OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Audit of Corporation for National and Community Service Grants Awarded to PennSERVE: The Governor's Office of Citizen Service

Audit Report Number 03-07
March 19, 2003

Financial Schedules
and
Independent Auditor's Reports
For the Period
January 1, 1998, to December 31, 2001
(Dates Vary by Grant Award)

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This report was issued to Corporation management on August 4, 2003. 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 February 4, 2004, and complete its corrective actions by August 4, 2004. 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
PennSERVE: The Governor's Office of Citizen Service

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Office of Inspector General
Corporation for National and Community Service
Audit Report 03-07

Audit of Corporation for National and Community Service Grants Awarded to PennSERVE: The Governor's Office of Citizen Service

Introduction

The Corporation for National and Community Service, pursuant to the National and Community Service Trust Act, as amended, 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 three-fourths 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 Leonard G. Birnbaum and Company to audit Corporation grants awarded to PennSERVE: The Governor's Office of Citizen Service. These grants covered costs related to AmeriCorps, Program Development and Training, Disability, Administrative, Learn & Serve, and Education Awards from January 1, 1998, through December 31, 2001. The audit's objectives were to determine whether: (1) financial reports prepared by PennSERVE presented fairly the financial results of the awards; (2) the internal controls were adequate to safeguard Federal funds; (3) PennSERVE and its subrecipients had adequate procedures and controls to ensure compliance with Federal laws, applicable regulations and award conditions, and that member services were appropriate to the programs; (4) the award costs reported to the Corporation were documented and allowable in accordance with the award terms and conditions; and (5) PennSERVE had established adequate oversight and informed subrecipients of the Corporation's Government Performance Results Act goals.

PennSERVE had total claimed costs of $14,963,565, of which the auditors questioned $4,666. The questioned amount included a coding error of $4,563 and $103 in payments to consultants that were in excess of the daily maximum. The auditors concluded that the Consolidated Schedule of Award Costs presents fairly the costs claimed by PennSERVE, except for the questioned costs identified in the report.

The Office of Inspector General has reviewed the report and the work papers supporting the auditors conclusions. Our review of the auditor's work papers disclosed no instances where Leonard G. Birnbaum and Company did not comply, in all material respects, with generally accepted government auditing standards.

The Office of Inspector General provided PennSERVE and the Corporation a draft of this report for their review and comment. Their responses are included in their entirety as Appendices A and B, respectively.

REPORT SUMMARY AND HIGHLIGHTS

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This report is issued under an engagement to audit the costs claimed by PennSERVE: The Governor's Office of Citizen Service (PennSERVE) and its subrecipients from January 1, 1998, through December 31, 2001 (dates vary by grant award), under the grants awarded by the Corporation for National and Community Service (the 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 of PennSERVE and its subrecipients.

Results in Brief

As a result of our audit of these awards, we are questioning net costs totaling $4,666, or less than one percent of the total $14,963,565 of costs claimed by PennSERVE for the audit period. Questioned costs are those 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. Questioned costs include a $4,563 erroneous charge to the Administrative grant, and $103 overpayment to consultants charged to the Program Development and Training (PDAT) grant. We also noted $146,813 of salaries and related costs charged to the PDAT grant, which should have been charged to the Administrative grants. Details related to questioned costs appear in the Independent Auditor's Report.

PennSERVE has taken effective action on prior audit recommendations in those areas where improvements in policies and operating practices were suggested. We have determined that PennSERVE has recently developed and effectively implemented a variety of new policies and procedures to remedy previously indicated areas of weaknesses. Improvements have been made in AmeriCorps program monitoring, oversight and records maintenance. PennSERVE regards the development and implementation of new policies and procedures as an ongoing process. The vigor and depth of the PennSERVE processes are indicated by the relatively low amount of questioned costs.

