OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Audit of Corporation for National and Community Service Grants Awarded to New Jersey Commission on National and Community Service Trenton, N. J.

OIG Audit Report Number 02-17
August 9, 2002

Financial Schedules
and
Independent Auditor's Reports
For the Period
January 1, 1994 to September 30, 2001

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This report was issued to Corporation management on September 30, 2002. Under the laws and regulations governing audit follow up, the Corporation must make management decisions on the report's findings and recommendations no later than 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.

Audit of Corporation for National and Community Service
Grants Awarded To
New Jersey Commission on National and Community Service
Trenton, N. J.

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CORPORATION FOR NATIONAL SERVICE

Office of Inspector General
Corporation for National and Community Service
Audit Report 02-17

Audit of Corporation for National and Community Service Grants Awarded to the New Jersey Commission on National and Community Service

Introduction

The Corporation for National and Community Service, pursuant to the authority of the National and Community Service Act, awards grants and cooperative agreements to State Commissions, nonprofit entities, tribes and territories to assist in the creation of full and part time national and community service programs. Currently, 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 L. G. Birnbaum and Company to audit Corporation grants to the New Jersey Commission on National and Community Service for AmeriCorps, Program Development and Training, and Administration costs from January 1, 1994 through September 30, 2001. During this period, the Commission received approximately $39 million in funding authority from the Corporation and had approximately $31 million in claimed costs. The audit's objectives were to determine whether (1) the Commission's financial reports presented fairly the financial results of the award; (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; and (4) costs were documented and allowable under the awards' terms and conditions.

The auditors identified questioned costs of $3.6 million, an amount representing approximately twelve percent of the total of the $31 million in costs that the Commission claimed. The audit identified six material weaknesses relating to the following areas:

(1) The Commission did not maintain an adequate financial system as required in various grant provisions.
(2) The Commission was unable to track matching requirements on Corporation grants to actual tracking expenditures on a timely basis.
(3) Accounting records are missing significant amounts of supporting source documentation.
(4) Inefficient cash management procedures resulted in excess cash on hand at both the Commission and subgrantee levels.
(5) Reconciliations of Commission drawdowns to actual costs were not performed on a timely basis.
(6) One second-tier subgrantee never received full payment for all eligible expenses.

Inspector General
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The auditors found that, during the earlier grant years, the Commission lacked appropriate and effective controls for overseeing and monitoring its subgrantees. However, they noted that the Commission has expended considerable effort since 2000 in implementing more effective controls over the financial and programmatic performance of its subgrantees.

OIG has reviewed the report and the work papers supporting the auditor's conclusions and provided the Commission and Corporation a draft report their review and comments. Their responses are included as Appendices A and B, respectively. Those responses were considered in making revisions to the report. Copies of documents responding to the draft report that the Commission submitted are attached to the OIG's audit workpapers.

REPORT SUMMARY AND HIGHLIGHTS

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Inspector General
Corporation for National and Community Service

This report is issued under an engagement to audit the costs claimed by the New Jersey Commission on National and Community Service (Commission or NJCNCS) and its subrecipients from January 1, 1994 through September 30, 2001 under the grants awarded by the Corporation for National and Community Service (Corporation). This report focuses on the audit of claimed costs, instances of noncompliance with Federal laws, applicable regulations or award conditions, and internal control weaknesses disclosed during the audit at the Commission and its subrecipients.

Results in Brief

As a result of our audit of these awards, we are questioning costs totaling $3,605,772, including $65,232 of related "Education Awards", or approximately 12 percent of the total $31,001,538 claimed by the Commission. Questioned costs are costs for which there is documentation that the recorded costs were expended in violation of the law, regulations or specific conditions of the award, or those costs which require additional support by the grantee or require interpretation of allowability by the Corporation. Of the $3,605,772 of questioned costs, $1,545,176 represents excess AmeriCorps drawdowns as of the audit cut-off date of September 30, 2001. The Commission subsequently reconciled and adjusted for this overdraft in its Payment Request in February 2002. However, it did constitute an excess claim on the audit cut-off date and is therefore shown as questioned costs. Other significant amounts of the questioned costs represent AmeriCorps grants' costs for which supporting documentation was lost or destroyed ($513,437), and unsupported costs in the Program Development and Training (PDAT) ($42,975) and Administration ($839,112) grants. Other costs questioned included excessive living allowances, living allowances questioned because key eligibility documentation could not be located, education awards for those members whose key eligibility documentation could not be located, and related administrative expenses. Details about the questioned costs appear in the Independent Auditor's Report.

We found that, during the earlier grant years, the Commission lacked appropriate and effective controls for overseeing and monitoring its subrecipients. However, we noted during the audit that the Commission expended considerable effort since 2000 in implementing more effective controls over the financial and programmatic performance of its subrecipients.

Our audit also disclosed that, since the Commission is a unit of the New Jersey State Government and must use the State's departmental accounting system, specifically that of the N.J. Department of Education (NJDOE), the Commission lacks the ability to track expenditures by budget line item without extensive analysis. Details for these and other noncompliance findings appear in the Independent Auditor's Report on Compliance and on Internal Controls Over Financial Reporting.

Grant Programs Audited

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

Program	Award Number	Award Period	Audit Period
AmeriCorps	94ASCNJ031	1/1/94 to 12/17/00	1/1/94 to 12/17/00
AmeriCorps	00ASFNJ031	1/1/00 to 8/31/03	1/1/00 to 9/30/01
AmeriCorps	00ASCNJ031	8/1/00 to 7/31/01	8/1/00 to 7/31/01
AmeriCorps	98ARCNJ031	9/1/98 to 12/31/01	9/1/98 to 9/30/01
PDAT	95PDSNJ031	1/1/95 to 12/31/01	1/1/95 to 9/30/01
Administration	94SCSNJ031	1/1/94 to 12/31/00	1/1/94 to 12/31/00
Administration	01SCSNJ031	1/1/01 to 12/31/01	1/1/01 to 9/30/01

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

	Amount	Percentage of Budget/Claimed
Award Budget	$39,584,927	-
Claimed Costs	$31,001,538	78%
Questioned Costs (Excl. Ed. Awards)	$ 3,540,540	11%

Costs Questioned

The following summarizes the costs questioned on these awards:

AmeriCorps Grant

- Unexpended Funds Not Returned to the Commission Or Corporation (Excess "Drawdowns" @ 9/30/01) $1,545,176
- Reconciliation Differences 17,831
- Questioned "Departmental Administration" Costs 11,207
- Member Living Allowances – Overpayments 11,185
- Member Living Allowance – Lack of Eligibility Documentation 414,589
- Salaries & Benefits 21,113
- Unsupported Costs (Lack of Documentation) 78,523
- Missing Records 513,437

• "Matching" Costs Not Met	18,473
• Miscellaneous Errors / Adjustments	22,782
• Operating and Administrative Costs Questioned	3,126
Total Costs Questioned – Claimed Costs	$ 2,657,442
Questioned Education Awards	65,232
Total Costs Questioned – AmeriCorps	$2,722,674

PDAT

• Unsupported Costs (Lack of Documentation)	
Test Items	$ 15,683
Departmental Administration Costs	27,292
• Incorrect Charges	1,011
Total Costs Questioned – PDAT	$ 43,986

Administration

• Questioned Costs Due To Lack of Supporting Documentation and Match Shortfalls	$ 839,112

Total Costs Questioned (Including Education Awards) – All Grants **$3,605,772**

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

Compliance

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

- The Commission did not submit Financial Status Reports (FSRs) on a timely basis.
- Subrecipients FSRs were not submitted on a timely basis.
- The Commission did not submit Federal Cash Transaction Reports on a timely basis.
- Subrecipients paid living allowances in excess of authorized amounts.
- Subrecipients did not maintain adequate documentation for Allocated Salaries and Wages.
- Essential "Criminal Record Checks" were not obtained by some subrecipients as required by AmeriCorps Provisions and State internal procedures.
- The Commission did not meet the Matching requirements of the Administration Grant.

- Subrecipients lacked an understanding of required financial and accounting controls as stipulated in the AmeriCorps Provisions.
- Subrecipients did not maintain required Compliance supporting documentation.

Internal Controls

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

- The NJDOE / Commission did not maintain an adequate Financial System as stipulated in various Corporation Provisions.
- The NJDOE / Commission is unable to track matching requirements on CNCS grants to actual tracking expenditures on a timely basis as required by Corporation Provisions.
- Accounting records are missing significant amounts of supporting source documentation. Amounts drawn down, as reported by the Department of Health and Human Services' Payment Management System, are not reconciled to amounts reflected in the Commission's records.
- Inefficient cash management procedures resulted in excess cash on hand at both Commission and subrecipient levels.
- Reconciliations of Commission drawdowns to actual (booked) costs were not performed on a timely basis.
- One second-tier subrecipient never received full payment for all program year eligible expenses.

All of these findings are considered to be material weaknesses[1].

Purpose And Scope Of Audit

Our audit covered the costs claimed under Corporation Grant Nos. 94ASCNJ031, 00ASCNJ031, 00ASFNJ031, 98ARCNJ031, 95PDSNJ031, 94SCSNJ031 and 01SCSNJ031.

The principal objectives of our audit were to determine whether:

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

- The 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, award conditions and that member services were appropriate to the programs;

---

1 A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts, which would be material to the financial schedules being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

- The Commission had established adequate oversight and informed subrecipients of the Corporation's Government Performance and Results Act (GPRA) goals.

We performed the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed against the awards, as presented in the Consolidated Schedule of Award Costs and the grant-specific Schedules of Award Costs (Exhibits A through C), are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in Exhibits A through C. An audit also includes assessing the accounting principles used and significant estimates made by the auditee, as well as evaluating the overall financial schedule presentation. Our audit included reviews of audit reports and working papers prepared by the independent public accountants for the State Commission and its subrecipients in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. Our audit also followed up on the findings and recommendations in the Pre-Audit Survey Report, dated January 11, 2000 (CNCS OIG Report 00-26). We believe our audit provides a reasonable basis for our opinion.

The contents of this report were disclosed to and discussed with the Commission at an exit conference on August 22, 2002. In addition, we provided a draft of this report to the Commission and to the Corporation for comment on August 22, 2002 and received responses from both the Commission and the Corporation on September 21, and September 25, 2002, respectively. Their responses are included as appendices A and B, respectively.

Background

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

As outlined below, the Commission has received approximately $39 million in funding and exercised $31 million in drawdowns from the Corporation since 1994, including AmeriCorps formula funds, AmeriCorps competitive funds, America Reads funds, PDAT funds, and Administration funds. Of this amount, approximately $28 million was distributed to subgrantees. The majority of the Commission's subgrantees are State entities or nonprofit organizations.

	Authorized	Drawndowns
94 ASC NJ 031 – AmeriCorps (Comp. & Form)	$ 25,607,666	$ 24,576,156
00 ASF NJ 031 – AmeriCorps – Formula	4,953,953	1,697,032
00 ASC NJ 031 – AmeriCorps – Competitive	4,718,253	1,653,824
98 ARC NJ 031 – AmeriCorps – America Reads	517,400	354,276
Total AmeriCorps	$ 35,797,272	$ 28,281,288
98 APS NJ 031 – Promise Fellows	$ 165,000	
99 APS NJ 031	110,978	
Total Promise Fellows	$ 275,978	
97 DSC NJ 033 – Disability Funds	$ 187,492	
01 DSC NJ 033	117,001	
Total Disability Funds	$ 304,493	
95 PDS NJ 031 – Prof. Development & Training	$ 758,126	$ 645,830
97 EDS NJ 049 – Education Awards	$ 3,670	
94 SCS NJ 031 – Administration	$ 2,074,420	$ 2,074,420
01 SCS NJ 031 – Administration	370,968	
Total Administration	$ 2,445,388	$ 2,074,420
TOTALS – Grants Administered by NJCNCS	$ 39,584,927	$ 31,001,538

Report Release

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

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Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITOR'S REPORT

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

Program	Award Number	Award Period	Audit Period
AmeriCorps	94ASCNJ031	1/1/94 to 12/17/00	1/1/94 to 12/17/00
AmeriCorps	00ASFNJ031	1/1/00 to 8/31/03	1/1/00 to 9/30/01
AmeriCorps	00ASCNJ031	8/1/00 to 7/31/01	8/1/00 to 7/31/01
AmeriCorps	98ARCNJ031	9/1/98 to 12/31/01	9/1/98 to 9/30/01
PDAT	95PDSNJ031	1/1/95 to 12/31/01	1/1/95 to 9/30/01
Administration	94SCSNJ031	1/1/94 to 12/31/00	1/1/94 to 12/31/00
Administration	01SCSNJ031	1/1/01 to 12/31/01	1/1/01 to 9/30/01

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant management estimates, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

MEMBERS OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

During the course of our audit examinations, we encountered situations at the Commission's office, and various subrecipient locations such as the Trenton Board of Education and the Paterson School District, where supporting source documentation for transactions totaling $513,437 was either destroyed or could not be located. Similar conditions were encountered at the NJDOE office with respect to the absence of supporting documentation and final claimed costs for the PDAT and Administration grants. Accordingly, the results of our examination are qualified to the extent that the absence of such supporting records and final claims limited our audit and may have impacted the overall audit results had such documentation been available.

In our opinion, except for the omission of the supporting source documentation and final claims discussed above, and the $3,605,772 in questioned costs, the Consolidated Schedule of Award Costs and the grant-specific Schedules of Award Costs (Exhibits A through C and related Schedules) referred to above present fairly, in all material respects, the costs claimed for the period January 1, 1994 to September 30, 2001, in conformity with generally accepted accounting standards in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report, dated August 9, 2002, on Compliance and on Internal Controls over financial reporting.

