients' past performance and financial capability.

We considered the first reportable condition to be a material weakness.

Costs Claimed

The Commission claimed total costs of $13,823,399 for its Corporation grants from October 1, 1997, through March 31, 2001. Of this amount, we questioned $55,817 for allowability and questioned $253,025 for support, which approximates 2.2% of the total claimed costs. These questioned amounts excluded questioned costs for education awards. Costs questioned for allowability are costs for which documentation shows that recorded costs were expended in violation of the law, regulations, or specific award conditions or costs that require interpretation of allowability by the Corporation. Costs questioned for support require additional documentation to substantiate that the cost was incurred and is allowable.

Grant participants who successfully complete terms of service under the AmeriCorps and Learn and Serve awards are eligible for education awards from the National Service Trust. These award amounts are not funded by Corporation grants, and are thus not included in claimed costs. As part of our audit, however, we determined the effect of all member eligibility issues on these awards. Using the same criteria described above, we questioned education awards of $21,862 for allowability, and $153,886 for support.

Costs and education awards were questioned for the following reasons:

Questioned for Allowability	Costs	Education Awards
Unallowable member tuition costs claimed	$ 1,240	
Unemployment insurance not required by state law	2,542	
Overpayment to subrecipient	1,000	
Error in recording subrecipient costs	6,932	
Administrative costs in excess of grant ceiling	162	
Excess support claimed on fixed award	43,941*	
Members did not earn high school diplomas		$ 9,450
Lack of compelling personal circumstances (partial awards)		12,412
Total	$ 55,817	$ 21,862

*The Commission reimbursed $34,481 of these funds to the Corporation in December 2001(see Exhibit H).

Questioned for Support		
Missing member eligibility documentation	$261,556	$153,886
Missing cost documentation	(10,950)	
Unreconciled amounts	2,419	
Total	$253,025	$153,886

Details related to these costs and education awards appear in the Independent Auditors' Report. Cost and education award exceptions are summarized by award as follows:

Grant No.	Costs Claimed	Costs Questioned for Allowability	Costs Questioned for Support	Awards Questioned for Allowability	Awards Questioned for Support	Exhibit
94ASCMI023	$ 9,881,612	$ 3,439	$253,020	$21,862	$139,711	A
95PDSMI022	383,436		76			B
94SCSMI022	996,224		(20,273)			C
94LCSMI007	402,875	8,094	(1,264)			D
00ASCMI023	1,363,191		4,131			E
00ASFMI023	381,809	343	1,782			F
97EDSMI018	15,000				9,450	G
98APSMI023	145,000	43,941	15,553		4,725	H
99APSMI023	228,442					
00LCSMI023	15,585					
01SCSMI022	6,966					
98DSCMI025	1,341					
99MDDMI009	1,918					
Total	$13,823,399	$55,817	$253,025	$21,862	$153,886	

Compliance

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

- Several subrecipients granted partial education awards to members based on compelling personal circumstances that either did not meet the requirements of 45 *Code of Federal Regulations* (CFR) 2522.230 or that were not documented as required.
- Several subrecipients paid members on an hourly basis, instead of fixed periodic stipend payments.
- The Commission and its subrecipients claimed unallowable and unsupported costs.
- The Commission and its subrecipients did not submit FSRs and/or closeout packages in a timely manner.
- Subrecipients did not comply with all program requirements.

Internal Control

- The Commission did not perform regular financial site visits to its subrecipients.
- The Commission did not ensure that its subrecipients complied with grant documentation

retention requirements.

- The Commission did not adequately evaluate subrecipient past performance and financial capability during the subgrant award process.

These matters are discussed in more detail in the Independent Auditors' Reports on Compliance and Internal Control.

Exit Conference

We held an exit conference with Commission representatives on July 19, 2002. In addition, we provided a draft copy of this report to the Commission and the Corporation for comment on August 21, 2002. Their responses, dated September 20, 2002, and September 24, 2002 respectively are included as appendixes A and B to this report. The Commission provided specific comments on the compliance and internal control report findings, we have included these in our report. The Corporation stated that it will respond to all findings and recommendations when the audit report is issued, and it has reviewed the findings in detail.

Follow-Up on Prior Audit Findings

The Corporation's Office of Inspector General performed a Pre-Audit Survey of the Commission in Fiscal Year 2000 and issued CNS OIG Report 00-25 dated January 21, 2000. Our audit followed up on the status of findings and recommendations from that report (see the Attachment).

COTTON & COMPANY LLP

auditors ◆ advisors

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June 28, 2002

Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT

We audited costs claimed by the Michigan Community Service Commission for the awards listed below. These costs, as presented in the Consolidated Schedule of Award costs and the grant-specific Schedules of Award Costs (Exhibits A through H), are the responsibility of Commission management. Our responsibility is to express an opinion on the consolidated Schedule of Award Costs and Exhibits A through H based on our audit.

Program	Award No.	Award Period	Audit Period*
AmeriCorps	94ASCMI023	08/01/94-12/31/00	10/01/97-12/31/00
Program Development Assistance and Training (PDAT)	95PDSMI022	01/05/95-12/31/01	10/01/97-12/31/00
Administrative	94SCSMI022	01/27/94-12/31/00	10/01/97-12/31/00
Learn and Serve	94LCSMI007	09/01/94-12/31/00	10/01/97-12/31/00
AmeriCorps	00ASCMI023	08/01/00-07/31/01	08/01/00-03/31/01
AmeriCorps	00ASFMI023	09/01/00-08/31/01	09/01/00-03/31/01
Education Award	97EDSMI018**	04/11/97-12/31/99	10/01/97-12/31/99
Promise Fellows	98APSMI023**	11/01/98-12/31/99	11/01/98-12/31/99
Promise Fellows	99APSMI023**	09/15/99-12/31/01	09/15/99-03/31/01
Learn & Serve	00LCSMI023	09/01/00-08/31/01	09/01/00-12/31/00
Administrative	01SCSMI022	11/01/00-12/31/01	11/01/00-12/31/00
Disability Funds	98DSCMI025	04/28/00-12/31/00	04/28/00-12/31/00
Make a Difference Day	99MDDMI009	10/20/99-12/31/99	10/20/99-12/31/99
Education Award	00EDSMI018**	09/01/00-08/31/01	09/01/00-03/31/01

* The end of our audit period is the earlier of either the date of grant expiration or the date the last FSR was submitted by the Commission (either December 31, 2000, or March 31, 2001).

** This grant is a fixed-amount award; the Commission is not required to submit FSRs for these. Our audit scope was limited to testing compliance with member eligibility and staffing requirements.

established 1981

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Except as described below, we conducted our audit in accordance with audit standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial schedules. It also includes assessing accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion on costs claimed.

The scope of our audit procedures was based on the audit planning memorandum submitted to and approved by the Office of Inspector General (OIG), Corporation for National and Community Service. At the request of the OIG we have not projected questioned costs to the remainder of the population beyond the samples selected nor have we expanded the items tested based upon the results of our procedures as required by auditing standards generally accepted in the United States of America. Accordingly, we are not able to determine the effect on the Consolidated Schedule of Award Costs, if any, had additional procedures been performed.

The Consolidated Schedule of Award Costs includes claimed costs of $385,313 purportedly incurred by one of the Commission's subgrantees, American Youth Foundation (AYF) consisting of $201,892 for the fiscal year October 1, 1997 through September 30, 1998 and $183,421 for the fiscal year October 1, 1998 through September 30, 1999. We were unable to obtain supporting documentation maintained by AYF and we were unable to satisfy ourselves through other auditing procedures as to whether the amount of claimed costs incurred by AYF were fairly stated. Accordingly, the costs incurred by this subrecipient were not audited, and therefore the OIG has instructed us not to question the claimed costs incurred by that subrecipient.

The Consolidated Schedule of Award Costs and the grant-specific Schedules of Award Costs are intended to present allowable costs incurred under the awards in accordance with Office of Management and Budget (OMB) Circular A-87 and award terms and conditions. Therefore, these are not intended to be complete presentations of the Commission's revenues and expenses.

The Consolidated Schedule of Award Costs and the grant-specific Schedules of Award Costs identify certain questioned education awards. These awards are not funded by Corporation grants and are thus not included in claimed costs. As part of our audit, however, we determined the effect of all member eligibility issues on these awards.

In our opinion, except for questioned costs in the Consolidated Schedule of Award Costs and except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to expand our testwork related to the two limitations on the scope of our audit discussed above, the financial schedules referred to above present fairly, in all material respects, costs claimed by the Commission for the period October 1, 1997, to March 31, 2001, in conformity with OMB Circular A-87 and award terms and conditions.

In accordance with *Government Auditing Standards*, we have also issued reports dated June 28, 2002, on our consideration of the Commission's internal control and on its compliance with laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering audit results.

This report is intended solely for the information and use of the Office of Inspector General, Corporation management, the Commission, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

By: _____

Alan Rosenthal, CPA
Partner

MICHIGAN COMMUNITY SERVICE COMMISSION
CONSOLIDATED SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS

Award No.	Program	Approved Budget	Claimed Costs	Costs Questioned for Allowability	Costs Questioned for Support	Awards Questioned for Allowability	Awards Questioned for Support	Exhibit
94ASCMI023	AmeriCorps	$17,219,455	$ 9,881,612	$ 3,439	$253,020	$21,862	$139,711	A
95PDSMI022	PDAT	803,687	383,436		76			B
94SCSMI022	Administrative	1,803,686	996,224		(20,273)			C
94LCSMI007	Learn & Serve	962,500	402,875	8,094	(1,264)			D
00ASCMI023	AmeriCorps	3,759,602	1,363,191		4,131			E
00ASFMI023	AmeriCorps	1,138,075	381,809	343	1,782			F
97EDSMI018	Education Award	15,000	15,000				9,450	G
98APSMI023	Promise Fellows	145,000	145,000	43,941	15,553		4,725	H
99APSMI023	Promise Fellows	342,850	228,442					
00LCSMI023	Learn & Serve	220,000	15,585					
01SCSMI022	Administrative	471,782	6,966					
98DSCMI025	Disability Funds	6,690	1,341					
99MDDMI009	Make a Difference Day	2,000	1,918					
00EDSMI018	Education Award	0	0					
Total		$26,890,327	$13,823,399	$55,817	$253,025	$21,862	$153,886	