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Grant Programs Audited

Our audit of PennSERVE 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	94ASCPA039	8/1/94 to 6/30/02	7/1/98 to 12/17/00
AmeriCorps	00ASFPA039	9/1/00 to 12/31/03	9/1/00 to 8/31/01
AmeriCorps	00ASCPA039	7/1/00 to 8/31/03	8/1/00 to 7/31/01
AmeriCorps	98ARCPA042	9/1/98 to 12/31/00	9/1/98 to 12/31/01
Learn & Serve	94LCSPA012	7/1/94 to 12/31/00	7/1/98 to 12/31/00
Learn & Serve	00LCSPA038	9/1/00 to 8/31/03	9/1/00 to 8/31/01
Education Awards	97EDSPA022	7/1/97 to 7/31/00	7/1/98 to 12/31/00
Education Awards	00EDSPA022	8/1/00 to 8/21/03	8/1/00 to 8/31/01
Disability Placement	01DSCPA037	1/1/01 to 12/31/03	1/1/01 to 12/31/01
PDAT	95PDSPA038	11/1/95 to 12/31/01	1/1/98 to 12/31/01
Administrative	94SCSPA038	1/28/94 to 12/31/00	1/1/98 to 12/31/00
Administratve	01SCSPA038	1/1/01 to 12/31/03	1/1/01 to 12/31/01

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

	Amount
Claimed Costs	$14,963,565
Questioned Costs	$ 4,666

Costs Questioned

The following summarizes the costs questioned on these awards:

Program Development andTraining	
Reclassification of Salary and Related Costs	$146,813
Consultant Overpayments	103
Total Audit Adjustments – PDAT Grant	146,916
Administrative Grants	
Reclassification of Salary and Related Costs	(146,813)
State Services Erroneously Charged to Administrative Grant	4,563
Total Audit Adjustments – Administrative Grants	(142,250)
Total Net Costs Questioned	$ 4,666

We used judgmental and random sampling methods to test the costs claimed. Therefore, 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 the total expenditures incurred, based on the relationship of costs tested to total costs. For a complete discussion of these questioned costs, please refer to the Independent Auditor's Report.

Compliance

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

- Travel cost records are being maintained by the Pennsylvania Department of the Auditor General for the current and seven previous State fiscal years. This policy does not comply with the Corporation's record retention requirements.

Internal Controls

Our audit disclosed the following weakness in PennSERVE's internal controls:

- Accounting for Employee Time Charging: An employee's salary was being recorded to the PDAT Grant even though the time sheet reflected that the Administrative Grants should have been charged.

Purpose and Scope of Audit

Our audit covered the costs claimed during the period January 1, 1998, to December 31, 2001.

The objectives of our audit were to determine whether:

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

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

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

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

5. PennSERVE had established adequate oversight and informed subrecipients of the Corporation's Government Performance Results Act goals.

We performed the audit in accordance with auditing standards generally accepted in the United States of America and the *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 F) are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in these schedules. 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 Single Audit Reports on financial statements of the Commonwealth of Pennsylvania issued jointly by the Department of the Auditor General (Pennsylvania) and the accounting firm of Ernst & Young, LLP for the years covered by this engagement. We also reviewed audit reports 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*. Reviews were also made of the reports and working papers of selected audit engagements performed by the internal audit office of the Labor, Education and Community Services (LECS) Comptroller's Office, a component of the Commonwealth of Pennsylvania, Office of the Budget. Our audit also followed up on the findings and recommendations in the Pre-Audit Survey Report of PennSERVE, dated November 18, 1999, (CNCS Office of Inspector General Report 00-14). We believe our audit provides a reasonable basis for our opinion.

The contents of this report were disclosed to and discussed with PennSERVE at an exit conference on May 29, 2003. In addition, we provided a draft of this report to PennSERVE and to the Corporation for comment on June 14, 2003. PennSERVE's response to the report, which appears as Appendix A hereto, concurs in the findings, recommendations and costs questioned in the report and indicates that appropriate remedial action has been taken.

Background

The Corporation, pursuant to the authority of the National and Community Service Trust Act of 1993, 42 U.S.C. §§ 12501-12681, 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.

PennSERVE: The Governor's Office of Citizen Service (PennSERVE) has received funding, as of September 30, 2001, from the Corporation for various programs in the amount of $40,055,031. For the period under audit, Program Years 1998-1999 to 2000-2001, expenditure drawdowns, as reconciled to the Financial Status Reports (FSRs), amounted to $14,963,565. The majority of this amount has been subgranted to numerous entities in order to carry out the programs. A brief synopsis of the programs follows:

Program	Award Number	Award Amount	Costs Claimed by PennSERVE 1998 -2001
AmeriCorps			
Competitive & Formula	94 ASC PA039	$21,999,885	$9,802,069
Competitive	00 ASC PA039	7,667,561	2,432,665
Formula	00 ASF PA039	5,509,054	842,143
America Reads	98 ARC PA042	411,551	377,102
Total – AmeriCorps		35,588,051	13,453,979
Learn & Serve			
	94 LCS PA012	912,500	210,520
	00 LCS PA038	200,000	21,357
Total – Learn & Serve		1,112,500	231,877
Education Awards			
	97 EDS PA022	97,331	54,075
	00 EDS PA022	33,050	-
Total – Education Awards		130,381	54,075
Disability Funds			
Disability Placement	01 DSC PA037	99,100	877
Program Development & Training	95 PDS PA038	722,522	512,238