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

Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia
August 9, 2002

New Jersey Commission on National and Community Service
Consolidated Schedule of Award Costs

Corporation for National and Community Service Awards

Award Number	Program	Approved Budget	Claimed Costs	Questioned Costs	Questioned Education Awards	Reference
94ASCNJ031	AmeriCorps	$25,607,666	$24,576,156	$2,657,442	$ 65,232	Exhibit A
00ASFNJ031	AmeriCorps	4,953,953	1,697,032			
00ASCNJ031	AmeriCorps	4,718,253	1,653,824			
98ARCNJ031	AmeriCorps	517,400	354,276			
Total AmeriCorps		$35,797,272	$28,281,288	$2,657,442	$ 65,232	
95PDSNJ031	PDAT	$ 758,126	$ 645,830	$ 43,986	$ -	Exhibit B
94SCSNJ031	Administration	$ 2,074,420	$ 2,074,420	$ 839,112	$ -	Exhibit C
01SCSNJ031	Administration	370,968	-	-	-	
Total Administration		$ 2,445,388	$ 2,074,420	$ 839,112	$	
Totals		$39,000,786	$31,001,538	$3,540,540	$ 65,232	

New Jersey Commission on National and Community Service
Notes to Consolidated Schedule of Award Costs

1. Summary of Significant Accounting Policies

Reporting Entity

The accompanying consolidated Schedule of Award Costs include amounts budgeted, claimed, and questioned under AmeriCorps, Administration, and Program Development and Training grants awarded to the New Jersey Commission on National and Community Service by the Corporation for National and Community Service for the period from January 1, 1994 to September 30, 2001.

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

Basis of Accounting

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

Equipment

Equipment is charged to expense in the period during which it is purchased instead of being recognized as an asset and depreciated over its useful life. As a result, the expenses reflected in the Schedule of Award Costs include the cost of equipment purchased during the period rather than a provision for depreciation. The equipment acquired is owned by NJCNCS while used in the program for which it was purchased or in other future authorized programs. However, the Corporation has a reversionary interest in the equipment. Its disposition, as well as the ownership of any proceeds therefore, is subject to Federal regulations.

Inventory

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

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Numbers 94ASCNJ031, 00ASFNJ031, 00ASCNJ031 and 98ARCNJ031
(AmeriCorps)
January 1, 1994 to September 30, 2001

	Claimed Costs	Questioned Claimed Costs	Questioned Education Awards	Reference
NJCNCS – Grant Drawdowns		$ 1, 545,176		Note 1
Detailed Audits (1998 to 2001):				
New Jersey Youth Corps, (NJYC), Central Office	$ 242,599	463		Schedule A-1
Urban Schools Service Corps, (USSC), Central Office	304,551	89,730		Schedule A-2
New Jersey Public Interest Research Group (NJPIRG), N.J. Water Watch (NJWW)	863,618	24,957	$ 9,450	Schedule A-3
USSC – Trenton Board of Education	391,567	341,359	All	Schedule A-4
USSC – Paterson School District	394,431	394,431	All	Schedule A-5
St. Paul's Community Development Center	902,774	34,854	7,088	Schedule A-6
Urban League of Hudson County	736,174	105,033	28,350	Schedule A-7
NJYC – New Jersey City University	806,946	17,824		Schedule A-8
Catholic Community Services Schedule A-9	712,361	49,231	16,536	
NJYC – University of Medicine And Dentistry of New Jersey	504,364	54,384	3,808	Schedule A-10
Subtotals (Detailed Audits – 1998 to 2001)	$ 5,859,385	$ 2,657,442	$ 65,232	
N. J. Community Development Corporation	$ 1,844,136	-	-	Note 2
A+ For Kids Note 2	605,303	-	-	
Other (Including "Prior to 1998")	19,972,464	-	-	
Total	$28,281,288	$ 2,657,442	$ 65,232	Note 3
Approved Budget	$35,797,272			

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Numbers 94ASCNJ031, 00ASFNJ031, 00ASCNJ031 and 98ARCNJ031
(AmeriCorps)

Notes

1. As of the audit's cut-off date of the audit (9/30/01), the NJCNCS cash drawdowns on the Grant exceeded the booked expenditures by $1,545,176. The Commission subsequently did net this amount out, along with other adjustments, against current unbilled costs in its reconciliation and payment request dated 2/21/02. However, for long periods of time the NJCNCS was holding significant amounts of cash that were not needed for current expenditures. Consequently, we have shown these unsupported drawdown amounts as costs questioned, since they were inappropriately claimed as of September 30, 2001.

   The overdraft was the result of deficiencies in the cash management and oversight processes. This condition is discussed in more detail in the Independent Auditor's Report on Compliance and on Internal Controls Over Financial Reporting. The questioned costs do not include any calculation of interest earned that the Corporation may be entitled to recover.

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

3. The total claimed costs reported include costs claimed by subrecipients that were not tested as part of this audit. Based on OIG's direction and agreement, audit tests at field sites were limited to the more recent years' of grant performance (i.e., Program Years 1998 through 2001) at selected field sites. During the period covered by our audit, the Commission had 28 subrecipients and numerous second-tier subrecipients. Accordingly, we used a sampling approach at the selected field sites to test Program Years 1998 to 2001 claimed costs.

Schedule A-1

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

New Jersey Youth Corps (NJYC)

			Reference
Approved Budget (Federal funds)		$ 5,219,582	Note 1
Claimed Costs		$ 242,599	Note 2
Questioned Costs			
Reconciliation Differences	$ 463		Note 3
Total Questioned Costs		$ 463	

Notes

1. Based on OIG's direction and agreement, audit tests at field sites were limited to the more recent years of grant performance (i.e., Program Years 1998 through 2002). The NJYC operates as a Pass-Through entity for grant awards from the NJCNCS. Consequently, most of the funds awarded to the NJYC are distributed to lower-tier subgrantees. The amount shown above as approved budget represents the total gross funding to the NJYC for the Program Years 1998 through 2001, per the budget schedules for the prime NJCNCS grants.

2. Claimed Costs represent only the amount of reported expenditures at the NJYC central or home office operational site for the years tested (1998 – 2001). As indicated, most of the award funds are further distributed to lower-tier subgrantees.

3. The cut-off date for audit testing and reporting purposes for this engagement was September 30, 2001. Questioned costs represent the net difference between amounts claimed at the NJCNCS level vs. amounts supported by the field records at the NJYC Central Office, as of the cut-off date. The questioned difference pertains entirely to Program Year 2000.

Commission's Response

Both the Commission and the NJ Youth Corps concur in the amount questioned.

Auditor's Comment

None required.

Schedule A-2

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

Urban Schools Service Corps (USSC) – Central Office

			Reference
Approved Budget (Federal funds)		$ 2,023,145	Note 1
Claimed Costs		$ 304,551	Note 2
Questioned Costs			
Unsupported Charges	$ 78,523		Note 3
Departmental Administrative Costs	11,207		Note 4
Total Questioned Costs		$ 89,730	

Notes

1. Based on OIG's direction and agreement, audit tests at field sites were limited to the more recent years of grant performance (i.e., Program Years 1998 through 2001). The USSC operates as a pass-through entity for grant awards from the NJCNCS. Consequently, most of the funds awarded to the USSC are distributed to lower-tier subgrantees. The amount shown above as approved budget represents the total gross funding to the USSC, for the Program Years 1998 through 2000, the last AmeriCorps award year, per the budget schedules for the prime NJCNCS grants.

2. Claimed Costs represent only the amount of reported expenditures at the USSC – Central Office for the program years tested (1998 – 2001).

3. Questioned costs represent those individual cost items judgmentally and randomly selected for audit that could not be supported ($78,523).

4. These costs represent a grant charge that could not be supported with a source documented audit trail. These charges do not have a verifiable cost pool and application base, and are further described in Finding No. 10 in our Report on Compliance and Internal Controls Over Financial Reporting ($11,207).

Commission's Response

The Commission states that it is continuing to search for source documents. The Commission acknowledges that at least since 1999, departmental administrative costs have been charged to the grant on the basis of the budgeted amount. The Commission states that, in 1998 and prior, it appears that charges were based on documents processed and a salary cost pool. The Commission provided

some documentation related to 1998 as Attachment I to its response and stated that it is analyzing charges for fiscal years 1999, 2000, and 2001.

Auditor's Comment

The material provided as Attachment I to the Commission's response is not sufficient to form a basis for evaluating the departmental administrative costs for that year. Since the analysis of these charges and the search for missing source documentation has not been completed, our questioned costs remain unchanged.

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

New Jersey Public Interest Research Group (NJPIRG)
New Jersey Water Watch (NJWW)

			Reference
Approved Budget (Federal funds)		$ 955,168	Note 1
Claimed Costs		$ 863,618	Note 2
Questioned Costs			
Member Living Allowances & Benefits:			
Lack of Eligibility Documentation	$ 18,794		Note 3
Errors / Overpayments	2,546		Note 3
Total Member Allowances	$ 21,340		
Salaries and Benefits	3,617		Note 4
Total Questioned Costs		$ 24,957	
Questioned Education Awards		$ 9,450	Note 5

Notes

1. Based on OIG's direction and agreement, audit tests at field sites were limited to the more recent years of grant performance (i.e., Program Years 1998 through 2002). The amount shown above as approved budget represents the total gross funding to the NJWW for the Program Years 1998 through 2001, per the budget schedules for the prime NJCNCS grants.

2. Claimed Costs represent only the amount of reported expenditures at the NJWW for the years tested (1998 – 2001).

3. Compliance testing of AmeriCorps members files revealed that key eligibility documentation for several members was missing. Questioned members' living allowances and benefits related to this condition were $18,794. In addition, there were some errors resulting in over payments to members in the amount of $2,546. Total questioned living allowances and benefits are $21,340. These questioned costs were predominately for Program Year 1998.

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

New Jersey Public Interest Research Group (NJPIRG)
New Jersey Water Watch (NJWW)

In reconciling payroll data to grant claims, we noted that there appear to be more charges on the payroll register for member living allowances than were charged (and claimed) to the grant. In discussions with the NJWW Program Director, the root cause of this apparent under reporting is unclear. This condition appears to have some relationship to when the reporting periods began by Program Year compared to member's performance periods. This explanation may be raised as a mitigating factor for consideration in the audit resolution process.

4. Amounts claimed for staff salaries were compared to budget considerations and payroll summaries. Tests were made of selected individuals and salaries were validated to NJWW records. However, initially, there were no supporting timesheets or employee declarations to support the allocated percentages of salary costs charged to the grant. The NJWW prepares internal invoices as support documentation, but there were no original supporting employee time recordations. Following our initial review, the NJWW Program Director did contact several of the former salaried / allocated employees and obtained certifications regarding their percentage of effort. We accepted these declarations. The requirements of the AmeriCorps Provisions, "General Provisions, 5, (c), "Time and Attendance Records", as well as the Provisions of OMB Circular A-122, Attachment B.7.m,(2) "Support of Salaries and Wages", require that such costs be supported by some form of activity reports (e.g., timesheets), or other certifications of the effort claimed.

   Consequently, while there are indications that the charges were consistent with the budgetary goals, and tests of payroll show the correct annual salary by employee, we nevertheless question the entire staff salaries claimed for staff personnel whose time was allocated due to the lack of time recordation support, as follows:

1998	$ 2,806.00
1999	-
2000	-
2001	811.00
Total Costs Questioned (Salaries & Benefits)	$ 3,617.00

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

New Jersey Public Interest Research Group (NJPIRG)
New Jersey Water Watch (NJWW)

5. Questioned education awards represent the value of such awards for those members whose eligibility qualifications could not be validated from supporting documentation.

Commission's Response

The Commission notes that NJWW worked with the auditors to reduce questioned costs and that these reductions were reflected in the final questioned costs. The Commission does not agree with the questioning of educational awards on the basis of eligibility findings.

Auditor's Comment

The Commission has not explained why it disagrees with questioning educational awards on the basis of eligibility findings. The AmeriCorps Provisions require certain threshold eligibility criteria for AmeriCorps members. If the subrecipient is unable to demonstrate that its members meet the required criteria, payment of stipends to such members is inappropriate, together with any related educational award.

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

Urban School Service Corps, Trenton Board of Education

			Reference
Approved Budget (Federal funds)		$ 430,079	Note 1
Claimed Costs		$ 391,567	Note 2
Questioned Costs			
Unsupported Costs	$ 119,006		Note 3
Member Living Allowance & Benefits – Lack of Eligibility Documentation	220,575		Note 4
Matching Requirements	1,778		Note 5
Total Questioned Costs		$ 341,359	
Questioned Education Awards		All	Note 6

Notes

1. Based on OIG's direction and agreement, audit tests at field sites were limited to the more recent years of grant performance (i.e., Program Years 1998 through 2001). The amount shown above as approved budget represents the total gross funding to the Trenton Board of Education, through the Urban School Service Corps, for the Program Years 1998 through 2000, the last AmeriCorps award year, per the budget schedules for the prime NJCNCS grants.

2. Claimed Costs represent only the amount of reported expenditures at the Trenton Board of Education for the program years tested (1998 – 2000).

3. The entire net amount paid during Program Year 2000 to the Trenton Board of Education is questioned as unsupported, since the Board was unable to provide any supporting source documentation, as further described in Finding No.12 in our Report on Compliance and Internal Controls Over Financial Reporting ($119,006).

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

Urban School Service Corps, Trenton Board of Education

4. Compliance testing of AmeriCorps member files for Program Years 1998 and 1999 revealed that key eligibility documentation (criminal record checks) for all members was missing. Since all members worked with young children, criminal record checks should have been performed. Therefore the entire amounts paid for living allowances ($192,203) and benefits ($28,372) are questioned for a total of $220,575.