EXHIBIT A

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
AMERICORPS
AWARD NO. 94ASCMI023
OCTOBER 1, 1997, TO DECEMBER 31, 2000

	Claimed Costs	Questioned for Allowability	Questioned for Support	Reference/ Note
Michigan Department of Agriculture	$ 559,385		$ 33,273	Schedule A-1
American Red Cross	235,948			
American Youth Foundation	385,313			
BHK Child Development Board (BHK)	713,552		26,724	Schedule A-2
Big Brothers/Sisters	20,892			
Charlevoix-Emmett Intermediate School District	340,957			
City Year	376,293		2,285	Schedule A-3
Creston Neighborhood Association	93,302			
Eastern Michigan University	330,159		24,728	Schedule A-4
Ecumenical Project Save	187,953			
Family Independence Agency	1,180,190	$ 1,240	28,612	Schedule A-5
Fitzgerald Public Schools	245,875			
Grand Rapids Service Corps	198,896			
Marquette County Health Department	152,941			
Michigan Communities in Schools	337,951			
Michigan Non-Profit Association	432,244			
Michigan State University	120,309			
Marquette-Alger Intermediate School District	10,295			
Non-Violence KOPS	449,170			
Northern Michigan Community Mental Health (NMCMH)	169,586	2,199	22,337	Schedule A-6
Oakland University	526,560		63,824	Schedule A-7
Regents of University of Michigan	1,023,849		51,237	Schedule A-8
Saginaw Public Schools	405,294			
SOS Crisis Center	127,595			
Underground Railroad	140,845			
United Way Community Services	1,377,188			
United Way of Genesee and Lapeer Counties	965,827			
United Way of Saginaw County	26,672			
United Way of Muskegon County	57,000			
Commission Cost Adjustments	(449,268)			
Timing Difference	(861,161)			
Total	$ 9,881,612	$ 3,439	$253,020	
Approved Budget	$17,219,455			
Education Awards		$21,862	$139,711	Note 1

1. We questioned education awards as described in Schedules A-1 through A-8, as follows:

	Questioned for Allowability	Questioned for Support	Schedule
Michigan Department of Agriculture		$ 18,555	A-1
BHK	$ 2,363	12,650	A-2
City Year	9,450		A-3
Eastern Michigan University		22,733	A-4
Family Independence Agency		28,732	A-5
NMCMH		9,877	A-6
Oakland University	10,049	24,867	A-7
Regents of University of Michigan		22,297	A-8
Total	$21,862	$139,711	

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
AWARD NO. 94 ASCMI023
OCTOBER 1, 1997, TO DECEMBER 31, 2000

Michigan Department of Agriculture (MDA)		Note
Approved Budget (Federal Funds)	$641,353	
Claimed Costs	$559,385	
Questioned for Support: Missing Eligibility Documentation	$ 33,273	1
Questioned for Support Education Awards: Missing Eligibility Documentation	$ 18,555	1

1. We tested 15 MDA member files for eligibility. These files did not contain sufficient documentation to support the eligibility for 4 of the 15. We were unable to ascertain from these files either that the member was a U.S. citizen at least 17 years of age, or that the member received a high school diploma (or its equivalent). We were thus unable to verify that the four members were eligible in accordance with 45 CFR 2522.200. We questioned for support $33,273 of stipends paid to these members and $18,555 of education awards, as follows:

Program Year	Number of Members	Reason	Stipends	Education Awards
1997-1998	2*	Diploma	$16,926	$ 9,450
1998-1999	1*	Diploma	8,463	4,725
1998-1999	1	Citizenship	7,884	4,380
Total			$33,273	$18,555

* One file (in each program year) was also missing proof of citizenship.

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
AWARD NO. 94ASCMI023
OCTOBER 1, 1997, TO DECEMBER 31, 2000

Baraga-Houghton-Keweenaw Child Development Board (BHK)			Notes
Approved Budget (Federal Funds)		$761,979	
Claimed Costs		$713,552	
Questioned for Support			
Missing Eligibility Documentation	$25,459		1
Missing Payroll Documentation	1,265		2
Total Questioned for Support		$ 26,724	
Questioned for Allowability Education Awards: Lack of Compelling Personal Circumstances		$ 2,363	3
Questioned for Support Education Awards: Missing Eligibility Documentation		$ 12,650	1

1. We tested 18 BHK member files for Program Year 1997-2000 for eligibility. These files did not contain sufficient documentation to support the eligibility for 5 of the 18. We were unable to ascertain from these files that the member received a high school diploma (or its equivalent). In addition, 4 of the files were missing the member's birth certificate. We were thus unable to verify that the five members were eligible in accordance with 45 CFR 2522.200. We questioned for support $25,459 of stipends paid to these members and $12,650 of education awards.

2. BHK was unable to provide supporting documentation for $1,265 of payroll costs charged to the grant in May 1998. A temporary employee processing the payroll during that period did not document names of the employees for whom labor costs were recorded. We were thus unable to test these costs to source documentation. We questioned for support $1,265 in accordance with OMB Circular A-122, Attachment B, paragraph 7, Compensation for Personal Services.

3. BHK allowed one member to change her status from full-time to part-time after her first three months of service. According to correspondence in the member's file, she reduced her hours so that she could obtain an additional job to pay living expenses. The AmeriCorps Special Provisions, Terms of Service, require that changes in status must be approved within the first 3 months of the member's service. BHK allowed this member to earn a partial education award totaling $2,363. Circumstances under which a member may partially complete the program and earn an award are detailed in 45 CFR 2522.230. This provision specifically states that these circumstances do not include leaving a program to obtain employment (other than in specified instances). We questioned for allowability the partial education award of $2,363.

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
AWARD NO. 94ASCMI023
OCTOBER 1, 1997, TO DECEMBER 31, 2000

City Year		Notes
Approved Budget (Federal Funds)	$485,000	
Claimed Costs	$376,293	
Questioned for Support: Missing Eligibility Documentation	$ 2,285	1
Questioned for Allowability Education Awards: Ineligible Members	$ 9,450	2

1. We tested seven City Year member files for Program Year 1999-2000 for eligibility. One file did not contain sufficient documentation to support the eligibility of the member. We were unable to ascertain from this file that the member received a high school diploma (or its equivalent). We were thus unable to verify that the member was eligible in accordance with 45 CFR 2522.200. We questioned for support $2,285 of stipends paid to this member.

2. Two City Year members earned their Program Year 2000-2001 education awards without first obtaining a high school diploma or its equivalent, which is required by 45 CFR 2522.200 before accepting an education award. City Year did not notify the Corporation that these members had not yet obtained their high school diplomas. Thus, the two members might have used education awards for which they were not eligible. We questioned for allowability $9,450 of education awards.

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
AWARD NO. 94ASCMI023
OCTOBER 1, 1997, TO DECEMBER 31, 2000

Eastern Michigan University (EMU)			**Notes**
Approved Budget (Federal Funds)		$341,053	
Claimed Costs		$330,159	
Questioned for Support			
Missing Direct Cost Documentation	$ 5,627		1
Missing Eligibility Documentation	19,101		2
Total Questioned for Support		$ 24,728	
Questioned for Support Education Awards			
Missing Eligibility Documentation	$17,923		2
Missing Member Timesheets	3,654		3
Lack of Compelling Personal Circumstances	1,156		4
Total Questioned for Support Education Awards		$ 22,733	

1. EMU was unable to provide supporting documentation such as vendor invoices and travel vouchers for $5,627 of other direct costs charged to the grant. We questioned for support $5,627 in accordance with OMB Circular A-21, subsection C.2, Factors Affecting Allowability of Costs. Unsupported costs are as follows:

Date	**Description**	**Amount**
12/01/97	EMU Conference	$ 252
06/19/98	Five Star Rental Car	329
09/22/98	Apple Computer	264
06/30/99	Meeting Expenses	595
06/30/99	Travel	1,350
10/31/00	Travel	1,838
05/31/00	Travel	999
Total		$5,627

2. We tested 21 EMU member files for eligibility. These files did not contain sufficient documentation to support the eligibility for 10 of the 21. EMU could not provide member files for 2 of the 10, and we were unable to ascertain that the other 8 members were U.S. citizens at least 17 years of age. We were thus unable to verify that the members were eligible in accordance with 45 CFR 2522.200. We questioned for support $19,101 of stipends paid to these members, and $17,923 of education awards, as follows:

Program Year	Number of Members	Reason	Stipends	Education Awards
1997-1998	1	Missing File	$ 7,089	$ 4,725
1997-1998	5	Citizenship	4,922	7,292
1998-1999	3	Citizenship	7,090	4,725
1999-2000	1	Missing File	0	1,181
Total			$19,101	$17,923

3. EMU did not retain member timesheets for Program Year 1998-1999, as required by 45 CFR 2543.53. We were thus unable to verify that the seven members we tested for that year were eligible for the stipends and education awards they earned. Only one of these members earned a stipend and an education award, and these costs are questioned in Note 2 above for lack of citizenship documentation. The other Program Year 1998-1999 members tested earned only education awards, and we questioned these for support. The amount questioned is $3,654.

4. EMU allowed six members to earn partial education awards totaling $15,243, but did not document the "compelling personal circumstances" needed to merit the award. Circumstances under which a member may leave the program early and earn an award are detailed in 45 CFR 2422.230; this provision also requires the program to document these circumstances. We were therefore unable to verify that these members were eligible to earn partial education awards. We questioned four of these awards ($12,338) in Note 2, above; one ($1,749) in Note 3; and questioned the remaining $1,156 for lack of support.

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
AWARD NO. 94ASCMI023
OCTOBER 1, 1997, TO DECEMBER 31, 2000

Family Independence Agency (FIA)			Notes
Approved Budget (Federal Funds)		$1,168,456	
Claimed Costs		$1,180,190	1
Questioned for Allowability: Member Tuition Costs		$ 1,240	2
Questioned for Support			
Missing Direct Cost Documentation	$ 2,799		3
Missing Eligibility Documentation	25,813		4
Total Questioned for Support		$ 28,612	
Questioned for Support Education Awards			
Missing Eligibility Documentation	$17,048		4
Lack of Compelling Personal Circumstances	11,684		5
Total Questioned for Support Education Awards		$ 28,732	

1. Claimed costs include payments for costs incurred for periods prior to October 1, 1997 (commencement date of audit period).