Administrative			
Administrative (OLD)	94 SCS PA038	2,086,409	472,020
Administrative (Disability)	94 SCS PA038	-	46,482
Administrative (Unified State Plan)	94 SCS PA038	-	5,483
Administrative (NEW)	01 SCS PA038	316,068	186,534
Total – Administrative		2,402,477	710,519
Total Funds		$ 40,055,031	$14,963,565

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, PennSERVE: The Governor's Office of Citizen Service and its subrecipients, and the U.S. Congress. However, this report is a matter of public record and its distribution is not limited.

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INDEPENDENT AUDITOR'S REPORT

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

Program	Award Number	Award Period	Audit Period
AmeriCorps	94ASCPA039	8/1/94 to 6/30/02	7/1/98 to 12/17/00
AmeriCorps	00ASFPA039	9/1/00 to 12/31/03	9/1/00 to 8/31/01
AmeriCorps	00ASCPA039	7/1/00 to 8/31/03	8/1/00 to 7/31/01
AmeriCorps	98ARCPA042	9/1/98 to 12/31/00	9/1/98 to 12/31/01
Learn & Serve	94LCSPA012	7/1/94 to 12/31/00	7/1/98 to 12/31/00
Learn & Serve	00LCSPA038	9/1/00 to 8/31/03	9/1/00 to 8/31/01
Education Awards	97EDSPA022	7/1/97 to 7/31/00	7/1/98 to 12/31/00
Education Awards	00EDSPA022	8/1/00 to 8/21/03	8/1/00 to 8/31/01
Disability Placement	01DSCPA037	1/1/01 to 12/31/03	1/1/01 to 12/31/01
PDAT	95PDSPA038	11/1/95 to 12/31/01	1/1/98 to 12/31/01
Administrative	94SCSPA038	1/28/94 to 12/31/00	1/1/98 to 12/31/00
Administrative	01SCSPA038	1/1/01 to 12/31/03	1/1/01 to 12/31/01

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *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

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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.

In our opinion, except for the $4,666 in questioned costs, the Consolidated Schedule of Award Costs, and the grant-specific Schedules of Award Costs (Exhibits A through F) referred to above, present fairly, in all material respects, the costs claimed for the period January 1, 1998, to December 31, 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 March 19, 2003, 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, PennSERVE: The Governor's Office of Citizen Service and its sub-recipients, 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
March 19, 2003

PennSERVE: The Governor's Office of Citizen Service
Consolidated Schedule of Award Costs

Corporation for National and Community Service Awards:

Award Number	Program	Approved Budget (1994 To 2001)	Costs Claimed by PennSERVE (1998 to 2001)	Questioned Costs	Reference
94ASCPA039	AmeriCorps (C&F)	$21,999,885	$9,802,069	$ -	
00ASCPA039	AmeriCorps (C)	7,667,561	2,432,665	-	
00ASFPA039	AmeriCorps (F)	5,509,054	842,143	-	
98ARCPA042	America Reads	411,551	377,102	-	
Total AmeriCorps		35,588,051	13,453,979	-	Exhibit A
94LCSPA012	Learn & Serve	912,500	210,520	-	
00LCSPA038	Learn & Serve	200,000	21,357	-	
Total Learn & Serve		1,112,500	231,877	-	Exhibit B
97EDSPA022	Education Awards	97,331	54,075	-	
00EDSPA022	Education Awards	33,050	-	-	
Total Education Awards		130,381	54,075	-	Exhibit C
01DSCPA037	Disability Placemt.	99,100	877	-	Exhibit D
95PDSPA038	PDAT	722,522	512,238	146,916	Exhibit E
94SCSPA038	Administrative	2,086,409	472,020	-	
94SCSPA038	Administrative (Disability)		46,482	-	
94SCSPA038	Administrative (Unified State Plan)	5,483	-	-	
01SCSPA038	Administrative	316,068	186,534	(142,250)	
Total Administrative		2,402,477	710,519	(142,250)	Exhibit F
Grand Totals – All Awards		$40,055,031	$14,963,565	$ 4,666	

PennSERVE: The Governor's Office of Citizen Service
Notes to Consolidated Schedule of Award Costs

Reporting Entity

The accompanying consolidated Schedule of Award Costs include amounts budgeted, claimed, and questioned under AmeriCorps, Administrative, and Program Development and Training grants awarded to PennSERVE: The Governor's Office of Citizen Service (PennSERVE) by the Corporation for National and Community Service (the Corporation) for the period from January 1, 1998, to December 31, 2001 (periods vary by individual grant).