   Within the living allowance and benefits questioned total above, are living allowance overpayments that would be unallowable even if the criminal record checks were performed. These unallowable overpayments, that are included in the $192,203, total $1,200.

5. The questioned amount is for the period September 1, 1997 to August 31, 1998 during which total (Federal and match) costs for sections B-F (Program Operating Costs)(67% Federal maximum - 33% match) were $37,067, the maximum Federal share (67%) was $24,835, but $26,613 was charged to Federal funds. Accordingly, the difference of $1,778 is questioned.

6. We were unable to quantify the education awards made to the members because completed exit forms were not available for our review. All education awards in program years 1998 through 2000 should be questioned because either eligibility or supporting documentation was missing.

Commission's Response

The Commission states that it has been advised by the Trenton Board of Education that they have been unable to obtain supporting documents from their subgrantee agency, the Urban League of Trenton. The Commission notes that it forwarded additional eligibility documentation to us.

Auditor's Comment

Since no further supporting documentation has been provided, the amount questioned as unsupported costs remains unchanged. The Commission has not responded to questioned costs related to matching requirements.

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

Urban School Service Corps, Paterson School District

			Reference
Approved Budget (Federal funds)		$ 430,269	Note 1
Claimed Costs		$ 394,431	Note 2
Questioned Costs			
Unsupported Costs	$ 394,431		Note 3
Total Questioned Costs		$ 394,431	
Questioned Education Awards		All	Note 4

Notes

1. Based on OIG's direction and agreement, audit tests at field sites were limited to the more recent years of grant performance (i.e., Program Years 1998 through 2001). The amount shown above as approved budget represents the total gross funding to the Paterson School District, through the Urban School Service Corps, for the Program Years 1998 through 2000, the last AmeriCorps award year, per the budget schedules for the prime NJCNCS grants.

2. Claimed Costs represent only the amount of reported expenditures at the Paterson School District for the program years tested (1998 – 2000).

3. The entire amount paid is questioned as unsupported, since the Paterson School District was unable to provide supporting source documentation.

4. Since all AmeriCorps member files were unavailable for our review, we were unable to determine if eligibility requirements were met and, if not, the amount of education awards made to ineligible members.

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

Urban School Service Corps, Paterson School District

Commission's Response

The Commission advises that no supporting documentation could be located but that certain member eligibility documentation was located and forwarded to us.

Auditor's Comment

We acknowledge that we received certain member eligibility documentation. This documentation, however, has little value without the corresponding timesheets, payroll records and other documentation supporting disbursements made under the program.

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

St. Paul's Community Development Center
(SPCDC)

			Reference
Approved Budget (Federal funds)		$1,019,718	Note 1
Claimed Costs		$ 902,774	Note 2
Questioned Costs			
Member Living Allowances & Benefits:			
Lack of Eligibility Documentation	$ 33,347		Note 3
Errors / Overpayments	225		Note 3
Total Member Allowances	$ 33,572		
Errors – NJDOE Disallowance	1,282		Note 4
Total Questioned Costs		$ 34,854	
Questioned Education Awards		$ 7,088	Note 5

Notes

1. Based on OIG's direction and agreement, audit tests at field sites were limited to the more recent years of grant performance (i.e., Program Years 1998 through 2001). The amount shown above as approved budget represents the total gross funding to the SPCDC for the Program Years 1998 through 2001, per the budget schedules for the prime NJCNCS grants.

2. Claimed Costs represent only the amount of reported expenditures at the SPCDC for the years tested (1998 – 2001).

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

St. Paul's Community Development Center
(SPCDC)

3. Compliance testing of AmeriCorps member files revealed that key eligibility documentation for several members was missing. Questioned members living allowances and benefits related to this condition were $33,347. In addition, some errors resulted in over payments to one member in the amount of $225, including benefits. Total questioned living allowances and benefits are $33,572.

4. The NJDOE disallowed $1,282 due to line item over-expenditures in Program Year 1999 that were not reflected in the claimed totals above. We therefore question this amount based on the NJDOE adjustment.

5. Questioned education awards represent the value of such awards for those members whose eligibility qualifications could not be validated.

Commission's Response

The Commission notes that it forwarded eligibility documentation for members and time certifications for staff assigned to the program.

Auditor's Comment

Our review of the documentation forwarded by the Commission eliminated questioned costs related to staff salaries and reduced the amounts questioned related to lack of eligibility documentation.

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

Urban League of Hudson County
(ULHC)

			Reference
Approved Budget (Federal funds)		$ 749,014	Note 1
Claimed Costs		$ 736,174	Note 2
Questioned Costs			
Member Living Allowances & Benefits:			
Lack of Eligibility Documentation	$ 78,906		Note 3
Salaries and Benefits	17,496		Note 4
Errors – NJCNCS Disallowance	8,631		Note 5
Total Questioned Costs		$ 105,033	
Questioned Education Awards		$ 28,350	Note 6

Notes

1. Based on OIG's direction and agreement, audit tests at field sites were limited to the more recent years of grant performance (i.e., Program Years 1998 through 2001). The amount shown above as approved budget represents the total gross funding to the ULHC for the Program Years 1998 through 2000 (P.Y. 2001 – Not Funded), per the budget schedules for the prime NJCNCS grants.

2. Claimed Costs represent only the amount of reported expenditures at the ULHC for the years tested (1998 – 2000).

New Jersey Commission On National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

Urban League of Hudson County
(ULHC)

3. During our compliance review of member files, we determined that the ULHC had not obtained required criminal record checks for members in Program Years 1998 and 1999. These checks were a necessary and required element of compliance documentation under the AmeriCorps Provisions. Such documentation was also needed to support the fact that eligibility requirements of members had been met. We therefore questioned all related living allowances and benefits in Program Years 1998 and 1999 due to the lack of supporting eligibility documentation. Questioned members' living allowances and benefits related to this condition were $78,906.

4. Amounts claimed for staff salaries were compared to the budget and payroll summaries. Tests were made of selected individuals and salaries were validated to ULHC records. However, in several cases there were no supporting timesheets or employee declarations to support the allocated percentages of salary costs charged to the grant. The requirements of the AmeriCorps Provisions, as well as OMB Circular A-122, require that such costs be supported by some form of activity reports (e.g., timesheets), or other certifications of the effort claimed.

   Consequently, while there are indications that the charges were consistent with the budgetary goals, and tests of payroll show the correct annual salary by employee, we nevertheless question the entire staff salaries claimed for staff personnel whose time was allocated due to the lack of time recordation support, as follows:

1998	$ 5,555
1999	5,731
2000	6,210
Total Questioned (Salaries & Benefits)	$17,496

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

Urban League of Hudson County
(ULHC)

5. A NJCNCS adjustment of $8,631 in Program Year 2000 was not reflected in the claimed totals above. We therefore questioned this amount based on the NJCNCS adjustment.

6. Questioned education awards represent the value of such awards for those members whose eligibility qualifications could not be validated from supporting documentation.

Commission's Response

The Commission advises that it has received no additional supporting documentation.

Auditor's Comment

No revision to questioned costs has been made.

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

New Jersey Youth Corps, New Jersey City University
Children's Museum and Ambulance Programs

			Reference
Approved Budget (Federal funds)		$ 935,955	Note 1
Claimed Costs		$ 806,946	Note 2
Questioned Costs			
Member Living Allowances –Overpayments	$ 456		Note 3
Staff Salaries and Benefits	17,368		Note 4
Total Questioned Costs		$ 17,824	
Questioned Education Awards		$ 0	

Notes

1. Based on OIG's direction and agreement, audit tests at field sites were limited to the more recent years of grant performance (i.e., Program Years 1998 through 2001). The amount shown above as approved budget represents the total gross funding to the New Jersey City University, through the New Jersey Youth Corps, for the Program Years 1998 through 2001 per the budget schedules for the prime NJCNCS grants.

2. Claimed Costs represent only the amount of reported expenditures at the New Jersey City University for the program years tested (1998 – 2001)

3. Two carryover (service extended into the following quarter) members' living allowances were estimated and charged to the grant. However, these two members left the AmeriCorps program early. Therefore, these living allowance expenditures were never incurred and are questioned ($456).

4. The University's official accounting records did not support the amounts charged the grant for staff salaries and benefits. Costs questioned were computed by comparing the amounts charged the grant with labor distribution charges on the accounting records ($17,368).

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

New Jersey Youth Corps, New Jersey City University
Children's Museum and Ambulance Programs

Commission's Response

The Commission states that the subrecipient has reviewed its employment files and provided a letter from the subrecipient to that effect. The Commission did not comment on member living allowance overpayments.

Auditor's Comment

Since no further documentation has been provided to support the questioned staff salaries and benefits, the questioned costs remain unchanged.

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

Catholic Community Services
(CCS)

			Reference
Approved Budget (Federal funds)		$ 860,414	Note 1
Claimed Costs		$ 712,361	Note 2
Questioned Costs			
Member Living Allowances & Benefits:			
Lack of Eligibility Documentation	$38,147		Note 3
Errors / Member Over Payments	7,958		Note 3
Total – Living Allowances	$ 46,105		
Administration Costs In Excess of Ceiling – 1998	3,126		Note 4
Total Questioned Costs		$ 49,231	
Questioned Education Awards		$ 16,536	Note 5

Notes

1. Based on OIG's direction and agreement, audit tests at field sites were limited to the more recent years of grant performance (i.e., Program Years 1998 through 2001). The amount shown above as approved budget represents the total gross funding to the CCS for the Program Years 1998 through 2001, per the budget schedules for the prime NJCNCS grants.

2. Claimed Costs represent only the amount of reported expenditures at the CCS for the years tested (1998 – 2001).

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

Catholic Community Services
(CCS)

3. Compliance testing of AmeriCorps member files revealed that key eligibility documentation for several members was missing. Questioned members living allowances and benefits related to this condition were $38,147. In addition, there were some errors resulting in over payments to one member in the amount of $7,958, including benefits. Total questioned living allowances are $46,105.

4. Amount questioned of $3,126 represents claimed administration costs in excess of the AmeriCorps grant ceiling for Program Year 1998.

5. Questioned education awards represent the value of such awards for those members whose eligibility could not be validated from supporting documentation.

Commission's Response

The Commission notes that the subrecipient provided additional information on member eligibility and agrees with the costs questioned related to member overpayments.

Auditor's Comment

The amount of costs questioned due to lack of eligibility documentation has been adjusted to reflect the additional documentation received.

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

New Jersey Youth Corps, University of Medicine and Dentistry of New Jersey
PeaceCorps Program

			Reference
Approved Budget (Federal funds)		$ 647,400	Note 1
Claimed Costs		$ 504,364	Note 2
Questioned Costs			
Member Living Allowance – Lack of Eligibility Documentation	$ 24,820		Note 3
Members Living Allowance – Lack of Cash Match	16,695		Note 4
Members & Staff – Differences in Paid Amounts & Grant Charges	(137)		Note 5
FICA/Health Benefits	13,006		Note 6
Total Questioned Costs		$ 54,384	
Questioned Education Awards		$ 3,808	

Notes

1. Based on OIG's direction and agreement, audit tests at field sites were limited to the more recent years of grant performance (i.e., Program Years 1998 through 2001). The amount shown above as approved budget represents the total gross funding to the University of Medicine and Dentistry of New Jersey (UMDNJ), through the New Jersey Youth Corps, for the Program Years 1998 through 2000, the last AmeriCorps award year, per the budget schedules for the prime NJCNCS grants.

2. Claimed Costs represent only the amount of reported expenditures at UMDNJ for the program years tested (1998 – 2000).

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 94ASCNJ031
September 1, 1997 to September 30, 2001

New Jersey Youth Corps, University of Medicine and Dentistry of New Jersey
PeaceCorps Program

Notes (continued)

3. Compliance testing of AmeriCorps member files revealed that key eligibility documentation for five members was missing. The related stipends ($24,820) and benefits ($4,291), included in the $13,006 below, therefore, are questioned. An education award of $3,808 made to one of these members is also questioned.

4. University accounting records show that the entire member living allowance for Program Year 1997-98 was paid from Federal funds. Therefore, the UMDNJ share of the member living allowance is questioned ($16,695).

5. The primary cause of this adjustment is that an AmeriCorps member became a UMDNJ AmeriCorps staff employee shortly after finishing his AmeriCorps term. This condition caused several accounting errors in stipend, salary and benefit payments. Correction of this and other adjustments to stipend and salary payments resulted in a net cost increase of $137.

6. FICA costs questioned resulted from the application of the FICA rate to the questioned member costs and correction of FICA rate application errors, ($1,756). Also, the application of the UMDNJ staff fringe rate to the correct amount of staff salaries resulted in an adjustment, ($5,331). Health plan costs questioned result from two sources. First, application of health plan costs to questioned costs for lack of member eligibility documentation discussed above ($2,392). Second, the UMDNJ cash match for member health plan costs was never made for program years 1997-98 and 1998-99 ($3,527). These adjustments total $13,006.

Commission's Response

The Commission forwarded additional eligibility documentation for some of the individuals whose eligibility documentation was not available during the audit.

Auditor's Comment

We were unable to review the additional eligibility documentation in time for the release of this report. We note that the Commission has not commented on other questioned costs.

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 95PDSNJ031 (PDAT)
January 1, 1995 to September 30, 2001

		Reference
Approved Budget (Federal funds)	$ 758,126	Note 1
Drawdowns as of 9/30/01	$ 645,830	Note 2
Costs Audited	$ 683,459	Note 3
Questioned Costs (Unsupported)	15,683	Note 4
Departmental Administration Costs	27,292	Note 5
Incorrect Charges	1,011	Note 6
Total Questioned Costs	$ 43,986	

Notes

1. The amount shown above as approved budget represents the total gross funding to the New Jersey Commission for the Years 1995 through the audit cut-off date of September 30, 2001 per the budget schedules for the PDAT grants. The amount shown does not include the $32,866 de-obligated on PDAT Grant Amendment No. 16. At the time of this audit, the HHS accounting records apparently did not include this de-obligation.