2. FIA used Corporation funds to pay tuition costs for members. The courses taken were unrelated to the AmeriCorps program. We questioned for allowability tuition costs of $1,240 in accordance with OMB Circular A-87, Attachment A, subsection C.1, as follows:

Year	Paid To	Amount
2000	County of Kalamazoo	$ 160
2001	County of Newaygo	1,080
Total		$1,240

3. FIA was unable to provide supporting documentation such as vendor invoices, travel vouchers or member timesheets for $2,799 of direct costs charged to the grant. We questioned $2,799 for support in accordance with OMB Circular A-87, Attachment A, subsection C.1.j., which states that costs must be adequately documented to be allowable. Unsupported costs are as follows:

Date	Description	Amount	
12/15/97	County of Newaygo	$ 166	
06/18/98	GE Capital	1,085	
06/10/98	Michigan Employment	551	
07/11/98	Rinehart, Michelle	369	
09/30/98	County of Iron	378	
10/22/98	Allianz Life	169	(Corporation share)
01/12/00	Beatty-Oliver, Trudy	81	
Total		$2,799	

4. We tested 26 FIA member files for eligibility. These files did not contain sufficient documentation to support the eligibility for 7 of the 26. We were unable to ascertain from these files either that the member was a U.S. citizen and at least 17 years of age, or that the member received a high school diploma (or its equivalent). We were thus unable to verify that the members were eligible in accordance with 45 CFR 2522.200. We questioned for support $25,813 of stipends paid to these members, and $17,048 of education awards, as follows:

Program Year	Number of Members	Reason	Stipends	Education Awards
1997-1998	3*	Citizenship	$ 9,616	$ 6,059
1997-1998	2	Diploma	9,108	6,264
1998-1999	1	Diploma	7,089	4,725
Total			$25,813	$17,048

* Two of these member's files (with $4,612 of stipends and $2,363 of education awards) also did not contain high school diplomas.

5. FIA allowed six members to earn partial education awards totaling $14,047, but did not document the "compelling personal circumstances" necessary to merit the award. Circumstances under which a member may leave the program early and earn an award are detailed in 45 CFR 2522.230, which also requires that the program document these circumstances. We were thus unable to verify that these members were eligible to earn partial education awards. One of these awards ($2,363) was questioned in Note 4 above; we questioned for support the remaining $11,684.

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
AWARD NO. 94ASCMI023
OCTOBER 1, 1997, TO DECEMBER 31, 2000

Northern Michigan Community Mental Health (NMCMH)			Notes
Approved Budget (Federal Funds)		$219,530	
Claimed Costs		$169,586	
Questioned for Allowability: Unemployment Insurance		$ 2,199	1
Questioned for Support			
Missing Eligibility Documentation	$21,517		2
Missing Direct Cost Documentation	820		3
Total Questioned for Support Costs		$ 22,337	
Questioned for Support Education Awards:			
Missing Eligibility Documentation		$ 9,877	2

1. NMCMH paid unemployment insurance for its members, although Michigan state law does not mandate it. Grantees cannot charge the cost of unemployment insurance taxes to the grant, unless these are mandated by state law (*AmeriCorps Provisions*, AmeriCorps Special Provisions, Living Allowances, In-Service Benefits and Taxes). We questioned for allowability unemployment insurance costs claimed as follows:

Program Year	
1997-1998	$ 966
1998-1999	546
1999-2000	687
Total	$2,199

2. We tested 12 NMCMH member files for eligibility. These files did not contain sufficient documentation to support the eligibility for 4 of the 12. We were unable to ascertain from these files either that the member was a U.S. citizen and at least 17 years of age, or that the member received a high school diploma (or its equivalent). We questioned for support $21,517 of stipends paid to these members and $9,877 of education awards, as follows:

Program Year	Number of Members	Reason	Stipends	Education Awards
1997-1998	2	Citizenship*	$12,983	$4,415
1999-2000	2	Citizenship	8,534	5,462
Total			$21,517	$9,877

* One member file also did not contain a high school diploma.

3. NMCMH was unable to provide supporting documentation such as travel vouchers for $820 of travel costs charged to the grant. We questioned for support $820 in accordance with OMB Circular A-87, Attachment A, subsection C.1.j., which states that costs must be adequately documented to be allowable. The unsupported costs are as follows:

Date	Description	Amount
08/29/97	S. Witt	$444
04/09/99	Trudeau Conference	376
Total		$820

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
AWARD NO. 94ASCMI023
OCTOBER 1, 1997, TO DECEMBER 31, 2000

Oakland University			**Notes**
Approved Budget (Federal Funds)		$671,588	
Claimed Costs		$526,560	
Questioned for Support			
Missing Eligibility Documentation	$61,405		1
Unreconciled Amounts	2,419		2
Total Questioned for Support		$ 63,824	
Questioned for Allowability Education Awards: Lack of Compelling Personal Circumstances		$ 10,049	3
Questioned for Support Education Awards: Missing Eligibility Documentation		$ 24,867	1

1. We tested 21 Oakland member files for eligibility. These files did not contain sufficient documentation to support the eligibility for 20 of the 21. We were unable to ascertain from these files either that the member was a U.S. citizen and at least 17 years of age or that the member received a high school diploma (or its equivalent). We were thus unable to verify that the 20 members were eligible in accordance with 45 CFR 2522.200. We questioned for support $61,405 of stipends paid to these members, and $24,867 of education awards, as follows:

Program Year	Number of Members	Reason	Stipends	Education Awards
1997-1998	7	Citizenship	$22,094	$ 8,895
1998-1999	7	Citizenship	19,847	11,106
1999-2000	6	Citizenship	19,464	4,866
Total			$61,405	$24,867

* Fourteen of these member files also did not contain high school diplomas (7 in 1997-1998, 4 in 1998-1999, and 3 in 1999-2000).

2. Oakland could not reconcile its FSRs with its accounting detail in Program Years 1997-1999. The costs reported on the FSRs exceeded costs in the accounting records in both years. We questioned for support costs claimed in excess of costs incurred in accordance with OMB Circular A-21, subsection C.2, as follows:

Program Year	Amount
1997-1998	$1,981
1998-1999	438
Total	$2,419

3. Oakland allowed seven members to earn partial education awards totaling $10,049, but the reasons documented did not constitute "compelling personal circumstances" necessary to merit the award. The members left the program for new jobs and/or to enroll in school. Circumstances under which a member may leave the program early and earn an award are detailed in 45 CFR 2522.230. This provision specifically states that these circumstances do not include leaving a program to enroll in school or to obtain employment (other than in specified instances). We questioned for allowability partial education awards of $10,049 as follows:

Program Year	Amount
1997-1998	$ 2,670
1998-1999	5,271
1999-2000	2,108
Total	$10,049

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
AWARD NO. 94ASCMI023
OCTOBER 1, 1997, TO DECEMBER 31, 2000

Regents of University of Michigan		Note
Approved Budget (Federal Funds)	$1,219,798	
Claimed Costs	$1,023,849	
Questioned for Support: Missing Eligibility Documentation	$ 51,237	1
Questioned for Support Education Awards: Missing Eligibility Documentation	$ 22,297	1

1. We tested 20 University of Michigan member files for eligibility. These files did not contain sufficient documentation to support the eligibility for 19 of the 20. We were unable to ascertain from these files either that the member was a U.S. citizen and at least 17 years of age and/or that the member received a high school diploma (or its equivalent). In addition, we noted that two of the 1997-1998 members were awarded partial education awards for which no personal compelling circumstances were documented. We questioned for support $51,237 of stipends paid to these members and $22,297 of education awards in accordance with 45 CFR 2522.200 and 2522.230, as follows:

Program Year	Number of Members	Reason	Stipends	Education Awards
1997-1998	5	Citizenship/Diploma	$14,490	$ 7,707*
	1	Diploma	1,877	
1998-1999	4	Citizenship/Diploma	4,098	
	3	Diploma	9,456	6,714
1999-2000	3	Citizenship/Diploma	5,921	
	5	Diploma	15,395	7,876
Total			$51,237	$22,297

* Includes $2,982 of partial education awards for which compelling personal circumstances were not documented.

EXHIBIT B

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
PROGRAM DEVELOPMENT ASSISTANCE AND TRAINING
AWARD NO. 95PDSMI022
OCTOBER 1, 1997, TO DECEMBER 31, 2000

	Claimed Costs	Questioned for Support	Note
Salaries and Benefits	$ 92,484	$76	1
Contracts and Consultants	280,795		1
Travel	27,432		
Equipment and Software	20,142		
Goods and Services	34,665		1
Timing Difference	(72,082)		
Total	$383,436	$76	
Approved Budget	$803,687		

1. The Commission was unable to provide supporting documentation such as vendor invoices for $76 of direct costs for health insurance costs charged to the grant in July 1998. We questioned for support $76 in accordance with OMB Circular A-87, Attachment A, subsection C.1.j., which states that costs must be adequately documented to be allowable.

EXHIBIT C

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
ADMINISTRATIVE
AWARD NO. 94SCSMI022
OCTOBER 1, 1997, TO DECEMBER 31, 2000

	Claimed Costs	Questioned for Support	Note
Salaries and Benefits	$ 971,233	$(20,273)	1
Contracts and Consultants	(18,149)		
Travel	21,528		
Equipment and Software	1,745		
Goods and Services	160,787		
Timing Difference	(140,920)		
Total	$ 996,224	$(20,273)	
Approved Budget	$1,803,686		

1. The Commission was unable to provide supporting documentation such as vendor invoices, travel vouchers, or employee timesheets for $(20,273) of direct credits to the grant. We questioned for support $(20,273) in accordance with OMB Circular A-87, Attachment A, subsection C.1.j., which states that costs must be adequately documented to be allowable. Unsupported costs are as follows:

Date	Description	Amount
09/30/98	Salary and Wage Adjustments	$(20,678)
05/28/98	Social Security Tax	209
04/30/98	Retirement – Classified Employees	196
Total		$(20,273)

EXHIBIT D

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
LEARN AND SERVE
AWARD NO. 94LCSMI007
OCTOBER 1, 1997, TO DECEMBER 31, 2000

	Claimed Costs	Questioned for Allowability	Questioned for Support	Reference
Alpena Community College	$ 64,617	$1,000		Schedule D-1
Arab Community Center for Economic and Social Services	6,059			
Michigan State University Extension of Benzie County	23,838			
Creston Neighborhood Association	13,491	3,259		Note 1
Eastern Upper Pennisular Community Foundation	5,342			
Eight Central Area Partnerships (EightCAP)	7,924			
Kalamazoo Public Education Foundation	754			
Michigan 4-H Foundation	56,052	3,673		Note 1
Northern Michigan Planned Parenthood	2,656			
Northwest Council of Governments	3,916			
Onekama Education Foundation	28,549	162		Schedule D-2
Pathways to Healthy Living	11,202			
City of Portage	21,725			
City of Romulus	15,000			
United Way Muskegon County	39,900			
Winn Area Activity Center	10,395			
Other Costs	39,676		$(1,264)	Note 2
Timing Difference	51,779			
Total Costs	$402,875	$8,094	$(1,264)	
Approved Budget	$962,500			

1. The Commission's accounting system overstated costs for two subrecipients by $6,932. This error occurred when it made coding changes to its accounting system, and some amounts were not correctly credited. We questioned for allowability these costs in accordance with OMB Circular A-87, subsection C.1. Overstated amounts were as follows:

Description	Amount
Creston Neighborhood Association	$3,259
Michigan 4-H Foundation	3,673
Total	$6,932

2. The Commission was unable to provide supporting documentation for a $(1,264) adjustment to other purchased services in September 1999. We questioned for support $(1,264) in accordance with OMB Circular A-87, Attachment A, subsection C.1.j., which states that costs must be adequately documented to be allowable.