2. There has been no final FSR issued on the PDAT grant and the audit has determined that drawdown amounts may not equal actual grant expenditures. Therefore, we are not able to determine the exact amount claimed for PDAT expenditures. Our audit results are qualified because NJDOE / Commission have not established the amount claimed.

3. Costs Audited represent the total costs shown on the NJDOE accounting records for the PDAT through the audit cut-off date of September 30, 2001. Our database used to select transactions to be examined totaled $683,459. Therefore, costs questioned relate to the database examined, not the drawdowns. Once the amount claimed is established, the costs claimed database would have to be examined to determine if the costs questioned require adjustment.

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 95PDSNJ031 (PDAT)
January 1, 1995 to September 30, 2001

4. The questioned amount of $15,683 represents costs for which supporting documentation could not be located.

5. Costs questioned of $27,292 represent a grant charge that could not be supported with a source documented audit trail. These charges do not have a verifiable cost pool and application base, and are further described in Finding No.10 in our Report on Compliance and Internal Controls Over Financial Reporting.

6. Costs questioned of $1,011 result from an item that should have been charged to the disabilities grant ($1,000) and a small difference in the amount of an item charged the grant versus the supporting documentation ($11).

New Jersey Commission on National and Community Service
Schedule of Award Costs
Corporation For National Service
Award Number 94 SCS NJ 031 and 01SCSNJ031
(ADMINISTRATION)
From January 1, 1994 to September 30, 2001

		Reference
Approved Budget (Federal Funds):		
94SCSNJ031	$ 2,074,420	Note 1
01SCSNJ031	$ 370,968	Note 1
Drawdowns – 94SCSNJ031	$ 2,074,420	Note 2
Costs Audited	$ 2,223,378	Note 3
Questioned Costs	$ 839,112	Note 4

Notes

1. The amounts shown above as approved budget represents the total gross funding to the Commission for the Program Years 1994 through the audit cut-off date of September 30, 2001 per the budget schedules for Administration.

2. Final FSRs have not been issued on Administration funds through the audit cut-off date of September 30, 2001, and the audit has determined that drawdown amounts may not equal actual grant expenditures. Therefore, we are not able to determine the exact amount claimed for Administration. Our audit results are qualified because NJDOE / Commission have not established the final amount claimed.

3. Costs audited of $2,223,378 represent the total costs shown on the NJDOE accounting database provided to us for expenditures on Administration through the audit cut-off date of September 30, 2001. Similarly, supporting data provided to us on matching costs for these grants totaled $1,371,909. These were the databases used to select transactions to be examined. However, the NJDOE also recognized the need for adjustments to drawdowns and submitted credits of $49,581 and $96,571 in its payment requests of February and July 2002, respectively. The total combined amount of these adjustments was $146,162. The resulting net booked costs to Grant No. 94SCSNJ031 after these adjustments in 2002 is $1,928,258 ($2,074,420 - $146,162).

4. In analyzing the supporting information provided, we noted a significant number of transactional items which were either not supported by corresponding source documentation, or which required reclassifications to other years or programs. In determining allowable costs under Administration, we took the net allowable matching costs (after adjustments to the support data provided), and calculated the equivalent total funding and related equivalent Federal share that would otherwise be allowable under these grants. The difference between the net equivalent Federal share, including NJDOE drawdown adjustments, and the total drawdowns as of September 30, 2001 represents the net Costs Questioned, as follows:

Drawdowns (Claimed Amounts as of 9/30/01)			$2,074,420
Subsequent NJDOE Drawdown Adjustments:			
Payment Request – February 2002	$ 49,591		
Payment Request – July 2002	96,571		
Total Subsequent Drawdown Adjustments – Questioned as of 9/30/01		$146,162	
Net Booked Expenditures: ($2,074,420 - $146,162)	$1,928,258		
Net Equivalent Federal Share (After Audit Adj.)	(1,235,308)		
Questioned Expenditures		$692,950	
Total Questioned			$ 839,112

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Corporation for National and Community Service

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

We have audited the Schedules of Award Costs, as presented in Exhibits A through C, that summarize the claimed costs of the New Jersey Commission On National and Community Service under the Corporation awards listed below, and have issued our report thereon dated August 9, 2002.

Program	Award Number	Award Period	Audit Period
AmeriCorps	94ASCNJ031	1/1/94 to 12/17/00	1/1/94 to 12/17/00
AmeriCorps	00ASFNJ031	1/1/00 to 8/31/03	1/1/00 to 9/30/01
AmeriCorps	00ASCNJ031	8/1/00 to 7/31/01	8/1/00 to 7/31/01
AmeriCorps	98ARCNJ031	9/1/98 to 12/31/01	9/1/98 to 9/30/01
PDAT	95PDSNJ031	1/1/95 to 12/31/01	1/1/95 to 9/30/01
Administration	94SCSNJ031	1/1/94 to 12/31/00	1/1/94 to 12/31/00
Administration	01SCSNJ031	1/1/01 to 12/31/01	1/1/01 to 9/30/01

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement.

Compliance

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

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

Compliance Findings

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

Finding No. 1

Condition

The Commission did not submit Financial Status Reports (FSRs) for AmeriCorps, Administration, and Program Development and Training (PDAT), grants on a timely basis as stipulated in the respective CNCS grants' provisions (81% late). In addition, 35 FSRs were not submitted at all.

	Not Submitted	Submitted Late	On Time	Ratio Late To Total Submitted
94ASC NJ031 - AmeriCorps	14	10	3	77%
94SCS NJ031 - Administrative	16	16	2	89%
95PDS NJ031 - PDAT	5	12	4	75%
Totals	35	38	9	81%

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

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

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

Recommendation

We recommend that the Commission establish policies and procedures to ensure that FSRs are submitted on a timely basis and are properly completed prior to submission. Use of the WBRS reporting system should minimize the recurrence of this condition for future periods.

Commission's Response

Commission's Response

The Commission agrees with the finding and states that FSRs for the AmeriCorps program are current through the first half of 2002; and the Administration grant is finalized through December 31, 2001. The PDAT is finalized through June 30, 2001. The FSR for PDAT through December 31, 2001 is in process.

Auditor's Comment

The Commission's attention to this issue could assist in timely FSR submission.

Finding No. 2

Condition

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

	Not Submitted/ Missing	Submitted Late	On Time	Ratio Late To Total Submitted
AmeriCorps:				
Trenton Board of Education	3	7	3	70%
St. Paul's Community Development Corp.	0	4	12	25%
Catholic Community Services	0	3	13	19%
Totals	3	14	28	33%

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

OMB Circulars A-102 and A-110, as well as the AmeriCorps Provisions, provide for the submission of quarterly FSRs. The Commission also established annual subrecipient FSR due dates in order to provide the time necessary to prepare aggregate Commission FSRs and meet the Corporation's FSR schedule. We compared the subrecipient due dates with subrecipient submission dates to arrive at the above schedule.

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

Recommendation

We recommend that the Commission strengthen it oversight to establish and implement procedures to ensure that its subrecipients (a) complete FSRs properly prior to submission, (b) submit them on a timely basis, and (c) retain the appropriate supporting documentation. Use of the WBRS reporting system should minimize the recurrence of this condition for future periods.

Commission's Response

The Commission, in its response, did not dispute the finding and represented that "the agencies have improved the timeliness and accuracy of their FSRs over time, particularly with the addition of the WBRS system and the on-going technical assistance and monitoring of our accountant."

Auditor's Comment

The Commission's attention to this issue could improve the controls over submission of FSRs by subrecipients.

Finding No. 3

Condition

The Commission did not submit Federal Cash Transactions Reports (FCTRs) on a timely basis. Our review disclosed that 6 out of 16 reports tested were submitted after the due dates. In addition, 6 FCTRs were missing.

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

FCTR due dates are established by the Department of Health and Human Services. FCTRs are usually due 45 days after the end of the quarter.

The effect of this condition is that Federal cash accountability controls are weakened. To ensure funds are being spent for the grant's purpose and conditions, a timely accounting is necessary. When accounting controls are weak, it becomes easier to circumvent the established processes.

Recommendation

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

Commission's Response

The Commission, in its response, did not dispute the finding, but represents that significant progress has been made in the timeliness of these reports; and that as of November 15, 2001, all required FCTRs have been filed on a timely basis.

Auditor's Comment

The FCTR covering the period July 1, 2001 through September 30, 2001 and which was due to be filed on November 14, 2001 was filed on November 15, 2001. This was the latest FCTR covered by the audit. We are not in a position to determine whether subsequent FCTRs were filed on a timely basis.

Finding No. 4

Condition

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

Trenton Board of Education*	$ 1,200
NJYC – New Jersey City University	$ 456
Catholic Community Services	$ 7,958

**This overpayment is not shown separately as costs questioned because all living allowance payments were questioned due to a lack of eligibility documentation.*

Although the above subgrantees cited a number of causes for overpayments, the root cause is that Commission oversight of subrecipients did not provide complete and thorough indoctrination and testing of living allowance payments.

AmeriCorps Provisions require that member living allowances be paid in increments, not as an hourly wage. The Provisions also limit the Corporation's payment of full-time member living allowances to 85% of the minimum living allowance. Subrecipients must use a cash match for the remaining 15%.

Our testing identified living allowance overpayments totaling $9,614 as a result of this condition.

Recommendation

We recommend that the Commission establish oversight policies and procedures to ensure that its subrecipients comply with ceiling limitations for living allowances paid to AmeriCorps members.

Commission's Response

The Commission, in its response, did not dispute the finding, but disagrees with the statement that "oversight of subrecipients did not provide complete and thorough indoctrination and testing of living allowance payments.'

Auditor's Comment

Had the oversight of subrecipients provided complete and thorough indoctrination and testing of living allowance payments, either the overpayments would not have occurred or the Commission would have identified and corrected them. Our recommendation remains unchanged.

Finding No. 5

Condition

Amounts claimed for Allocated Staff Salaries were not supported by employee timesheets or other recordations at the Commission level (Administration grant matching), and at some subgrantee sites (viz., New Jersey Water Watch, and the Urban League of Hudson County). Allocated salary charges to the grants tend to be based on budget percentages, rather than actual time sheets, employee certifications or declarations. No supporting breakouts or declarations of actual effort were made to support the percentage of salary costs charged to the grant for employees whose salary is allocated.

Representatives of these organizations were generally not aware of the requirement to support salary allocations. It was generally believed that, if these allocated amounts were approved and funded in the budgets, they could be charged to grants on the budgeted basis.

The requirements of the AmeriCorps Provisions, OMB Circulars A-87 (Cost Principles for State Governments), and A-122 (Non - Profit Organizations) require that such costs be supported by activity reports (e.g., timesheets) or other type certifications of the effort claimed.

The effect of this condition is that the charged levels of budgeted effort cannot be validated to actual time spent on the grants. Costs questioned as a result of this condition are as follows:

Administrative Grant Matching	$ 497,523
New Jersey Water Watch	3,617
Urban League of Hudson County	17,496
Total Questioned	$ 518,636

Recommendation

We recommend that the Commission implement time keeping procedures that are in compliance with OMB Circular A-87. Also, the Commission should take steps to fully indoctrinate its

subgrantees on the requirements of the above referenced Provisions and A-122, and to follow-up on their compliance.

Commission's Response

The Commission, in its response, does not dispute the finding. With respect to subgrantees, the Commission noted that St. Paul's Community Development Corporation (SPCDC) had submitted additional documentation. With respect to matching costs for its Administration grant, the Commission's position is essentially that the charges are for positions and amounts that were included in budgets submitted to the Corporation and are, therefore, appropriate and allowable.

Auditor's Comment

We reviewed the documentation submitted by SPCDC and found it to be acceptable. We have, accordingly, excluded the SPCDC costs we had originally questioned for this reason. As for matching costs for the Administration grant, the Commission's position that distribution of salaries on a predetermined budgeted basis directly contradicts the requirements of the AmeriCorps and OMB Circular A-87 provisions. Accordingly, our original finding and recommendation remain unchanged. We note that the Commission, as a result of the audit, has implemented an after-the-fact time certification form. Use of this form could eliminate this issue in the future.

Finding No. 6

Condition

Essential criminal record checks were not performed as mandated by AmeriCorps Provisions and State internal procedures. The AmeriCorps Provisions require that as part of the screening process criminal record checks should be performed for members and employees who have substantial direct contact with children. This requirement began in 1996 but was not published until early 1997. In addition, the New Jersey Urban Schools Service Corps Handbook, issued in 1997, also required criminal record checks.

The audit revealed that the following subrecipients had members with no documented criminal record checks working with children:

- Trenton Board of Education
- Urban League of Hudson County
- Catholic Community Services
- University of Medicine & Dentistry of New Jersey

The effect of this condition is that children involved in the AmeriCorps Program may be placed in an unsafe situation. Obtaining criminal record checks was not emphasized until the 1998-99 timeframe. However, the written AmeriCorps Provisions and written State procedures contained a criminal record check requirement in 1997.

Although this condition has largely been corrected during recent years, continued emphasis should be placed on compliance with this issue to avoid any dangerous situations that could have grave consequences.

Commission's Response

The Commission, in its response, does not dispute the finding or recommendation, but rather offers an explanation as to the circumstances that led to this condition.

Auditor's Comment

None required.