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
AWARD NO. 94LCSMI007
OCTOBER 1, 1997, TO DECEMBER 31, 2000

Alpena Community College		**Note**
Approved Budget (Federal Funds)	$71,700	
Claimed Costs	$64,617	
Questioned for Allowability: Commission Overpayment	$ 1,000	1

1. The Commission paid Alpena $22,416 for Program Year 1998, $1,000 more than the $21,416 Federal Share reported on its FSR for that year. The Commission found this overpayment during the grant closeout process, and Alpena refunded this amount in April 2002. The Commission's claimed costs as of December 31, 2000, have not, however, been adjusted for this amount. We questioned $1,000 in accordance with OMB Circular A-87, Attachment A, subsection C.1.

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
AWARD NO. 94LCSMI007
OCTOBER 1, 1997, TO DECEMBER 31, 2000

Onekama Education Foundation		**Note**
Approved Budget (Federal Funds)	$53,500	
Claimed Costs	$28,549	
Questioned for Allowability: Commission Overpayment	$ 162	1

1. Onekama claimed administrative costs that exceeded the allowable amount by $162. The Program Year 1999 Corporation award to Onekama limited the maximum administrative cost allotment to 2.6% of total Corporation funds. Onekama claimed total program year costs of $17,500, which included administrative costs of $617. We questioned for allowability the $162 difference between allowable administrative costs of $455 ($17,500 x .026%) and the $617 claimed.

EXHIBIT E

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
AMERICORPS
AWARD NO. 00ASCMI023
AUGUST 1, 2000, TO MARCH 31, 2001

	Claimed Costs	Questioned for Support	Note
BHK	$ 154,604		
Charlevoix-Emmett Intermediate School District	95,037		
City Year	363,291	$1,815	1
Michigan State University	21,259		
Regents of University of Michigan	3,432	2,316	2
United Way Community Services	37,317		
United Way of Genesee and Lapeer Counties	73,913		
Timing Difference	614,338		
Total	$1,363,191	$4,131	
Approved Budget	$3,759,602		

1. We tested seven City Year member files for eligibility. Its files did not contain sufficient documentation to support the eligibility for one of the seven. We were unable to ascertain from the file that the member was a U.S. citizen and at least 17 years of age. We questioned for support $1,815 of stipends paid to this member in accordance with 45 CFR 2522.200.

2. We tested seven University of Michigan member files for eligibility. Its files did not contain sufficient documentation to support the eligibility for one of the seven. We were unable to ascertain from the file that the member received a high school diploma (or its equivalent). We questioned for support $2,316 of stipends paid to this member in accordance with 45 CFR 2522.200.

EXHIBIT F

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
AMERICORPS
AWARD NO. 00ASFMI023
SEPTEMBER 1, 2000, TO MARCH 31, 2001

	Claimed Costs	Questioned for Allowability	Questioned for Support	Note
Branch Intermediate School District	$ 31,753			
Creston Neighborhood Association	10,000			
Habitat for Humanity Michigan	29,801			
Ionia Intermediate School District	45,599			
Marquette-Alger Intermediate School District	47,539			
NMCMH	18,031	$343	$1,782	1
SOS Crisis Center	33,612			
Underground Railroad	35,331			
United Way Community Services	20,689			
Timing Difference	109,454			
Total	$ 381,809	$343	$1,782	
Approved Budget	$1,138,075			

1. The Commission's accounting records reflect payments to NMCMH of $18,031 through March 31, 2001. We questioned for allowability $343 and questioned for support $1,782, as follows:

   - NMCMH paid unemployment insurance for its members, although Michigan state law does not mandate it. The Grantee cannot charge the cost of unemployment insurance taxes to the grant, unless these are mandated by State law (*AmeriCorps Provisions*, AmeriCorps Special Provisions, Living Allowances, In-Service Benefits and Taxes). We questioned for allowability unemployment insurance costs claimed of $343.

   - NMCMH's files did not contain sufficient documentation to support the eligibility for 1 of 5 member files tested. We were unable to ascertain from this file that the member received a high school diploma (or its equivalent). We questioned for support $1,782 of stipends paid to this member in accordance with 45 CFR 2522.200.

EXHIBIT G

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
EDUCATION AWARD
AWARD NO. 97EDSMI018
OCTOBER 1, 1997, TO DECEMBER 31, 1999

	Claimed Costs (Note 1)	Questioned for Support	Note
Subgrantee Payments	$15,000		
Total	$15,000		
Education Awards		$9,450	2
Approved Budget	$15,000		

1. This grant is a fixed-amount award for which the Commission is not required to submit FSRs. Claimed costs as shown above are based on the Commission's Federal Cash Transaction Report (FCTR) as of March 31, 2001.

2. MDA was a subrecipient for this award. MDA could not provide the member files for the two members we tested under this award. We were thus unable to verify that the members were eligible in accordance with 45 CFR 2522.200. We questioned for support education awards of $9,450.

EXHIBIT H

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
PROMISE FELLOWS
AWARD NO. 98APSMI023
NOVEMBER 1, 1998 TO DECEMBER 31, 1999

	Claimed Costs (Note 1)	Questioned for Allowability	Questioned for Support	Notes
Total	$145,000	$43,941*	$15,553	2
Education Awards			$ 4,725	2

* The Commission reimbursed $34,481 of this amount on its December 31, 2001 FCTR.

1. This grant is a fixed amount award, for which the Commission is not required to submit FSRs. The Corporation provided a fixed-level of support based on the specified number of fellows. Claimed costs shown above is the amount claimed on the Commission's FCTR as of March 31, 2001. The Commission reduced its claim by $34,481 on its December 31, 2001 FCTR.

2. The grant provided funding of $145,000, based on 13 full-time fellows ($13,000 for the first 5 fellows and $10,000 each, thereafter). We questioned stipends of $43,941 for allowability; stipends of $15,553 for support, and education awards of $4,725 for support, as follows:

   - We obtained the AmeriCorps Member Roster for this award and determined that the Commission had nine fellows for this grant who completed their terms, and two fellows who completed part of their terms (1,030 hours in total, or 60.588% of the 1,700 hour term). We noted, however, that one of the nine members was serving her third term as an Americorps member. Under the regulations effective at that time [45 CFR 2522.220(b)] an Americorps member could only receive stipends for the first two terms of service. Thus this member was not eligible for a stipend. The grant states: "For Fellows who complete a fraction of their service periods, grantees will be paid on a prorated basis in accordance with that fraction of service completed." Thus, the Commission should have been reimbursed $101,059 (5 multiplied by $13,000 plus 3.60588 multiplied by $10,000). We questioned the $43,941 difference between the amount claimed on the Commission's March 31, 2001, FCTR, and the amount due to the Commission in accordance with the grant terms.

- The files for two subrecipients (Heart of West Michigan and EightCAP) did not contain birth certificates for two members. We were thus unable to determine if the members were U.S. citizens at least 17 years of age and eligible in accordance with 45 CFR 2522.200. We questioned for support $15,553 of stipends paid for the members and $4,725 of education awards, as follows:

	Stipend	**Education Award**
Heart of West Michigan	$10,000	$4,725
EightCAP	5,553	
Total	$15,553	$4,725

MICHIGAN COMMUNITY SERVICE COMMISSION
NOTES TO SCHEDULES OF AWARD COSTS
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AWARDS

Summary of Significant Accounting Policies

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 from accounting principles generally accepted in the Unites 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 expense reflected in the Schedules of Award Costs includes 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 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.

EXHIBIT I

MICHIGAN COMMUNITY SERVICE COMMISSION
SCHEDULE OF QUESTIONED COSTS BY SUBRECIPIENT
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
ALL AWARDS

	MDA	BHK	City Year	EMU	FIA	NMCMH	Oakland	U of M	Alpena	Creston Neigh Assoc	Michigan 4-H Found	Onekama Edu Found	Non-Sub MCSC	Total
Questioned Costs for Allowability														
Unallowable tuition costs					$ 1,240									$ 1,240
Unallowable unemployment insurance						$ 2,542								2,542
Overpayment to subrecipient									$1,000					1,000
Error in recording subrecipient costs										$3,259	$3,673			6,932
Administrative costs claimed in excess of grant ceiling												$162		162
Excess support claimed on fixed award													$43,941	43,941
Total					$ 1,240	$ 2,542			$1,000	$3,259	$3,673	$162	$43,941	$ 55,817
Questioned Costs for Support														
Missing eligibility documentation	$33,273	$25,459	$4,100	$19,101	$25,813	$23,299	$61,405	$53,553					$15,553	$261,556
Missing cost documentation		1,265		5,627	2,799	820							(21,461)	(10,950)
Unreconciled amounts							2,419							2,419
Total	$33,273	$26,724	$4,100	$24,728	$28,612	$24,119	$63,824	$53,553					$ (5,908)	$253,025

COTTON & COMPANY LLP

auditors ◆ advisors

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June 28, 2002

Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

We audited costs claimed by the Michigan Community Service Commission to the Corporation for National and Community Service for the following awards and have issued our report thereon dated June 28, 2002, which report was qualified for the matters discussed therein:

Program	Award No.	Award Period	Audit Period
AmeriCorps	94ASCMI023	08/01/94-12/31/00	10/01/97-12/31/00
Program Development Assistance and Training (PDAT)	95PDSMI022	01/05/95-12/31/01	10/01/97-12/31/00
Administrative	94SCSMI022	01/27/94-12/31/00	10/01/97-12/31/00
Learn and Serve	94LCSMI007	09/01/94-12/31/00	10/01/97-12/31/00
AmeriCorps	00ASCMI023	08/01/00-07/31/01	08/01/00-03/31/01
AmeriCorps	00ASFMI023	09/01/00-08/31/01	09/01/00-03/31/01
Education Award	97EDSMI018	04/11/97-12/31/99	10/01/97-12/31/99
Promise Fellows	98APSMI023	11/01/98-12/31/99	11/01/98-12/31/99
Promise Fellows	99APSMI023	09/15/99-12/31/01	09/15/99-03/31/01
Learn & Serve	00LCSMI023	09/01/00-08/31/01	09/01/00-12/31/00
Administrative	01SCSMI022	11/01/00-12/31/01	11/01/00-12/31/00
Disability Funds	98DSCMI025	04/28/00-12/31/00	04/28/00-12/31/00
Make a Difference Day	99MDDMI009	10/20/99-12/31/99	10/20/99-12/31/99
Education Award	00EDSMI018	09/01/00-08/31/01	09/01/00-03/31/01

Except as discussed in the third and fourth paragraphs in our Independent Auditors' Report, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Compliance with applicable laws and regulations related to the awards is the responsibility of the Commission's management. As part of obtaining reasonable assurance that costs are free of material misstatements, we performed tests of compliance with certain provisions of laws and regulations related

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to the awards, noncompliance with which could have a direct and material effect on the determination of amounts claimed in the Schedule of Award Costs. Our objective was not, however, to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed the following instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*.

1. Partial Education Awards Were Granted Without Adequate Justification

Oakland University and the Family Independence Agency granted partial education awards to members who prematurely exited the program without the "compelling personal circumstances" necessary to merit a partial education award. These members left either to enroll in school or to take a new job. The University of Michigan and the Family Independence Agency also granted partial education awards without documenting the "compelling personal circumstances."

45 CFR 2522.230 (a)(4) states that

> The program must document the basis for any determination that compelling personal circumstances prevent a participant from completing a term of service.

45 CFR 2522.230 (a) (6) states that:

> Compelling personal circumstances do not include leaving a program: (i) To enroll in school; (ii) To obtain employment, other than in moving from welfare to work or in leaving a program that includes in its approved objectives the promotion of employment among its participants...

Recommendation: We recommend that the Commission provide training to its subrecipients to ensure that they are familiar with and understand the requirements for awarding partial education awards.

Commission's Response: The Commission does not feel it is within its authority to make determinations on pro-rated education awards, because the AmeriCorps Provisions state that each program can decide whether a situation warrants a member receiving a partial education award. Thus, the Corporation has authorized the programs, not the Commission, to approve granting these partial awards. The Commission believes that the National Service Trust should monitor the granting of partial or pro-rated education awards. The Commission will, however, review all member files for those issued a pro-rated education award to ensure proper documentation exists to support the reason for the education award.

2. Subrecipients Treated Members as Employees

Pathways to Healthy Living refers to its members as "employees" on timesheets, member evaluations, and other documentation. In addition, we noted that the Michigan Department of Agriculture (MDA), the Heart of West Michigan, and Eastern Michigan University paid members an hourly wage instead of a stipend. Participants may not be considered as employees of the program in which they are enrolled (45 CFR 2510.20). Programs must not pay a living allowance on an hourly basis (*AmeriCorps Provisions*, AmeriCorps Special Provisions, Living Allowances, In-Service Benefits and Taxes). The living allowance is not a wage and should not fluctuate based on the number of hours members serve in a given time period. Paying members on an hourly basis can result in payments exceeding the allowable stipend amounts. For example, one of the MDA stipends that we tested included a small amount of overtime.

Recommendation: We recommend that the Commission remind its subrecipients that members should not be treated as employees, and that stipends are not to be paid on an hourly basis.

Commission's Response: The Commission provides training on this issue to all new program and financial staff. Annually each AmeriCorps program receives a copy of Michigan's AmeriCorps Policies and Procedures manual that clearly articulates the grant provisions on this issue. The Commission reviews samples of the program's forms on each program site visit, and recently audited all AmeriCorps members' timesheets for the program year 2001. The Commission will add a step on the site visit checklist to verify that timesheets do not refer to the member as an employee. The Commission has also identified the programs that have problems paying stipends in increments. The Commission is working with these programs to create a system of paying the members a set amount each pay period, and backing the timesheets with service timesheets showing the number of hours that the member has served. The Commission cited the Michigan Department of Agriculture on this issue in the last few site visits, and is correcting this issue using the corrective action process.

3. The Commission Claimed Questioned and Unsupported Costs

The notes to Exhibits A through H describe questioned costs in the amount of $55,817, which are summarized in the table included in the Summary of Results. These questioned costs consist of costs claimed by the Commission for which documentation shows that recorded costs were expended in violation of laws, regulations, or specific conditions of awards or were costs that require interpretation of allowability by the Corporation. In addition, the notes to Exhibits A through H describe unsupported costs in the amount of $253,025; this amount consists of costs claimed by the Commission that require additional documentation to support allowability. These unsupported costs are also summarized in the table included in the Summary of Results.

Recommendation: We recommend that the Corporation follow up with the Commission to determine if questioned and unsupported amounts should be disallowed and recovered.

Commission's Response: The Commission strives to ensure that every expense is allowable and documented. Because of personnel and accounting and payroll system changes over the years, the Commission was in rare instances unable to produce the requested source documents. These are isolated conditions that have been rectified.

The Commission has cleared up a majority of the amounts questioned for allowability either with the auditors or during grant closeout. Of the $73,041 questioned in the draft audit report, the Commission has taken care of $62,165. Of the remaining balance, $6,932 results from subrecipient payment coding errors in the previous accounting system. The Commission, however, reconciled its books to amounts actually paid to subrecipients when closing out this grant. The Commission therefore only drew down amounts actually paid to the subrecipients on this award.

The Commission is reviewing its processes to ensure that subrecipients maintain the required member documentation. The results of annual member training and review are evidenced by the sharp decrease in findings during the more recent years. The Commission is considering implementing either a 100% desk audit of all AmeriCorps members or requiring certification letters from the Program Directors that documents have been received. The Commission may implement a policy that no members will be enrolled prior to the receipt of the required documents.

4. The Commission Did Not Submit Financial Reports in a Timely Manner

The Commission did not submit its FSRs in a timely manner. Reports submitted on a quarterly or semiannual basis are due 30 days after the date the reporting period ends [45 CFR 2541.410(b)(4)]. We tested all FSRs submitted during the audit period and determined that 15 of these were submitted late, as follows:

Year	Tested	Late
1997-1998	18	9
1998-1999	27	1
1999-2000	23	1
2000-2001	18	4

In addition, we noted that several of the Commission's subrecipients filed late FSRs as follows:

		Late by Program Year				
Subrecipient	**Tested**	**97-98**	**98-99**	**99-00**	**00-01**	**Total**
BHK Child Development Board	21	3	1	1		5
Michigan Department of Agriculture	16	5	5	1	2	13
Oakland University	8	2	2			4
Regents of University of Michigan	7	3	2			5
Eastern Michigan University	13	4	2	2		8
Onekama Education Foundation	9			1		1
Heart of West Michigan	8			1		1

We also noted that the University of Michigan did not report its non-cash in-kind support in a timely manner. For example, its April 1998 contributions were not reported on its FSR until October 1999. Failure to prepare and submit FSRs in a timely manner hinders Corporation oversight of the Commission's financial performance and could result in funding delays.

The Commission had not submitted its grant closeout form for Grant No. 94ASCMI023 as of February 28, 2002, which was due March 31, 2001. In addition, several subrecipients submitted grant closeout forms late. The Commission requires that subrecipients submit grant closeout forms at the end of each grant year. Final reports are due 90 days after the expiration or termination of grant support [45 CFR 2541.410(b)(4)]. We noted that:

- BHK submitted two of its three closeout forms 91 to 120 days after grant yearend.
- University of Michigan submitted its closeout forms for 1998 and 1999 5 to 6 months late.
- Heart of West Michigan was unable to provide its closeout forms for 1998 and 1999, and MDA was unable to provide its closeout forms for 1997 and 1998. Thus, we we were unable to determine if these were submitted in a timely manner.

Recommendation: We recommend that the Commission implement procedures to ensure the timely submission of all FSRs and grant closeout documents.

Commission's Response: The Commission has worked with its programs to improve reporting timeliness by providing financial and programmatic training. As evidenced by the audit report, the number of programs reporting late continues to drop. In the last two reporting periods (March 31, 2002 and June 30, 2002) all of Michigan's AmeriCorps and Learn and Serve subrecipients met the required timeframes.

5. The Commission Did Not Adequately Monitor its Subrecipients

As part of its monitoring requirements, the Commission is responsible for ensuring that subrecipients are adequately trained in programmatic provisions and maintaining required documentation accordingly. Our testing of subrecipient member files disclosed that some subrecipients were not complying with all program requirements, as follows:

- Member files at nine subrecipients were missing documentation on mid-term and/or final evaluations. Grantees are required to conduct at least mid-term and end-of-term evaluations of each member's performance (*AmeriCorps Provisions*, AmeriCorps Special Provisions, Member Records and Confidentiality), documenting that the member has:

  - Completed the required number of hours.
  - Satisfactorily completed assignments.
  - Met other performance criteria that were clearly communicated at the beginning of the service term.