Finding No. 7

Condition

For Program Years 1995 through 2001, the Commission did not meet, or otherwise provide support for, the matching requirements of the Administration grant. This condition resulted primarily because of three related findings:

	Reference Finding No.
Significant matching expenditures questioned	5
Need to monitor matching costs	11
Significant administration expenditures questioned	12

The Administration grant has mandated matching at various levels during the 1994 – 2001 time periods. Matching originally started at 20% of total costs and has increased over the years to a current dollar for dollar match (50%).

Recommendation

Please refer to the individual recommendations of the three referenced findings.

Commission's Response

With respect to significant matching expenditures questioned, the Commission repeats its position articulated under Finding No. 5. As for the need to monitor matching costs, the Commission acknowledges that the New Jersey Comprehensive Financial System, which is used by the Commission, does not identify certain in-kind expenditures that may be used as match under the Corporation's grants. The Commission represents that it has made significant improvements in this area. The Commission agrees that the process of identifying matching expenditures should be an organized recordation of cash and in-kind matching rather than a one-time exercise of gathering

area. The Commission agrees that the process of identifying matching expenditures should be an organized recordation of cash and in-kind matching rather than a one-time exercise of gathering information. The Commission acknowledges that source documentation was missing. The Commission notes that, subsequent to completion of field work, it provided additional documentation. The Commission, further, represents that additional documentation, provided as Attachment H to its response, supports approximately $100,000 of questioned costs.

Auditor's Comment

Please refer to our comments on the Commission's response to Finding No. 5 related to significant matching expenditures questioned. Since the Commission does not dispute our finding related to the need to monitor matching costs, our finding and recommendation on this subject remain unchanged. We have not had sufficient opportunity to review the material presented as Attachment H to the Commission's response and cannot, therefore, express an opinion as to whether it adequately supports costs that were questioned because of lack of documentation.

Finding No. 8

Condition

Subrecipients are not fully aware of all of the AmeriCorps Provisions applicable to the grant such as living allowance payments and proper cash match. In one instance, UMDNJ, in program year 1998, did not pay any of their required living allowance cash match and several subrecipients, Trenton Board of Education, NJCU and CCS, made living allowance overpayments.

This condition may have resulted from a lack of indoctrination and monitoring of subrecipients regarding proper fiscal and accounting issues. The effect was improper payments made to subrecipients.

Recommendation

We recommend that subrecipients, from the time they are selected for inclusion in a Corporation program until the final FSR is reviewed and accepted, receive constant training and monitoring on proper fiscal and accounting issues. The Commission has taken corrective action regarding an improved monitoring instrument. Continuous improvement is a goal of the Commission staff and, if the goal is achieved, will eventually eliminate this condition.

Commission's Response

The Commission, while not disputing the finding in its response, provided extensive details as to the training it provides to its subrecipients.

Auditor's Comment

Effective implementation of the improved monitoring instrument could improve subrecipient performance in this area.

Finding No. 9

Condition

Subrecipients did not maintain documentation as required by AmeriCorps Provisions.

A. The following subrecipients did not maintain required AmeriCorps member eligibility documentation (e.g. proof of citizenship, high school diploma or equivalency certificate):

		Files Lacking Eligibility Documentation	
	No. Tested	Number	Ratio
PIRG, NJ Water Watch	24	4	17%
Trenton Board of Education	10	10	100%
St. Paul's Community Development Corporation	35	6	17%
Urban League of Hudson County	10	6	60%
Catholic Community Services	26	8	31%
University of Medicine & Dentistry of New Jersey	15	5	33%
Totals	120	39	33%

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

The AmeriCorps Provisions require that the Commission maintain verifiable records that document each member's eligibility to serve. Records must be maintained for three years from the submission date of the final FSR.

Without complete member files, the Commission cannot verify that eligibility requirements are being met. In order to ensure that funds are used for the purposes intended, it is important to make certain that the intended target group is receiving the funding. Due to the inability to validate member eligibility in the above cases, we questioned the living allowances and related benefits of $414,489 for those members whose eligibility documentation could not be located. We also questioned the corresponding education awards in the amount of $65,232 for those members. We could not monetize the education awards of two subrecipients, Trenton Board of Education and Paterson School District, because records were unavailable.

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

		Files Lacking Form			Submitted Late		
	Form	No. Tested	Number Missing	Ratio	No. Tested	Number Late	Ratio
PIRG, NJ Water Watch	Enrollment	24	18	75%	6	2	33%
	End-of-Term	24	14	58%	10	2	20%
Trenton Board of Education	Enrollment	10	1	10%	9	0	0%
	End-of-Term	10	6	60%	1	0	0%
Paterson School District	Enrollment	10	2	20%	8	1	13%
	End-of-term	10	8	80%	1	1	100%
St. Paul's Community Development Corp.	Enrollment	35	9	26%	26	0	0%
	End-of-Term	35	8	23%	27	6	22%
New Jersey Youth Corp New Jersey City University	Enrollment	29	2	7%	29	0	0%
	End-of-Term	29	6	21%	29	6	21%
Catholic Community Services	Enrollment	26	12	46%	14	5	36%
	End-of-Term	26	11	42%	15	5	33%
University of Medicine & Dentistry of New Jersey	Enrollment	15	0	0%	15	2	13%
	End-of-Term	14	1	7%	15	13	87%
Totals		297	98	33%	205	43	21%

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

AmeriCorps Provisions require that the Commission maintain verifiable records that are sufficient to establish the individual was eligible to participate in the program and successfully completed it. The Enrollment and End-of-Term forms are used to ensure these requirements are being met. The End-of-Term form is also used to establish an individual's right to an education award. Records must be maintained for three years from the submission date of the final FSR.

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

C. The following subrecipients did not maintain required AmeriCorps member contracts:

	No. Tested	Files Lacking Contract Documentation Number	Ratio
PIRG, NJ Water Watch	24	3	13%
Trenton Board of Education	10	3	30%
St. Paul's Community Development Corporation	35	8	23%
University of Medicine & Dentistry of New Jersey	15	9	60%
Totals	84	23	27%

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

AmeriCorps Provisions state that "The Grantee must require that members sign contracts that stipulate the following:

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

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

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

	Evaluation Type	No. Tested	Files Lacking Member Evaluation Documentation Number	Ratio
PIRG, NJ Water Watch	Mid-Term	24	10	42%
	End-of-Term	24	23	96%

Trenton Board of Education	Mid-Term	10	4	40%
	End-of-Term	10	4	40%
St. Paul's Community	Mid-Term	35	27	77%
Development Corp.	End-of-Term	35	28	80%
New Jersey Youth Corp.	Mid-Term	29	12	41%
New Jersey City University	End-of-Term	29	29	100%
Catholic Community Services	Mid-Term	26	13	50%
	End-of-Term	26	16	62%
University of Medicine & Dentistry	Mid-Term	15	14	93%
of New Jersey	End-of-Term	15	15	100%
Totals		278	195	70%

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

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

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

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

Recommendation

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

Commission's Response

The Commission, in its response, does not dispute the finding. The Commission notes that additional documentation related to members educational levels was provided to the auditors on September 13, 2002. The Commission also provided, as Attachment F to its response, its new AmeriCorps Monitoring Checklist.

Auditor's Comment

Effective implementation of the new checklist could preclude recurrence of this deficiency.

Internal Controls Over Financial Reporting

In planning and performing our audit of awards costs as presented in Exhibits A through C for the period January 1, 1994 to September 30, 2001, we considered the Commission's internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal controls over financial reporting.

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

Our consideration of internal control would not necessarily disclose all matters of internal control over financial reporting that might be reportable conditions. Under standards established by the American Institute of Certified Public Accountants, reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls, that, in our judgment, could adversely affect the entity's ability to record, possess, summarize and report financial data consistent with the assertions of management in the financial schedules. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts, which would be material in relation to the financial schedules being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Internal Control Findings

We noted the following matters which we consider to be material weaknesses:

Finding No. 10

Condition

The Commission did not maintain an adequate financial management system as stipulated in various Corporation grant provisions. The system did not track expenditures by budget line item or by programmatic year. Also, cost allocation procedures were not documented. Consequently, we were not always able to align the Commission's booked/claimed amounts to specific budget line items. Comparisons of actual to budget were difficult because costs charged in one fiscal year were in fact incurred in another fiscal year, and cost allocation methods were difficult to understand and validate. AmeriCorps General Provisions state "This (Financial Management) system must be able to identify costs by programmatic year and by budget line item." They also require the financial management system to include "...a clear audit trail and written cost allocation procedures."

The Commission staff is organized within the New Jersey Department of Education (NJDOE) and therefore uses the NJDOE accounting system. This accounting system has various cost allocation rates that are contained in the Commission's grant budgets (Administration, PDAT, and Urban Schools Service Corps, Central Office, AmeriCorps Grants). For example, one of the cost allocation rates is entitled Departmental Administrative Costs. NJDOE was unable to identify the costs that are included in this budget line item. Apparently, a NJDOE study performed many years ago established this rate based on costs and conditions existing at that time. Since that study, the Departmental Administrative Cost rate has been used in budgets. However, there is currently no audit trail (a verifiable pool of expenses and cost allocation base) to support this charge.

In addition, it has been NJDOE's practice to use available prior year Federal funds before using current year funds. Rather than moving Corporation carryover funding into the current year, NJDOE moved current year expenditures back to the prior year until the carryover funding was consumed. This practice has resulted in difficulties matching expenditures with program year budgeted line items. Although it is possible to create an accurate fiscal year expenditure report, considerable extra work is required.

The effect of these conditions is an inability to perform a comparison of actual expenditures to budget line items. It is very difficult to control costs if management is unaware of how actual expenditures are allocated to grants and how expenditures compare with the budget. It is also difficult for management to determine if they are in compliance with AmeriCorps Provisions such as the 5% administrative cost ceiling.

Recommendation

We recommend that the NJDOE establish a financial management system with policies, procedures and accounting practices that enable tracking, and supporting, the funded and expended amounts by grant, program year and budget line item.

Commission's Response

The Commission states that it disagrees with this finding, with certain exceptions. The Commission's response explains that it uses the New Jersey Comprehensive Financial System that is mandated by the State of New Jersey. The Commission agrees that, at least since 1999, the Departmental Administrative Costs have been charged to grants on the basis of budgeted amounts but believes that in 1998 and prior years these charges were based on documents processed and a salary cost pool. The Commission states that it is analyzing the charges for fiscal years 1999, 2000, and 2001.

Auditor's Comment

Since the Commission disagrees with the finding but is in the process of analyzing additional data, our finding and the related recommendation remain unchanged.

Finding No. 11

Condition

The Commission was unable to track matching requirements on Corporation grants to actual matching expenditures as required by AmeriCorps Provisions. The Administration grant matching appears to be a one-time exercise of gathering information rather than an organized recordation of cash and in-kind matching accomplished each fiscal period.

The NJDOE accounting system did not record matching budgets or matching expenditures. To ensure matching requirements were met, separate records were maintained for the Administration and AmeriCorps grants. We identified no NJDOE effort to configure its accounting system to record matching budget and matching expenditure amounts.

The AmeriCorps Provisions state, "The grantee must provide and account for the matching funds as agreed upon in the approved application and budget...."

As a result of these conditions, the Commission was unable to efficiently compare actual matching expenditures to budgeted matching funds. It is difficult to ensure actual matching expenditures are meeting the budget without readily available budget and expenditure information. The Commission had not supplied matching information on FSRs until May 1997 for the Administration grant; and March 1998 for AmeriCorps.

Recommendation

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

Commission's Response

The Commission's response to this finding is expressed in its response to Finding No. 7.

Auditor's Comment

Please refer to the Auditor's Comments on the Commission's Response to Finding No. 7.

Finding No. 12

Condition

The following are missing significant amounts of source documentation (e.g. payroll records, including timesheets, invoices, cancelled checks): Administration and PDAT grants, and the AmeriCorps grants, to the Urban Schools Service Corps, Central Office, Trenton Board of Education and the Paterson School District.

AmeriCorps Financial Management Provisions state that, "The Grantee must maintain adequate supporting documents for its expenditures (Federal and non-Federal) and in-kind contributions made under this Grant."

The effect of this condition is that management cannot fulfill its obligation to ensure transactions are executed in accordance with authorization and recorded properly to permit the preparation of financial schedules. Substantial amounts of costs were questioned as a result of a lack of proper documentation. Also, additional costs were questioned because neither the accounting records nor NJDOE research could determine the nature of the expenditure.

As a result of this condition, management cannot determine if accounting entries are appropriate and accurate. In addition, the audit trail for these entries is lost once the entry is completed. A strong system of internal controls includes internal monitoring of the system to provide management with information regarding performance of the system. Without an audit trail, monitoring, or auditing, is very difficult.

Recommendation

We recommend that management establish a financial management system with policies, procedures and accounting practices that enable tracking, and supporting, the funded and expended amounts.

Commission's Response

The Commission's response to this finding is expressed in its response to Finding No. 7.

Auditor's Comment

Please refer to the Auditor's Comments on the Commission's Response to Finding No. 7.

Finding No. 13

Condition

NJDOE cash management procedures resulted in substantial amounts of cash on hand both at the State and subrecipient levels because timely reconciliations of funds received and expended were not performed.

The AmeriCorps Provisions require that advance payments be based on actual and immediate cash needs in order to minimize Federal cash on hand in accordance with 31 CFR Part 205. The AmeriCorps Provisions also require that the grantee maintain a financial management system that includes "sufficient internal controls."

The effect of this condition at the Commission level was that the original AmeriCorps grant had excess cash on hand of over $1.5 million. When we alerted the Commission of this condition they performed a current reconciliation that resulted in the return of $1.2 million of AmeriCorps funding, net of current unbilled expenditures.

The effect at the subrecipient level was that excess cash was often on hand. We determined that at both St. Paul's Community Development Center and UMDNJ, substantial amounts of interest could have been earned on the excess cash. The cause of this condition is that NJDOE provides funds to subrecipients on a monthly basis based on the agreed upon budget, not actual expenditures. Since it usually takes several months to attract AmeriCorps members and some members resign before completing the program, unused funds would accumulate. Although refunds were usually made to NJDOE after the completion of the program year, timeliness of the refund was often an issue. For example, UMDNJ refunds for a three year period totaled $142,156 and were made from 9 to 19 months after the close of the Program Year.

As a result of this condition interest was not earned on excess cash and the funds were not put to use on other worthwhile Corporation projects.

Recommendation

We recommend that NJDOE evaluate their entire cash management process with the objectives of reducing cash on hand to a minimum, aligning subrecipient payments directly with actual subrecipient expenditures, and obtaining any refunds on a timely basis.

We also recommend that the Corporation assess and collect interest on these funds as required by the Cash Management Improvement Act of 1990.

Commission's Response

The Commission, in its response, does not dispute the finding. The Commission points out that, in accordance with State policy, when a State agency is a subrecipient, as is the case with the New Jersey Department of Human Services which hosts the NJ Youth Corps, 100 percent of assigned funds are transferred to the agency at the beginning of the contract year. The Commission's position is that the AmeriCorps program has a built-in overpayment of funds in the early months because "the system supposes that all 20 members are on-board in September, which may not be the case."

Auditor's Comment

While we recognize that the Commission is required to conform to New Jersey policies, and that there may be incorrect assumptions in disbursing funds on the basis of one-twelfth of the subrecipient's annual budget, the fact remains that the Commission's practices led to an accumulation of an excessive amount of Federal funds. Accordingly, our finding and recommendation, as originally stated, remain unchanged.

Finding No. 14

Condition

Amounts drawn down by the Commission from HHS, as reflected by HHS reports, were not readily reconcilable to the amounts reflected on the Commission's records, because reconciliations of these amounts were not performed on a timely basis. Therefore, it was difficult to establish claimed costs for each grant. We would expect that there would be a direct relationship between actual expenditures and drawn down amounts. Regularly scheduled reconciliations would reveal significant differences between actual expenditures and requests for funding (drawdowns).

The effect of this condition is that NJDOE / Commission management did not have an accurate and efficient method of determining correct cash needs.

AmeriCorps Provisions require that advance payments be based on actual and immediate cash needs in order to minimize Federal cash on hand in accordance with 31 CFR Part 205. They also require that the grantee maintain a financial management system that includes "sufficient internal controls."

Recommendation

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

Commission's Response

The Commission's response is that NJDOE has taken steps to ensure that draws are current and accurate.

Auditor's Comment

None required.

Finding No. 15

Condition

The New Jersey City University, a second-tier subrecipient, never received full payment for all Program Year 1998-99 eligible expenses. Although correct payment was made from the Commission to the New Jersey Youth Corps, the Youth Corps underpaid the University by $36,750. The underpayment consists of (1) funds never furnished of $28,730, and (2) a refund of $8,020 paid at the request of the Youth Corps. Neither the Youth Corps nor the University's internal control procedures revealed the underpayment.

The cause of this condition appears to be a deficiency in fiscal oversight controls that would assure that payments to subrecipients are based on actual cost expenditures.

The effects of this condition are (1) that payments were made to a first-tier subrecipient that were never expended by that organization, and (2) that a second-tier subrecipient never received payment for eligible expenditures.

Recommendation

We recommend that the Commission establish controls to assure that final payments to subrecipients are supported by actual expenditures, including final payment reconciliations with lower-tier subrecipients.

Commission's Response

The Commission states that both the NJ DOE and the NJ Department of Human Services now have procedures in place that review payments to agencies, final expenditures, and final payments to, or amounts due from, programs.

Auditor's Comment

Effective implementation of these procedures should preclude recurrence of this deficiency.

Findings Nos. 1 through 9 set forth in the *Compliance* section of the report are also considered findings on internal control.

Follow-Up On Pre-Audit Survey Findings
OIG Audit Report No. 00-26
Pre-Award Survey Report of the
New Jersey Commission on National and Community Service

Pre-Audit Survey Finding No. 1

The Commission lacks an assessment of subgrantee applicants' financial systems during the selection process. The Commission responded that following the selection of the subgrantees to be awarded grant funds and also subject to the availability of resources, they would consider performing pre-award surveys of those agencies that have not been previously funded by the New Jersey Department of Education to ensure adequate financial systems are in place.

Current Status

The Commission has established a pre-award survey of financial capability to be used at new subgrantees. We evaluated the use of the new process at the one "new to the program" subgrantee available. While the new process is a significant improvement, we recommend that the management assertion include supporting documentation and record retention as follows:

> The financial systems and processes of ____(Subgrantee Name)_____ are capable of segregating AmeriCorps transactions from other transactions. Our financial system also maintains supporting documentation for Federal expenditures and matching funds (Grantee cash and in-kind contributions). This documentation will be retained for the period required by applicable Federal regulation. A copy of our latest A-133 Audit Report is attached.

Pre-Audit Survey Finding No. 2

Documentation of subgrantee site visits needs to be improved. The Commission responded that "We agree with the finding. Commission management has notified its staff of revisions to policies and procedures requiring specific information to be included in the documentation for site visits."

Current Status

The Commission has significantly improved its process. The five subgrantee site visits we reviewed which took place after the new policy was implemented contained evidence that:

1. site visit dates are established and met
2. the monitoring instrument is constantly being improved
3. fiscal management reviews, including A-133 reports, are performed
4. documentation exists for:

- review of members' files (eligibility, restrictions, performance evaluations, timesheets, etc.)
- interviews of members and stakeholders, and
- effectiveness of performance measurements.

We conclude therefore, that site visit documentation is now adequate, but further improvement is always possible. For example, the monitoring instrument could focus more intense surveillance on compliance issues (e.g., timeliness of reporting) and fiscal issues (e.g., member overpayments, allocated salaries, etc.).

Pre-Audit Survey Finding No. 3

The pre-audit survey noted a lack of documentation of review of OMB Circular A-133 Reports or other audit reports from subgrantees. The Commission responded that "We agree with the finding. The Commission has implemented procedures whereby subgrantees required to have audits under Circular A-133 are identified, subgrantee audit reports are reviewed during monitoring and the results of these reviews are documented."

Current Status

As stated in the Current Status of Pre-Audit Survey Finding No. 2 above, the Commission has implemented adequate corrective action. Fiscal management reviews, including A-133 reports, are being performed and documented.

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

Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia
August 9, 2002

Appendix A

Response of the New Jersey Commission on National and Community Service

State of New Jersey

DEPARTMENT OF EDUCATION
PO Box 500
TRENTON NJ 08625-0500

JAMES E. MCGREEVEY
Governor

WILLIAM L. LIBRERA
Commissioner

September 21, 2002

Russell George, Inspector General
Office of the Inspector General
Corporation for National Service
1201 New York Avenue, NW
Washington, D.C. 20525

Dear Mr. George:

Enclosed is our response to draft OIG Audit Report Number 02-17 of the New Jersey AmeriCorps program for the period January 1, 1994 to September 30, 2001.

In reviewing the audit findings and questioned costs for the program, we found several helpful recommendations to assist in the continuous improvement of the program. A number of these recommendations have been put into place over the past years, and some are under consideration for development. However, in responding to the draft report, we think it is important to explain the context in which the AmeriCorps program is administered in New Jersey and how this complex structure has affected program and fiscal operations, as well as how we might approach the recommendations offered in the report.

The AmeriCorps program is administered by the New Jersey Department of Education (DOE). DOE has an annual grant operation that supports 53 grant programs, with over $660 million in grant awards, most of which are targeted to New Jersey's nearly 600 school districts throughout the state. The Department's grant and fiscal operations have been audited over many years, including audits of AmeriCorps, with few material findings. (See Attachment A). What the AmeriCorps draft report may demonstrate is the difficulty of administering a small, highly distinct program of $6 million per year, within the larger context of State of NJ and DOE guidelines and requirements, which adequately address the contract and financial management needs of larger programs.

We also would point to efforts to address outstanding fiscal and grant issues that have been on-going for several years prior to the beginning of the audit (hiring of full-time accountant in 1999; resolution of drawdown issue beginning in February 2002; and improvement in timeliness of FSRs, including the program close-out for the period 1994-1997, followed on a yearly basis through 2001. In short, FSRs are current for AmeriCorps programs through first half of 2002; Commission administration is finalized through December 31, 2001; and PDAT through June 30,

2001. The initiation of the CNCS WBRS system has been important in controlling the receipt of both agency reports and the close-out process.

We also appreciate the recognition within the audit that the $1,545,176 drawdown issue was addressed through a detailed analysis by Budget & Accounting (B&A), which led to a series of transactions by B&A to address the draws.

In light of the audit, and building upon the experience of these past efforts, new procedures and processes are being explored internally and it is the intent of the Department to assess new processes to address issues such as cash-on-hand at the sub-grantee level, payment structure, collections, matching within the NJ fiscal system, and a new system to ensure that the program office receives copies of all final fiscal transactions.

Cash on Hand

Issues related to cash-on-hand are multi-faceted and embedded in State and DOE policies and procedures. Excess cash-on-hand is a product of both front-end payments and delays in collections, some of which can be corrected and some of which may not be susceptible to change in the near-term.

As stated in the audit, the dollar finding regarding over-drawn funds ($1,545,176) has been addressed through a series of transactions by Budget & Accounting (B&A) to correct the draws. It should be stated that the process to research and correct the draws had been in process prior to the arrival of the auditors and the largest correction was made on February 21, 2002.

On the front end, DOE issues funding to sub-grantees on a monthly basis to reflect l/12 of the total grant (minus a "hold" of 5% pending completion of final reports). In effect, the cash draw-down report has been processed on an expenditure basis on NJCFS, which represents payments to the agency not reimbursement for expenditures by the agency. It is an issue for all DOE grants. Also, additional funds are held at the sub-grantee level when the sub-grantee is a state agency. In the case of state agencies, 100% of the funds are transferred to them at the beginning of the contract year, in accordance with state policy. For example, the Department of Human Services, our largest grantee, which hosts the NJ Youth Corps, will not produce contracts to its sub-grantees until Human Services receives 100% of the contract funding from DOE at the outset of the year. They also issue 100% to their sub-recipients.

It has become clear that by its very nature, AmeriCorps has a built-in over-payment of funds in the early months on a contract, primarily due to corpsmember recruitment. The current system supposes that all 20 members are on-board in September, which experience shows is certainly not true. Therefore we are asking that B&A consider a revision of the payments processing that would provide an upfront payment of at least l/3 of total budget with increments reflecting actual expenditures adjusted through the year. This will require modifications to the grants monitoring process by the DOE Application Control Center. It will also require modifications to the payment process of B&A. However, we do not anticipate that such a change will improve payments to the state agencies, which are still entitled to 100% of the grant under state policy.

An added complication at the front-end is a provision that for community-based agencies with cash flow issues, there is a process by which they can request a larger front-end payment, followed by the remainder being paid three months later. During the past two years, efforts have been made to discourage this process by both the Department and Commission staff. (It should be said that this process was traditionally viewed as a humane mechanism to support small community agencies that did not have the cash flow access typically found in school districts and larger agencies.)

The other part of the cash-on-hand situation is collections. Currently, the final expenditures are not approved by the grants office until both the final State Expenditure Report and the final Program Report are approved by Community Service program officers. At that point, approval is given to B &A to process the bill for unobligated funds. Currently there is no mechanism in place to track refunds on a regular basis. Commission staff is recommending that procedures be modified to improve the process, including provision of copies of the bills to program staff so that they can assist in following up to collect overdue funds.

Another reason for delayed collections is the two-tiered contract to allow for carry-over of AmeriCorps members to enable them to complete their service. First it must be said that DOE developed this two-tiered contract at the behest of Commission staff to address the need to carry-over corpsmembers. In essence, it provides a mechanism to extend the corpsmembers' portion of the contract to 16 months (rather than 12) if a program requests such a no-cost extension in order to enable its members to fulfill their 1700 hours within their contract year. In a perfect world all members would begin on September 1st. In NJ full-time corpsmembers can be enrolled up to December 31st of their first year. We needed this contract provision so that those members could be paid out of their proper year's funds, in accordance with CNS requirements, and to live within DOE's one year contract system. What this does, then, is extend the contract and collection process because we do not start counting the close-out timeframe from August 31, but rather December 31 for those sub-grantees with the contract modification. This provision is an essential part of AmeriCorps operations and we do not recommend any change.

We should also state that program and fiscal staff had understood that we were in compliance with the Corporation, because toward the end of each grant year, we were asked to state estimates of carry-over and the Corporation accepted same and deducted the carry-over from the next year's award. In essence we saw this ratifying our process and providing a mechanism for returning funds. (See Attachment B which shows an award letter which reflects carry-over to the next year and the deduction from the new award.)

There are two additional points that are repeatedly stated in the audit findings, and which might bear some reconsideration in the final report. One is a rather broad critique of New Jersey's financial management system. For greater context, please refer to our response to Finding #10.

We were disappointed that the findings did not reflect the verbal feedback we received from the auditors, which indicated steady improvements on a year-to-year basis. Also, there is repeated statement that the program staff "oversight of subrecipients did not provide complete and thorough indoctrination" as to program and financial issues. Please see the response to Findings #2 and #8, which provides an overview of the guidelines, training, technical assistance, and

monitoring of the subrecipients by staff. Additionally, we saw no reference to the Commission's 2-volume "Policy and Procedures Manual" that is a comprehensive source document for all program and fiscal aspects of AmeriCorps, which is provided to all programs.