  The following subrecipient files were missing these evaluations:

		Number of Files	
Subrecipient	**Period**	**Tested**	**Missing Evaluations**
BHK	1997-2001	26	14
City Year	1999-2000	14	7
Michigan Department of Agriculture	1997-2000	22	18
Regents of University of Michigan	1997-2001	27	26
NMCMH	1999-2000	12	1
Eastern Michigan University	1999-2000	21	9
Family Independence Agency	1997-2001	26	15
EightCAP	1999-2000	7	3
Heart of West Michigan	1998-1999	2	1

- Member files at ten subrecipients did not always include high school diplomas or equivalent records. If a member does not have a high school diploma or equivalent at enrollment time, the Grantee must obtain a record of the elementary or high school drop-out date and the member's written agreement to obtain a high school diploma or equivalent before using the education award (*AmeriCorps Provisions*, AmeriCorps Special Provisions, Member Records and Confidentiality). Failure to obtain this information could result in education awards to ineligible individuals. Member files were missing high school diplomas or equivalent information, as follows:

Subrecipient	Period	Number of Files	
		Tested	Missing Information
BHK Child Development Board	1997-1998	26	5
City Year	1999-2000	14	1
Michigan Department of Agriculture	1997-1999	22	5
Regents of University of Michigan	1997-2001	27	22
NMCMH	1997-2001	12	1
Oakland University	1997-2001	28	14
Family Independence Agency	1997-2000	26	6
EightCAP	1998-2001	7	2
Heart of West Michigan	1998-2000	2	1
Pathways to Healthy Living (PHL)	1999-2000	4	1

- Several subrecipients' files were missing complete member agreements, as follows:

Subrecipient	Period	Number of Files	
		Tested	Missing Agreements
Michigan Department of Agriculture	1997-1999	22	5
Regents of University of Michigan	1997-2001	27	21
NMCMH	1997-2001	12	2
Family Independence Agency	1997-2001	26	5

- Member agreements in several subrecipients' files were missing the signature of the program director or certifying officer, as follows:

Subrecipient	Period	Number of Files	
		Tested	Missing Agreements
BHK Child Development Board	1998-2001	26	19
Regents of University of Michigan	1998-2001	27	6
Eastern Michigan University	1999-2000	21	4
Heart of West Michigan	1998-1999	2	1

- Both NMCMH and PHL did not include required provisions regarding the Drug Free Workplace Act in their member agreements. We tested 12 NMCMH member files from 1997 to 2001 and 4 PHL member files from 1999 to 2001. No agreements addressed these requirements. Grantees must require members to sign contracts stipulating (*AmeriCorps Provisions*, AmeriCorps Special Provisions, Living Allowances, Member Contracts):

  - Minimum number of service hours necessary to be eligible for the education award.
  - Acceptable conduct.
  - Prohibited activities.
  - Requirements under the Drug Free Workplace Act.
  - Suspension and termination rule.
  - Specific circumstances under which a member may be terminated.

- Position description.
- Grievance procedures.
- Other requirements as established by the program.

- Several subrecipients' files did not contain evidence that background checks were performed on members working with children, as follows:

Subrecipient	Period	Number of Files	
		Tested	No Background Checks
City Year	2000-2001	14	6
Regents of University of Michigan	1997-2000	27	20
Eastern Michigan University	1997-2000	21	16
Family Independence Agency	1997-2001	26	5
EightCAP	1998-2001	7	1

Programs with members who have substantial direct contact with children must conduct criminal record checks on these members and maintain related documentation in member files (*AmeriCorps Provisions*, AmeriCorps Special Provisions, Criminal Record Checks). Failure to perform these background checks could result in children being exposed to members with histories of criminal violations.

- Member files at several subrecipients lacked sufficient information to document member enrollments and exits. Member enrollment forms must be submitted to the Corporation no later than 30 days after a member is enrolled, and member exit/end-of-term-of-service forms must be submitted no later than 15 days after a member exits the program (*AmeriCorps Provisions*, AmeriCorps Special Provisions, AmeriCorps Member-Related Forms). Subrecipient failure to obtain and submit this information promptly results in inaccurate Corporation member enrollment records. We noted that enrollment and end-of-term-of-service forms were missing or lacked certification dates, as follows:

Subrecipient	Period	Number of Files	
		Tested	Missing Information
City Year	1999-2001	14	14
Regents of University of Michigan	1997-2000	27	8
NMCMH	1997-1998	27	3
Eastern Michigan University	1997-1999	21	6

In addition, we noted that enrollment, change of status, and exit forms were not submitted within the required period, as follows:

Subrecipient	Period	Number of Files	
		Tested	Submitted Late
City Year	1999-2001	14	1
Regents of University of Michigan	1997-2000	27	22
Michigan Dept of Agriculture	1997-2001	22	7
EightCAP	1998-1999	7	2

- Several subrecipients could not provide sufficient information to support member eligibility either because the member file was missing or the eligibility documentation was not in the file. Grantees must maintain verifiable records that document each member's eligibility to serve based upon citizenship, birth date, and level of educational attainment (*AmeriCorps Provisions*, AmeriCorps Special Provisions, Record-Keeping). Records kept in some recipient member files did not include adequate eligibility documentation, as follows:

		Number of Files	
Subrecipient	**Period**	**Tested**	**Missing Information**
BHK Child Development Board	1997-1998	26	4
City Year	2000-2001	14	1
Regents of University of Michigan	1997-2001	27	13
NMCMH	1997-2000	12	4
Eastern Michigan University	1997-1999	21	8
Family Independence Agency	1997-2001	26	4
Michigan Dept of Agriculture	1997-2001	22	6
Oakland University	1997-2000	28	21
EightCAP	1998-1999	7	1
Heart of West Michigan	1998-2000	2	1

- BHK Child Development Board allowed one Program Year 1997-1998 member to change her status from full-time to part-time after her first 3 months of service without completing a Change of Status form. Such changes must be approved within the first 3 months of the member's service, and a Change of Status form must be completed and forwarded to the Corporation within 30 days (*AmeriCorps Provisions*, AmeriCorps Special Provisions, Terms of Service).

- City Year did not notify the Corporation that two Program Year 2000-2001 members had not completed their high school equivalency certificates by the end of their term of service, as required by the Program Director's handbook. As a result, these members may have received education awards for which they were not eligible.

- Family Independence Agency paid one Program Year 1999-2000 member a stipend and permitted the member to accumulate hours while on suspension. Members who are suspended may not receive a living allowance for the suspension period (*AmeriCorps Provisions*, AmeriCorps Special Provisions, Minor Disciplinary Actions).

- Oakland University did not notify the Commission of the December 2000 theft of $450 that was to have been an AmeriCorps reimbursement. Grantees are required to notify the Corporation's Office of Inspector General immediately of losses of Federal funds or any violation of criminal law (*AmeriCorps Provisions*, AmeriCorps Special Provisions, Responsibilities under Grant Administration).

- Michigan Department of Agriculture and the University of Michigan did not submit quarterly progress reports in a timely manner. Quarterly reports are due 30 days after the reporting period [45 CFR 2541.400(b)(1)]. The University of Michigan submitted three out of five progress reports for Program Years 1999-2001, and MDA submitted two of four progress reports for Program Year 2000-2001 later than 30 days after the quarter ended.

The Commission performs regular programmatic site visits to its subrecipients. We noted, however, that it only reviews current-year member files, and monitoring tools are not being utilized on a consistent basis. For example, we noted instances in which pre-site visit checklists, member file checklists, and interview packets were not completed. Ensuring that site visits include past-year as well as current-year member files, as well as additional training for the Commission staff in the use of monitoring tools, would prevent the likelihood that problems such as those described above will occur.

Regulation 45 CFR Section 2541.400, Monitoring and Reporting Program Performance, paragraph (a), states that:

> Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.

Recommendation: We recommend that the Commission strengthen its program monitoring procedures to ensure that these meet the requirements of 45 CFR 2541.400. The Commission should ensure that past-year as well as current-year member files are included in its reviews. Specifically, the Commission should ensure that subrecipients are:

- Aware of and complying with all significant member eligibility and notification requirements.
- Aware of and complying with grant requirements for conducting and retaining member evaluations.
- Maintaining required educational information.
- Maintaining all member agreements and including all required provisions in these agreements.
- Obtaining member background checks when warranted.
- Documenting member enrollments and exits promptly and submitting this information to the Corporation in a timely manner.
- Maintaining sufficient information to support member eligibility.

Commission's Response: The Commission's policy requires a minimum of one program site visit per program year. During the majority of the audit period, the Commission operated with only one program coordinator. The Commission has expanded its program staff to include multiple, well trained program coordinators who have a background in national service. The Commission has also implemented new policies regarding completion of site visit files. The Director of Programs now reviews the completed file as part of the site visit to ensure complete, correct, and timely program feedback and files.

This report is intended solely for the information and use of the Office of Inspector General, Corporation management, the Commission, and the U.S. Congress and should not be used by anyone other than these specified parties.

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June 28, 2002

Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

We audited costs claimed by the Michigan Community Service Commission to the Corporation for National and Community Service for the following awards and have issued our report thereon dated June 28, 2002, which report was qualified for the matters discussed therein:

Program	Award No.	Award Period	Audit Period
AmeriCorps	94ASCMI023	08/01/94-12/31/00	10/01/97-12/31/00
Program Development Assistance and Training (PDAT)	95PDSMI022	01/05/95-12/31/01	10/01/97-12/31/00
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AmeriCorps	00ASFMI023	09/01/00-08/31/01	09/01/00-03/31/01
Education Award	97EDSMI018	04/11/97-12/31/99	10/01/97-12/31/99
Promise Fellows	98APSMI023	11/01/98-12/31/99	11/01/98-12/31/99
Promise Fellows	99APSMI023	09/15/99-12/31/01	09/15/99-03/31/01
Learn & Serve	00LCSMI023	09/01/00-08/31/01	09/01/00-12/31/00
Administrative	01SCSMI022	11/01/00-12/31/01	11/01/00-12/31/00
Disability Funds	98DSCMI025	04/28/00-12/31/00	04/28/00-12/31/00
Make a Difference Day	99MDDMI009	10/20/99-12/31/99	10/20/99-12/31/99
Education Award	00EDSMI018	09/01/00-08/31/01	09/01/00-03/31/01

Except as discussed in the third and fourth paragraphs in our Independent Auditors' Report, we conducted our audit in accordance with generally accepted auditing standards accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance that costs in the financial schedules are free of material misstatement.

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

In planning and performing our audit, we considered the Commission's internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

We noted three matters involving internal control and its operations that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants (AICPA). Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Commission's ability to record, process, summarize, and report financial data consistent with management assertions in the financial schedules. These matters are discussed below.

1. The Commission Did Not Perform Regular Financial Monitoring of Subrecipients

The Commission did not perform financial monitoring of its subrecipients on a regular basis. In 1998 and 1999, in response to the Pre-Audit Survey, the Commission performed financial site visits of all subrecipients. In all other years under audit, however, it performed no consistent or thorough subrecipient reviews. In 1999 and 2001, the Commission performed only a few financial site visits, and only limited documentation of the monitoring procedures performed exists. In our audit of selected subrecipients, we noted the following conditions, which are evidence of the need for improvements in the Commission's financial monitoring of subrecipients:

- Family Independence Agency used grant funds to pay unallowable member tuition costs and claimed matching funds to purchase a stove.
- NMCMH awarded a subgrant without obtaining the Corporation's prior written approval as required by *AmeriCorps Provisions*, AmeriCorps Special Provisions.
- NMCMH paid unallowable unemployment insurance costs.
- Oakland University, Alpena Community College, and City Year could not provide reconciliations of their accounting detail with their FSRs.
- Michigan Department of Agriculture, Heart of West Michigan, and Eastern Michigan University paid members an hourly wage instead of a stipend. Members should not be paid on a hourly basis (*AmeriCorps Provisions*, AmeriCorps Special Provisions)
- Onekama claimed administrative costs in excess of the grant agreement ceiling.

- BHK, FIA, EMU, and NMCMH could not provide documentation to support all direct cost charges tested.

- MDA did not require supervisor signatures on time-and-attendance records from 1997 to 1999. Also, several of Heart of West Michigan's 1998 to 1999 timesheets were missing supervisor signatures.

- Oakland University did not notify the Commission that $450 of AmeriCorps funds had been stolen, as required by *AmeriCorps Provisions*, AmeriCorps Special Provisions.

The Commission is responsible for ensuring that its subrecipients are aware of and complying with all grant financial management requirements in accordance with the *AmeriCorps Provisions*, Responsibilities Under Grant Administration. Unless these requirements are properly communicated, and subrecipient performance is monitored, conditions such as those described above can occur and not be detected in a timely manner.

Recommendation: We recommend that the Commission review its financial monitoring procedures and revise them as necessary to ensure that all significant grant financial requirements are communicated to subrecipients, and that subrecipient compliance with them is adequately monitored. The Commission might consider performing risk-based assessments on a regular basis to select subrecipients for site visits.

Commission's Response: Because of financial and staffing constraints, the Commission has only been performing an on-site financial visit once during subrecipients' funding cycle (three years). In addition, the Commission reviews annual audits, periodic expense reports, and other financial information supplied by subrecipients. The Commission has recently hired a grants coordinator who will spend 100% of his time on Federal subrecipients. The Commission is also developing a risk-based process to determine the level of risk of individual programs. Until it is in place, the Commission will conduct desk audits and financial site visits on all of its programs. The Commission has already implemented new close out procedures, including an audit of member timesheets to the WBRS system and review of member files after completion of their term.

2. The Commission Did Not Communicate Grant Documentation Retention Requirements to Its Subrecipients

The Commission has not ensured that subrecipients have complied with grant documentation retention requirements. Grant records must be retained for 3 years from the date the grantee or subgrantee submits its final expenditure report (45 CFR 2541.420, and 45CFR 2543.53). Many of the subrecipients, however, seem to be unaware of this requirement. We noted the following:

- The subgrantee agreement with BHK specifies a different retention period from that in the Corporation grant: 3 years from the date final payment is made for the grant year.

- MDA representatives believed that the grant retention policy was the same as its own: documents are retained for the current year plus 5 years.

- Oakland University representatives believed that records were to be retained in accordance with its policy, which is 7 years.

We recognize that Commission subrecipients may, in some cases, be subject to lengthier record retention periods under state, local, or other applicable standards. While most of the subrecipients' retention periods appear to be longer than that required by the AmeriCorps Provisions, this may not be the case if there is a delay in filing the final expenditure report. Failure to ensure that subrecipients comply with grant records retention requirements could result in the disposition of grant documents prematurely.

Recommendation: We recommend that the Commission take steps to ensure, at a minimum, that all subrecipients are aware of and comply with the Corporation's record retention requirements.

Commission's Response: The Commission feels that sufficient information regarding retention periods is given to all of its subrecipients on a yearly basis. All subrecipients are required to review and approve the grant agreement, follow all applicable OMB regulations, and attend annual financial trainings performed by the Commission. Information on document record retention is contained in all three areas. The Commission is working with the Corporation to determine proper retention periods for subrecipients. Once a final decision is made, the Commission will implement new policies and procedures for document retention that will be incorporated into the close out letter.

3. The Commission Did Not Adequately Evaluate Subrecipient Past Performance and Financial Capability During the Subgrant Award Process

We noted two matters with respect to the Commission's subgrant award process:

- The Commission did not have a formal, consistent approach to evaluating subrecipients' past experience. It used a renewal ranking sheet to assess subrecipients' continuation of funding requests. This system, while it assesses program progress, does not formally consider timeliness of reporting programmatic and financial data, accuracy of reporting, attendance at events and meetings, issues raised at site visits, or any other known relevant matters.

- The Commission did not maintain evidence that it considered subrecipients' financial system adequacy during the subgrant application process.

Failure to consistently evaluate past experience and to consider subrecipients' capability to comply with the award's financial requirements could result in awards to subrecipients who are unable to satisfactorily carry out program goals. The Commission has developed checklists that it will implement in its October 2002 grant proposal evaluation process, both to evaluate past experience and to assess financial system adequacy.

Recommendation: We recommend that the Corporation review the checklists to be used in the Commission's subgrant award process and confirm that these adequately address past experience and financial system evaluations.

Commission's Response: The Commission takes into account the subrecipients' past program and financial compliance during the application process, but this has not been documented in writing. The Commission will incorporate, as part of the application process, a checklist that will detail information supplied by both the program and grants coordinator regarding the program's performance during the previous year, concerns, and corrective action plans.

A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the schedules of award costs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the first matter listed above involving internal control and its operation to be a material weakness.

This report is intended solely for the information and use of the Office of Inspector General, Corporation management, the Commission, and the U.S. Congress and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

By: _____
Alan Rosenthal, CPA
Partner

ATTACHMENT

STATUS OF FINDINGS FROM THE PRE-AUDIT SURVEY OF THE MICHIGAN COMMUNITY SERVICE COMMISSION OIG AUDIT REPORT NO. 00-25

Lack of Documentation to Support the Review of Certain Information During the Renewal Process

The Commission did not document its review of quarterly progress reports and site visit reports during the renewal process of two subgrantees.

Current Status: The Commission is creating a checklist that will document its review of all information collected on the subrecipient during the renewal process. It intends to use this checklist in the Fall 2002 award process. See our Report on Internal Control for the related audit finding and recommendation. We consider this finding open.

Lack of Assessment of Subgrantee Applicants' Financial Systems During the Selection Process

The Commission did not consider the adequacy of applicant's financial systems during the subgrantee selection process.

Current Status: The Commission intends to require all applicants to submit their most recent audit report, and include a completed financial management survey. The Commission's award checklist will include this information. See our Report on Internal Control for the related audit finding and recommendation. We consider this finding open.

Lack of Evidence of Financial Status Report Review, Including Matching Recalculation, Prior to the 1999 Program Year

The Commission's procedures required that subgrantee FSRs be reviewed, and matching requirements recalculated. Before Program Year 1999, however, this review was not documented. In addition, several instances were noted where subgrantees' FSRs were not accurately prepared or completed. Also, Commission personnel did not compare FSRs to the subgrantees' accounting records or other supporting documentation during site visits.

Current Status: With the implementation of Web Based Reporting System (WBRS), the issue of subgrantees' inaccurate or incomplete FSR reporting has been resolved. We noted, however, that improvements are still needed in the Commission's financial monitoring of subgrantees (See our Report on Internal Control). We consider this finding open.

Late Submission of Financial Status Reports

The Pre-Audit Survey identified four instances in which subgrantees did not submit FSRs to the Commission in a timely manner and in accordance with Corporation guidelines.

Current Status: We noted several Program Year 2000-2001 FSRs submitted later than the required 30 days after the end of the reporting period (see our Report on Compliance). We consider this finding open.

The Commission Did Not Maintain All Required Financial Status Reports

The Pre-Audit Survey identified three instances in which FSRs were not maintained in the Commission's subgrantee files and six instances in which amounts reported to the Corporation by the Commission could not be verified because of inadequate supporting documentation.

Current Status: The Commission was able to provide all FSRs requested during our audit. Also, with implementation of WBRS, the Commission will be able to provide any subgrantee FSR for any reporting period. We consider this finding closed.

The Commission Could Not Provide the Dollar Amount of the Match for the Administrative Grant

The Commission was unable to provide the dollar amount of its administration grant match for 1995, 1996, and 1997. It did provide its 1998 and 1999 match.

Current Status: The Commission provided the total dollar amount of its match for the administration grant with supporting documentation for all the years included in our audit. We consider this finding closed.

The Evaluating and Monitoring System for Subgrantees Needs to be Improved

The Commission's site visit documentation did not include names of member files reviewed, identification of member files where exceptions were identified, and procedures followed to select member files reviewed. The Commission also did not consistently maintain the following information in its monitoring files: findings and recommendations identified during site visits; resolution and follow-up on identified findings; and progress reports.

Current Status: While we noted some improvements in the Commission's system since the Pre-Audit Survey, we found instances in which pre-site visit checklists, member file checklists, and interview packets were not completed. We also noted that the Commission only reviews current-year member files during its site visits; thus, items such as final evaluations are never included in its review. We consider this finding open (see our Report on Compliance).

APPENDIX A

COMMISSION'S RESPONSE TO DRAFT AUDIT REPORT

STATE OF MICHIGAN

JOHN ENGLER, *Governor*

MICHIGAN COMMUNITY SERVICE COMMISSION

Chairperson
Russell G. Mawby

Executive Director
Kyle Caldwell

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Lansing, Michigan 48911
Telephone: (517) 335-4295
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September 20, 2002

Mr. Terry Bathen, Acting Inspector General
Corporation for National Service
1201 New York Avenue, NW
Washington, D.C. 20525

Re: Draft Report of the Incurred-Costs Audit of Grants Awarded to the Michigan Community Service Commission, OIG Audit Report No. 02-14 June 28, 2002.