We appreciate the opportunity to respond to the draft Audit Report, and ask your consideration of our attached responses. If you have any questions, please contact Rowena Madden, Executive Director of the New Jersey Commission on National and Community Service at (609) 633-9627.

Sincerely,

Ray Montgomery, Director
Office of Compliance Investigation

Rowena Madden
Rowena Madden, Executive Director
NJ Commission on National and
Community Service

Copies to: Leonard Birnbaum CPA
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Robert Goertz
Anne Corwell
David Podolsky
Paul Lechler
Charles Peffall
Art Levinowitz
Ivette Ramos
Sherry Mahfouz
New Jersey Commission on National and Community Service

FINDING #1: The audit stated that Financial Status Reports for the various programs were not submitted on a timely basis.

***Response*:** We agree with the finding. We would like to point to efforts to address outstanding fiscal and grant issues that have been on-going for several years prior to the beginning of the audit (hiring of full-time accountant in 1999; resolution of drawdown issue beginning in February 2002; and improvement in timeliness of FSRs, including the program close-out for the period 1994-1997, followed on a yearly basis through 2001. In short, FSRs are current for AmeriCorps programs through first half of 2002; Commission administration is finalized through December 31, 2001; and PDAT through June 30, 2001. B&A is in the process of completing PDAT through 12/31/01.

We concur that the WBRS system has improved the timeliness and accuracy of the AmeriCorps FSRs.

FINDING #2: The audit stated that FSRs from three agencies were late and, of those, one had missing FSRs.

Response: It is clear that the agencies have improved the timeliness and accuracy of their FSRs over time, particularly with the addition of the WBRS system and the on-going technical assistance and monitoring of our accountant. In addition, our accountant monitors to ensure that the final FSR agrees to those federal expenditures on the state contract system and NJCFS (New Jersey Comprehensive Financial System). This in a sense provides a three-way check: FSR compared to SER compared to DOE contract system.

The NJ Commission provides a wide range of training, technical assistance, scheduling, and monitoring of programs related to their fiscal and reporting requirements. The Commission has a two-volume "Policy and Procedures Manual," which covers all fiscal and program aspects of AmeriCorps, and which is distributed to all programs. All reporting information is included in the Request for Proposals, which then becomes part of the State contract. During the technical assistance workshops for potential applicants, the federal guidelines on living allowances and other costs are explained. Program staff sends to each program a complete list of due dates for all reports. Commission staff provides training prior to the program year, which covers financial requirements. The accountant provides on-going technical assistance and reviews submitted reports and identifies those that are delayed or incorrect. He contracts any agency with a delayed or incorrect report and provides high quality guidance to the agency accountants. Additionally, the NJ Commission has sponsored specialized AmeriCorps financial management training by the federal contractor, Walker and Company, each year, since 1999. (See Attachment C - calendar and agendas of the Walker & Company financial management trainings.).

FINDING #3: Federal Cash Transaction Reports (FCTRs) were not submitted on a timely basis.

Response: DOE's Budget and Accounting Office has made significant progress in the timeliness of these reports. As of 11/15/01 all required FCTRs have been filed on a timely basis.

FINDING #4: Grant authorized living allowance payments to AmeriCorps members were exceeded by the following sub-recipients (Trenton Board of Education: $1,200; NJ Youth Corps/New Jersey City University: $456; and Catholic Community Services: $7,958).

Response: We disagree with the recommendation and with the auditors' statement that "oversight of subrecipients did not provide complete and thorough indoctrination and testing of living allowance payments." The amounts questioned are very small in relation to the total corpsmember dollars. The programs' accounting was sufficient to limit any problems to this minor amount.

Both the RFP and fiscal trainings make it clear that the federal portion is 85% of living allowance costs. However, in future trainings and fiscal monitoring, we will place additional emphasis on the issue that was identified here and what the agency accountants should look for.

Finding #5: Amounts claimed for "allocated staff salaries" were not supported by employee timesheets or other recordations at the Commission level (administration grant matching) and some grantee sites.

Response regarding sub-grantees: The report cites three sub-grantees in this category. No additional documentation has been submitted by two of the sub-grantees: NJ Water Watch or Urban League of Hudson County.

However, St. Paul's Community Development Corporation has submitted additional documentation, which has been forwarded to the auditors. This included: signed certifications of time allocation by all staff employees for the contract periods questioned. Based on the number of certifications, which address all questioned periods, our assessment is that this eliminates this entire questioned amount, $26,147.

Response regarding administrative grant matching (DOE):
The audit questions $497,523 for the staff-related match provided by Field Service state employees in support of AmeriCorps programs and Commission administration. We do not accept this finding for several reasons. These matching resources were proposed in each year's administrative budget to the Corporation (citing names of the individuals, % of time, and budgeted dollars). The proposed budget was approved and signed-off by the Assistant Commissioner and the Fiscal Liaison of the host Division, Field Services, and was certified by the DOE Director of Budget and Accounting. At the submission of the Financial Status Reports, the Division's Fiscal Liaison approved the FSR, including the match, and the Director of Budget and Accounting certified the match contributions. In the preparation of the application, the Department carefully analyzes the time that employees spend working on AmeriCorps activities. It is through that analysis that the Department determines which activities will be funded out of

federal dollars and which activities will be supported out of state dollars as part of the match. We therefore maintain that the process itself certified the match dollars.

The single audit of the Department is performed every year by an external agency. For fiscal years 1999, 2000, and 2001, the auditors have found the Department in compliance with laws and regulations and we have had no material findings concerning matching funds. (See Attachment A from the Office of Compliance, which contains excerpts of the single audit reports for those years.)

As a result of the audit, we have addressed the timesheet issue, and have now begun providing timesheets of all State employees in the Commission's new host Division, Student Services, that work on the AmeriCorps programs and Commission administration. (See Attachment D from Student Services which demonstrates the new time certification form.).

Finding #6: Essential criminal record checks were not performed as mandated by AmeriCorps provisions and state internal procedures. The AmeriCorps provision on eligibility, recruitment, and selection, requires that as part of the screening process, criminal record checks should be performed for members and employees who have substantial direct contact with children. This requirement began in 1996, but was not published until early 1997. In addition, the New Jersey Urban Schools Service Corps Handbook, issued in 1997, also required criminal records checks. Apparently, emphasis was not placed on obtaining criminal background checks until the 1998-1999 timeframe.

Response: In reviewing the history of this issue, we recall that when it first became apparent that it was a CNS requirement, our programs did not have a funding mechanism in place to support NJ fingerprinting procedures. Also, in the early years it was implemented differently among the various school districts. We believe that this was due to New Jersey legislation, 18A:6-7.1, which required fingerprinting of most school district personnel, but exempted volunteers. (See Attachment E for legislation.) Since the AmeriCorps members were presented to the schools as service volunteers, rather than employees, we believe that this may account for the fact that criminal background checks were not implemented in the early years, until program staff made this part of the monitoring process. (See Attachment F which provides a monitoring letter citing this deficiency and the response from the program.)

In addition, within New Jersey, criminal background checks were not required in day care centers until this year. (The legislation was signed by the Governor in July, 2001 with statewide implementation in March, 2002.)

Finding #7: For Program Years 1995 through 2001, the Commission did not meet, or otherwise provide support for, the matching requirements of the Administrative grant. This condition resulted primarily from three related findings:

7.a <u>Finding Related to Significant Matching Expenditures Questioned</u>

Response regarding sub-grantees: The report cites three sub-grantees in this category. No additional documentation has been submitted by two of the sub-grantees: NJ Water Watch or Urban League of Hudson County.

However, St. Paul's Community Development Corporation has submitted additional documentation, which has been forwarded to the auditors. This included: signed certifications of time allocation by all staff employees for the contract periods questioned. Based on the number of certifications, which address all questioned periods, our assessment is that this eliminates the majority of the questioned amount, $26,147.

Response regarding administrative grant matching (DOE):
The audit questions $497,523 for the staff-related match provided by Field Service state employees in support of AmeriCorps programs and Commission administration. We do not agree with this finding for several reasons. These matching resources were proposed in each year's administrative budget to the Corporation (citing names of the individuals, % of time, and budgeted dollars). The proposed budget was approved and signed-off by the Assistant Commissioner and the Fiscal Liaison of the host Division, Field Services, and was certified by the DOE Director of Budget and Accounting. At the submission of the Financial Status Reports, the Division's Fiscal Liaison approved the FSR, including the match, and the Director of Budget and Accounting certified the match contributions. In the preparation of the application, the Department carefully analyzes the time that employees spend working on AmeriCorps activities. It is through that analysis that the Department determines which activities will be funded out of federal dollars and which activities will be supported out of state dollars as part of the match. We therefore maintain that the process itself certified the match dollars.

The single audit of the Department is performed every year by an external agency. For fiscal years 1999, 2000, and 2001, the auditors have found the Department in compliance with laws and regulations and we have had no material findings concerning matching funds. (See Attachment A from the Office of Compliance, which contains excerpts of the single audit reports for those years.)

7b. Finding Related to Need to Monitor Matching Costs

Response regarding match percentages by year. As stated in the response to finding #10, the NJDOE does not maintain the accounting system used to track expenditures. The New Jersey Comprehensive Financial System (NJCFS) permits the identification of certain matching expenditures, but these must be cash outlays that flow through NJCFS. NJCFS does not accommodate certain in-kind expenditures that may be used to match the Administrative and Americorps grants. These in-kind expenditures will continue to require that separate records be maintained by the Commission and NJDOE. Indeed, the procedure for preparing the State's annual financial report acknowledges that agencies may be required to account for certain transactions through means other than NJCFS. We believe we have made major improvements in the later years, 1998-2001. Match expenditures have related to contract years on the required dollar-for-dollar basis and have been reported as such. We have modified the accounting procedures to book expenditures in the appropriate periods.

Response regarding on-time reporting. The Commission and NJDOE nevertheless agree that the process of identifying matching expenditures should be "an organized recordation of cash and in kind matching" rather than "a one-time exercise of gathering information..." The Commission and NJDOE will take steps to implement such a system, recognizing that it cannot be completely integrated into NJCFS. We are in the process of exploring procedures to process match transactions on the NJCFS statewide system that would allow more timely recordation.

7c. Finding Related to Significant Administrative Expenditures Questioned

Response regarding questioned administrative expenditures: We acknowledge that source documentation was missing, in some cases from NJDOE files. We also acknowledge the importance of maintaining readily accessible and complete records. As mentioned in other responses, we continue to identify and search alternative locations for missing records. It is DOE policy that after three years, documentation is moved from the DOE offices to archived records storage in an external location. It is unfortunate that during those transfers, some of the transaction records were lost. However, it must be stated that no expenditure of funding can take place in DOE without multiple levels of approvals and sign-offs. (Attachment G is the X-1 form, which demonstrates the authorizing signatures that are required for expenditures.)

We note that the issue of source documentation has not occurred in other audits performed on its programs. The NJDOE believes that its policies, procedures, and accounting practices generally enable tracking and supporting funded and expended amounts, and welcomes suggestions for improvement.

We have previously forwarded to the auditors supporting documentation for $141,000 of questioned costs related to transactions. (Additionally, Attachment H provides other transaction documents that have been provided for this submission, which represent approximately $100,000 toward the missing transactions.)

Finding #8: Subrecipients are not fully aware of the AmeriCorps provisions applicable to the grant such as living allowance payments and proper cash match.

Response: The NJ Commission provides a wide range of training, technical assistance, scheduling, and monitoring of programs related to their fiscal and reporting requirements. The Commission has a two-volume "Policy and Procedures Manual," which covers all fiscal and program aspects of AmeriCorps, and which is distributed to all programs. All reporting information is included in the Request for Proposals, which then becomes part of the State contract. During the technical assistance workshops for potential applicants, the federal guidelines on living allowances and other costs are explained. Program staff sends to each program a complete list of due dates for all reports. Commission staff provides training prior to the program year, which covers financial requirements. The accountant provides on-going technical assistance and reviews submitted reports and identifies those that are delayed or incorrect. He contracts any agency with a delayed or incorrect report and provides high quality guidance to the agency accountants. Additionally, the NJ Commission has sponsored specialized AmeriCorps financial management training by the federal contractor, Walker and Company,

each year, since 1999. (See Attachment C of calendar and agendas of the Walker & Company financial management trainings.).

Finding #9: Subrecipients did not maintain documentation as required by AmeriCorps provisions.

Response: The Commission has always maintained the importance of the AmeriCorps documentation and retention, via trainings, corpsmember file checklists, monitoring and on-site visits. It is our understanding from the comments of the auditors that in more recent years files have been consistently more complete and accurate. (Attachment F contains examples of two monitoring reports in recent years, including corrective actions, that clearly demonstrate the level of scrutiny and accountability demanded of the programs.)

Please be advised that two of the programs cited have submitted additional documentation of corpsmember educational levels, which was forwarded to the auditors on September 13th.

Finding #10: The Commission did not maintain an adequate financial management system as stipulated in various Corporation grant provisions.

Response: We disagree with the finding and recommendation, with certain exceptions, for the reasons listed below. As stated in the finding, the Commission staff is organized within the New Jersey Department of Education (NJDOE). The NJDOE does not maintain an accounting system; rather, as one of the State government departments, the NJDOE uses the New Jersey Comprehensive Financial System (NJCFS), which is controlled and maintained by the New Jersey Office of Management and Budget (NJOMB) in the Department of the Treasury. The NJDOE believes that certain features of NJCFS are germane to the auditors' findings.