Dear Mr. Bathen:

The Michigan Community Service Commission (MCSC) and the Internal Auditor from the Michigan Department of Career Development (MDCD) have reviewed the Draft Report of the Incurred-Costs Audit of Grants Awarded to the Michigan Community Service Commission, OIG Audit Report No. 02-14 June 28, 2002. The MCSC has forwarded additional information to Cotton & Company, LLP regarding a majority of the questioned costs for allowability addressed in the report. Additional information on these issues will be addressed in the specific responses to the draft's summary report.

In the draft report, Cotton & Company, LLP has supplied an Audit Report Summary that combines many of the similar findings into distinct material instances. For this response, the MCSC will address the five material instances of noncompliance and the three reportable conditions on internal control, which are cited on page 2 of the draft report.

MCSC's responses to the five material instances of noncompliance are as follows:

1. "Education Awards were granted without adequate justification"

This issue is one that the MCSC has disagreed with for many years. The AmeriCorps Provisions state, "The Corporation for National Service allows each program to decide on a case by case basis whether the situation warrants a member receiving a partial

award. However, the Corporation's policy is that generally the compelling circumstance must be beyond the member's control". Based upon this statement, CNCS has authorized the programs and not the MCSC the authority to approve granting a partial education award. While CNCS lists the reasons that "generally" fit the compelling circumstances, the mere use of the word "generally" leaves the reasons and circumstances open to individual interpretation and under-minds the authority of the MCSC to control awarding of partial ed-awards.

The MCSC maintains the position that because the provisions gives the granting authority to the Program Directors, the granting of partial or pro-rated education awards should be monitored by the National Service Trust. If the MCSC reviews the compelling circumstances prior to the award, it would be in effect placing the granting or approval authority with the MCSC, which goes against the provisions of the grant award. Therefore, the MCSC does not feel that it should be monitoring the compelling reasons or documentation for granting pro-rated education awards. This function should be the responsibility of the National Service Trust.

Although we do not feel it is within our authority to make determinations on pro-rated education awards, the MCSC will review all member files for those issued a pro-rated education award to ensure proper documentation exists to support the reason for the education award.

2. "Members were paid as if hourly wage employees."

The MCSC performs trainings for all new program and financial staff regarding this issue. Each year every Michigan's AmeriCorps program receives a copy of the Michigan's AmeriCorps Policies and Procedures manual that clearly articulates the grant provisions including those related to these citings. Part of the training discusses the use of the word employee on any timesheets or documentation used for its members. As part of the program site visits, samples of the forms used by the programs are reviewed. Over the past years, many of the programs have modified their normal time sheets to accommodate the members. In some instances, the programs did not take the word employees off the original timesheets. The MCSC has been reviewing timesheets and just this year audited all AmeriCorps members' timesheets for the program year 2001. The MCSC will add the question on the site visit checklist to verify that the timesheets do not show the word "employee".

In response to members being paid by the hour, the MCSC has identified the programs that have problems paying a stipend in increments. We have been working with the programs to create a system of paying the members a set amount each pay period and backing the timesheets with service timesheets showing the number of hours that the member has served. In addition, the MCSC has cited the Michigan Department of Agriculture on this issue in the last few site visits and is using the corrective action process to correct the issue.

3. "The Commission claimed costs that were either not allowable or for which no support for allowability was provided."

The MCSC through its department, the Michigan Department of Career Development, strives to ensure that every expense is allowable and documented. Over the years, the Department has undergone many changes including department name(s), directors, accounting systems, and payroll systems. As a result of these changes, MDCD was in rare instances, unable to produce a payroll document from over three years ago during a payroll system changeover and source documents when accounting transactions were performed to change accounting from one set of accounting to another. These are very isolated conditions that have been rectified within the State and the Department.

In addition, the majority of the amount question for allowability has been cleared up with the auditors with the proper documentation or cleared up by the department during the closeout of its grants. It is important to note that of the $73,041 originally shown in the draft, $62,165 has been taken care of by the department, leaving a balance of $10,876. Of the remaining balance, $6,932 dollars is the result of errors in coding payments from the previous accounting system. While the amount shown on the data dump shows these amounts, the department balanced out the grant against the sub-grantee payments for this award in closing out the grant. Therefore, while the amount showing on the data dump had the two extra-undocumented transactions in it, the department reconciled its books when closing out the award. The award was balanced to the amount paid to the sub-recipients therefore, the MDCD only drew down the amount of federal funds required to pay the sub-grantees on this award.

In addition, the MCSC supplied additional documentation for the unsupported costs that were within the State's system. The majority of the unsupported costs were missing documents within the member files.

The MCSC is currently reviewing our processes to ensure that the sub-grantees maintain the required documentation for the members. The MCSC has been training the programs on an annual basis in the proper forms required in the member files and has been reviewing the files during the site visits. The results of this intensified training and review is evidenced by the sharp decrease in the findings during the more recent years.

The MCSC is looking at implementing either a 100% desk audit of all AmeriCorps members or a certification letter from the Program Directors as to the receipt of the documents. In addition, we are looking at implementing a policy that no members will be enrolled prior to the receipt of the required documents. The goal is to have the new policies in place by the end of this calendar year in addition to a 100% compliance review of the past year and current year member files.

4. "Financial Status Reports were not submitted timely."

Timely reporting of Financial Status Reports (FSR) has been a challenge for the MCSC for many years. The MCSC has worked with its programs by providing financial and programmatic trainings and has also used outside training providers. In addition, the Commission withholds reimbursement when reports are past due. Some of our programs have problems due to internal accounting systems and the MCSC is working with them to speed up the reporting process. As evidence by the draft report, the number of programs reporting late continues to drop.

For the MCSC's last two reporting periods, 3/31/02 and 6/30/02, all of the Michigan's AmeriCorps and the Learn and Serve sub-grantees met the required time frame. This was a total of 33 Michigan's AmeriCorps and 38 Learn and Serve sub-grantees. The MCSC will continue to work on achieving 100% compliance on FSRs.

5. "Sub-recipients were not adequately monitored by the Commission."

The MCSC policy on program monitoring includes a minimum of one site visit per program year. During the site visit the program coordinator reviews 20% of the member files in addition to the program objectives, interviews, and training needs. During the past couple of years the MCSC has operated with only one program coordinator during a majority of the audit period. Documentation on the program site visit was not always completed as required.

The MCSC has expanded its program staff to include multiple high quality program coordinators who have a background in national service. The Director of Programs has trained the program staff to perform high quality and complete site visits. In addition, new policies regarding completion of the site visits and files have been implemented. The completed site visit file is now being review by the Director of Programs as part of the site visit to ensure complete, correct and timely program feedback and files.

<u>MCSC's responses to the three reportable conditions on internal control</u>.

1. "Financial monitoring of sub-recipients not performed by the Commission on a regular basis."

Due to financial and staffing constraints, the MCSC has only been performing an on-site financial visit once during a sub-grantees funding cycle (three years). In addition, the MCSC reviews annual audits, Periodic Expenses Reports, and other financial information that is supplied by the sub-grantees.

Our Program Officer at the Corporation for National and Community Service has reviewed our systems and processes. No concerns with our financial processes were noted.

With the recent addition of a Grants Coordinator who spends 100% of his time on our federal sub-grantees, the MCSC will be able to perform more on-site financial visits and desk audits. The MCSC is currently working on developing a risk-based process to determine the level of risk of individual programs. Until the new risk-based policy is in place, the MCSC will conduct desk audits and financial site visits on its entire portfolio.

New close out policies have already been implemented, which includes an audit of member timesheets to the WBRS system and a review of the member files after completion of their term. For the 2001 – 2002 program year, a 100% desk audit of member timesheets against the WBRS system was recently completed. Results of the desk audit were compiled and forwarded to the sub-grantees and the appropriate program officers.

2. **"Documentation retention requirements were not communicated by the Commission to the sub-recipients."**

The MCSC performs financial trainings yearly that discuss retention periods. It is the State of Michigan's position that records only need to be retained for a period of three years after the final payment request/FSR. Upon review of the OMB regulations it is the Department's and the Commissions understanding that all programs only need to maintain records for the three-year period regardless of the grantor's retention period.

The provisions of our sub-grant document are written by the State of Michigan's Department of Management and Budget and are reviewed by attorneys and auditors prior to approval. The MCSC is required to utilize this standard documentation language in all of our contracts and grants. In addition, the finding shows that two programs have a longer retention period than that required by law. The MCSC's only concern is that the sub-grantees meet the minimum requirements. If the agency has a policy, which states a longer period of retention, the MCSC will not suggest a shorter period.

All sub-grantees are required to review and approve the grant agreement, follow all applicable OMB regulations, and attend financial trainings performed by the MCSC. Information on document/record retention is contained in all three areas. The MCSC feels that sufficient information regarding retention periods is given to our sub-grantees on a yearly basis.

The MCSC is working with the MDCD and CNCS to determine proper retention periods for sub-grantees. Once a final decision has been made, the MCSC will implement new policies and procedures for document retention that will be incorporated into the close out letter.

3. **"During the sub-grant award process the Commission did not adequately evaluation sub-recipients past performance past financial capability."**

   Currently the MCSC takes into account the sub-recipient's past program and financial compliance during the application process. This process was not documented in writing. However, the program coordinator and the financial manager have been part of the review process. In addition, the MCSC handles all compliance/financial issues during the program year.

   The MCSC will revise its policies to include as part of the application process a checklist that will detail information supplied by both the program and grants coordinator regarding the program's performance during the previous year. This statement will include an explanation of the concerns and if the program has not corrected the issue(s) a corrective action plan will be included as part of the application process. This new policy will ensure that all applicable information on sub-recipients is taken into account during the application process.

Based on all of the above, the MCSC expects that several changes will be incorporated in the final report. If you have any questions on our response to the Draft Report of the Michigan Community Service Commission, please contact either of us at (517) 335-4295.

Sincerely,

Kyle Caldwell, Executive Director
Michigan Community Service Commission

Garreth C. Gross, Director of Finance and Admin.
Michigan Community Service Commission

cc: Deb LaPine, MDCD
Larry Misiewicz, MDCD

APPENDIX B

CORPORATION'S RESPONSE TO DRAFT AUDIT REPORT

CORPORATION
FOR NATIONAL
AND
COMMUNITY
SERVICE

To: Russell George, Inspector General

Through: William Anderson, Deputy Chief Financial Officer

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

Date: September 24, 2002

Subj: Response to OIG Draft Audit Report 02-14: Incurred Cost Audit of Grants Awarded to the Michigan Community Service Commission

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