The New Jersey Legislature appropriates federal funds as revenue and provides authorization to spend, subject to actual awards. The appropriations are continuing; that is, the authorization to spend extends for the duration of the grant award. The continuing appropriation is associated with the State fiscal year in which the grant is awarded, appropriated, and established on NJCFS. For example, a United States Department of Education grant awarded effective October 1, 2002, and subject to the Tydings Amendment would be considered a fiscal year 2003 NJDOE continuing appropriation with an end date of December 31, 2004. Any expenditure between October 1, 2002 and September 30, 2004 is an eligible expenditure from the appropriation.

Grants from the Corporation for National and Community Service have covered multiple years and been increased through amendment, additional carry forward, or other means. The state appropriation for these amendments is likely to be associated with the fiscal year in which the amendment is awarded, which may not coincide with the term of the award. Delays in receiving or establishing awards or amendments may result in expenditures that require adjustments to charge the expenditure to the appropriate year. NJDOE practice is to charge eligible expenses to the earliest prior year to maximize both federal revenue and flexibility.

Using ad hoc reporting capabilities, NJDOE can determine the expenditures that occurred during a particular time period, recognizing that these expenditures are likely to occur from multiple appropriations.

The result of the accounting system, grant award procedure, and NJDOE practice is a number of "expenditure modifications" or journal entries to charge eligible expenditures to the earliest possible grant award. The source documentation for these entries are reports of expenditures posted during a given period compared with available awards. To the extent that NJCFS creates "difficulties matching expenditures with program year budgeted line items," this is not a factor over which the State Commission or the NJDOE has any control.

The NJDOE works diligently to expend funds and use resources (including in-kind) consistent with the approved application budget.

Cost Allocation Procedures: The audit takes issue with the charges labeled "Deparment Administrative Costs" but not wiih other allocated costs such as the charges for the Office of Grnts Management and Development (OGMD), technology, or telephone. In these latter instances, there is a verifiable pool of expenses and a cost allocation base to support the charges, and no costs were questioned. We disagree with the inference that there is an overall problem with cost allocation procedures.

We agree that, at least since 1999, the Departmental Administrative Costs have been charged to the grant on the basis of the budgeted amount, which was, we note, included in the budget submitted to and approved by the Corporation. A search of available records indicates that in 1998 and prior these charges were based on documents processed and a salary cost pool. (Attachment I provides additional documentation regarding these charges for departmental administrative costs.) The NJDOE is analyzing the charges for fiscal years 1999, 2000, and 2001 in comparison with a possible cost base and pool of expenses. The position of NJDOE is that the Departmental Administrative Costs are direct charges to the grant, notably for service provided by the Office of Budget and Accounting, not indirect costs. The NJDOE is nevertheless reviewing its departmental administrative cost structure.

The single audit of the Department is performed every year by an external agency. For fiscal years 99, 200, 2001, the auditors have found the Department in compliance with laws and regulations, and we have had no material findings. From the results of these audits it is assumed that the DOE system is at acceptable standards. (See Attachment A.)

Finding #11: The Commission was unable to track matching requirements on CNS grants to actual matching expenditures as required by Corporation Provisions. The Administrative grant matching appears to be a one-time exercise of gathering information rather than an organized recordation of cash and in-kind matching accomplished each fiscal period.

Response:

Match percentages by year. As stated in the response to finding No.10, the NJDOE does not maintain the accounting system used to track expenditures. NJCFS permits the identification of certain matching expenditures, but these must be cash outlays that flow through NJCFS. NJCFS does not accommodate certain in-kind expenditure that may be used to match the Administrative and AmeriCorps grants. The NJDOE works diligently to expend funds and use resources (including in-kind) consistent with the approved application budget. These in-kind expenditures will continue to require that separate records be maintained by the Commission and NJDOE. Indeed, the procedure for preparing the State's annual financial report acknowledges that agencies may be required to account for certain transactions through means other than NJCFS (see attached). We believe we have made major improvements in the later years, 1998-2001. Match expenditures have related to contract years on the required dollar-for-dollar basis and have been reported as such. We have modified the accounting procedures to book expenditures in the appropriate periods.

On-time reporting. The Commission and NJDOE nevertheless agree that the process of identifying matching expenditures should be "an organized recordation of cash and in kind matching" rather than "a one-time exercise of gathering information..." The Commission and NJDOE will take steps to implement such a system, recognizing that it cannot be completely integrated into NJCFS. Also, we are in the process of exploring procedures to process match transactions on the NJCFS statewide system that would allow more timely recordation.

Finding #12: Missing financial documentation.

Response: We acknowledge that source documentation was missing, in some cases, from NJDOE files. We also acknowledge the importance of maintaining readily accessible and complete records. As mentioned in other responses, the Commission and NJDOE continue to identify and search alternative locations for missing records. We note that since 1993 the issue of source documentation has never occurred in other audits performed on DOE programs.

It is DOE policy that after three years, documentation is moved from the DOE offices to archived records storage in an external location. It is unfortunate that during those transfers, some of the transaction records were lost. However, it must be stated that no expenditure of funding can take place in DOE without multiple levels of approvals and sign-offs. (Attachment G is the X-1 form, which demonstrates the authorizing signatures that are required for expenditures.)

We also note that the issue of source documentation has not occurred in other audits performed on its programs. The NJDOE believes that its policies, procedures, and accounting practices generally enable tracking and supporting funded and expended amounts, and welcomes suggestions for improvement.

We have forwarded to the auditors supporting documentation for $141,000 of questioned costs. (Additionally, Attachment H provides other transaction documents that have been provided for this submission, which represent approximately $100,000 toward the missing transactions.)

Finding #13: NJDOE cash management procedures resulted in substantial amounts of cash on hand, both at the state and sub-recipient levels because timely reconciliations of funds received and expended were not performed.

Response: As stated in the audit, the dollar finding regarding over-drawn funds ($1,545,176) has been addressed through a series of transactions by Budget & Accounting (B&A) to correct the draws. It should be stated that the process to research and correct the draws had been in process prior to the arrival of the auditors and the largest correction was made on February 21, 2002.

On the front end, DOE issues funding to sub-grantees on a monthly basis to reflect 1/12 of the total grant. In effect, the cash draw-down report has been processed on an expenditure basis on NJCFS, which in effect is payment to the agency, not reimbursement for expenditures by the agency. It is an issue for all DOE grants. In addition, additional funds are held at the sub-grantee level when the sub-grantee is a state agency. In the case of state agencies, 100% of the funds are transferred to them at the beginning of the contract year, in accordance with state policy. Also, for example, the Department of Human Services, our largest grantee, which hosts the NJ Youth Corps, will not produce contracts to its sub-grantees until Human Services receives 100% of the contract funding from DOE at the outset of the year. They also issue 100% to their sub-recipients.

It has become clear that by its very nature, AmeriCorps has a built-in over-payment of funds in the early months on a contract, primarily due to corpsmember recruitment. The current system supposes that all 20 members are on-board in September, which may not be the case. Therefore, we will be exploring options for revamping this process. However, any changes in this regard would not necessarily affect transfers of funding to other state agencies.

An added complication at the front-end is a provision that for community-based agencies with cash flow issues, there is a process by which they can request a larger front-end payment, followed by the remainder being paid three months later. During the past two years, efforts have been made to discourage this process by both the Department and Commission staff. (It should be said that this process was traditionally viewed as a humane mechanism to support small community agencies that did not have the cash flow access typically found in school districts and larger agencies.)

The other part of the cash-on-hand situation is collections. Currently, the final expenditures are not approved by the grants office until both the final State Expenditure Report and the final Program Report are approved by Community Service program officers. At that point, approval is given to B &A to process the bill for unobligated funds. Currently there is no mechanism in place to track refunds on a regular basis. Commission staff is recommending that procedures be modified to improve the process, including provision of copies of the bills to program staff so that they can assist in following up to collect overdue funds.

Another reason for delayed collections is the two-tiered contract to allow for carry-over of AmeriCorps members to enable them to complete their service. First, it must be said that DOE developed this two-tiered contract at the behest of Commission staff to address the need to carry-

over corpsmembers. In essence, it provides a mechanism to extend the corpsmembers' portion of the contract to 16 months (rather than 12) if a program requests such a no-cost extension in order to enable its members to fulfill their 1700 hours within their contract year. In a perfect world all members would begin on September 1st. In NJ full-time corpsmembers can be enrolled up to December 31st of their first year. We needed this contract provision so that those members could be paid out of their proper year's funds, in accordance with CNS requirements, and to live within DOE's one year contract system. What this does, then, is extend the contract and collection process because we do not start counting the close-out timeframe from August 31, but rather December 31 for those sub-grantees with the contract modification. This provision is an essential part of AmeriCorps operations and we do not recommend any change.

Finding #14: Amounts drawn down from HHS were not readily reconcilable to the amounts reflected on DOE records, because reconciliations of these amounts were not performed on a timely basis.

Response: NJDOE has taken steps to ensure that draws are current and accurate.

Finding #15: Non-receipt of full payment by sub-sub recipient from the NJ Youth Corps.

Response: At this time, both the NJ DOE and NJ Department of Human Services, have procedures in place that review payments to agencies, final expenditures, and final payments to programs or amounts due from programs. In addition, as indicated in the introductory section, the DOE is changing its processes to seek refunds on a more timely basis.

Additionally, DOE is working with the DHS regarding the specific situation related to the New Jersey City University.

Schedule A-1 New Jersey Youth Corps (NJYC) – NJ Department of Human Services

Response: We and the NJ Youth Corps agree with the finding. The amount of $463 represents a very small portion of the overall $5,219,582 awarded to the Youth Corps over the same period.

Schedule A-2 Urban Schools Service Corps – Central Office

Response: The unsupported charges represent documents that could not be located in the DOE regular files. The Department continues to search alternate locations.

We agree that, at least since 1999, the Departmental Administrative Costs have been charged to the grant on the basis of the budgeted amount, which was, we note, included in the budget submitted to and approved by the Corporation. A search of available records indicates that in 1998 and prior these charges were based on documents processed and a salary cost pool. (Attachment I provides additional documentation regarding these charges for departmental administrative costs.) The NJDOE is analyzing the charges for fiscal years 1999, 2000, and 2001 in comparison with a possible cost base and pool of expenses. The position of NJDOE is that the Departmental Administrative Costs are direct charges to the grant, notably for service provided by the Office of Budget and Accounting, not indirect costs. The NJDOE is nevertheless reviewing its departmental administrative cost structure.

Schedule A-3 NJ Public Interest Research Group (NJPIRG) – New Jersey Water Watch

Response: New Jersey Water Watch worked with the auditors to reduce questioned costs, and these reductions were duly reflected in the final questioned costs.

We do not agree with the questioning of all educational awards on the basis of eligibility findings, regardless of whether the individual educational awards were used by the corpsmembers.

Schedule A-4 Urban Schools Service Corps – Trenton Board of Education

Response: During this audit review period, the Commission forwarded to the auditors additional documentation related to corpsmember eligibility. We have been advised by the Trenton Board of Education that they have been unable to receive the necessary documents from their subgrantee agency, the Urban League of Trenton. It is our understanding that the Urban League of Trenton is no longer operational and we are unable to reach any staff or officials of the agency.

We do not agree with questioning all educational awards on the basis of eligibility findings, regardless of whether the educational awards were used by the corpsmembers.

Schedule A-5 Urban Schools Service Corps – Paterson School District

Response: No files could be found at the district level, due to a major leak and water damage to all of the district files stored at Old School Five. However, we were able to locate some corpsmember eligibility documentation in the central USSC files and have forwarded same to the auditors. (Attachment J is the July 15, 2002 letter from the school district providing information on the loss of files.)
We do not agree with questioning all educational awards on the basis of eligibility findings, regardless of whether the educational awards were used by the corpsmembers.

Schedule A-6 St. Paul's Community Development Corporation

Response: St. Paul's has provided to the Commission, and which was forwarded to the auditors, eligibility documentation on corpsmembers and time certifications of staff assigned to the AmeriCorps program for the years in question. Based on the number of certifications, which address all questioned periods, our assessment is that this eliminates the majority of the questioned amount, $26,147.

We do not agree with questioning all educational awards on the basis of eligibility findings, regardless of whether the educational awards were used by the corpsmembers.

Schedule A-7 Urban League of Hudson County

Response: No additional support documentation has been provided to the Commission since the audit findings.

We do not agree with questioning all educational awards on the basis of eligibility findings, regardless of whether the educational awards were used by the corpsmembers.

Schedule A-8 New Jersey Youth Corps – New Jersey City University

Response: During this period this NJ Youth Corps program at New Jersey City University has reviewed their employment files. (Please see Attachment_K_for their response, dated September 3, 2002.)

Schedule A-9 Catholic Community Services

Response: During the audit response period, Catholic Community Services provided additional information on corpsmember eligibility, which was forwarded to the auditors, and information on over-payments to corpsmembers, which was reviewed at the Commission, and found to be insufficient to support the claim that the over-payments were from local matching resources. (Attachment L is the CCS letter.)

We do not agree with questioning all educational awards on the basis of eligibility findings, regardless of whether the educational awards were used by the corpsmembers.

Schedule A-10 New Jersey Youth Corps – University of Medicine and Dentistry of NJ – PeaceCorps Program

Response: We have received additional eligibility documents, which are appended in Attachment M.

We do not agree with questioning all educational awards on the basis of eligibility findings, regardless of whether the educational awards were used by the corpsmembers.

Appendix B

Response of the Corporation for National and Community Service

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 25, 2002

Subj: Response to OIG Draft Audit Report 02-17: Incurred Cost Audit of Grants Awarded to the New Jersey Commission on National & Community Service.

We have reviewed the draft audit report of the New Jersey Commission on National & Community Service 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. In addition, the Corporation will need to conduct an extensive review of the working papers in order to resolve many of the questioned costs. We will respond to all findings and recommendations when the audit is issued. The New Jersey Commission has provided an extensive response and begun corrective action as needed.