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

Summary of Significant Accounting Policies

Basis of Accounting

The accompanying Schedule has been prepared to comply with the provisions of the grant agreements between the Corporation and PennSERVE. The information presented in the Schedule has been prepared from the reports submitted by PennSERVE 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 acquired equipment is owned by PennSERVE while used in the program for which it was purchased or in other future authorized programs. However, the Corporation has reversionary interest in the equipment. Its disposition, as well as the ownership of any proceeds, is therefore subject to Federal regulations.

Inventory

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

Questioned Costs

Questioned costs are those for which there is documentation that the recorded costs were expended in violation of the law, regulations or specific conditions of the awards, or those costs which require additional support by the grantee or which require interpretation of allowability by the Corporation.

PennSERVE: The Governor's Office of Citizen Service
Schedule of Award Costs
Corporation for National and Community Service
Award Numbers 94ASCPA039, 00ASCPA039, 00ASFPA039 and 98ARCPA042
(AmeriCorps)
July 1, 1998, to December 31, 2001

Grant		Claimed Costs	Questioned Costs	Questioned Education Awards	Reference
94ASCPA039	AmeriCorps (C&F)	$ 9,802,069	$ -	$ -	Note 1, 2
00ASCPA039	AmeriCorps (C)	2,432,665	-	-	Note 1, 2
00ASFPA039	AmeriCorps (F)	842,143	-	-	Note 1, 2
98ARCPA042	America Reads	377,102	-	-	
Total AmeriCorps		$13,453,979	$ -	$ -	Note 2

Notes

1. There are a significant number of subgrantees under the funded AmeriCorps Grants' programs. We identified the following as having the major cumulative expenditures (over $500,000) through our three-year audit period. Our examination of the costs incurred by these subrecipients did not yield any questioned costs.

AmeriCorps (Cumulative Threshold of $500,000)

Subgrantees	Cumulative Expenditures Program Years 1998-99 To 2000-01
Appalachia Intermediate Unit 8	$ 1,909,214
Butler Memorial Hospital	932,523
City of Harrisburg	731,747
City Year Inc., Philadelphia	2,887,853
County of Allegheny, Keys Service Corps	930,389
Keystone School District – SMILES	1,836,413
Union Snyder Office of Human Resources	523,315
Woodrow Wilson Foundation	1,168,185
Total – Subgrantees Over $500,000	$10,919,639

2. The amount shown above as "Claimed Costs" represents the total expenditure drawdowns by PennSERVE for the Program Years 1998 through the audit cutoff date of September 30, 2001, per reconciliations with Federal Cash Transaction Reports, Financial Status Reports, PennSERVE cost ledgers and Corporation records.

Exhibit B

PennSERVE: The Governor's Office of Citizen Service
Schedule of Award Costs
Corporation for National and Community Service
Award Numbers 94LCSPA012 and 00LCSPA038
(Learn & Serve)
July 1, 1998, to August 31, 2001

Grant	Claimed Costs	Questioned Costs	Reference
94LCSPA012 Learn & Serve	$210,520	$ -	Note 1, 2
00LCSPA038 Learn & Serve	21,357	-	Note 1, 2
Drawdowns as of 8/31/01	$231,877	$ -	Note 2

Notes

1. Our examination of these costs did not yield any questioned costs.

2. The amount shown above as "Claimed Costs" represents the total expenditure drawdowns by PennSERVE for the Program Years 1998 through the audit cutoff date of September 30, 2001, per reconciliations with Federal Cash Transaction Reports, Financial Status Reports, PennSERVE cost ledgers and Corporation records.

Exhibit C

PennSERVE: The Governor's Office of Citizen Service
Schedule of Award Costs
Corporation for National and Community Service
Award Numbers 97PEDSPA022 AND 00EDSPA022
(Education Awards)
July 1, 1998, to September 30, 2001

Grant	Claimed Costs	Questioned Costs	Reference
97EDSPA022 Education Award	$54,075	$ -	Note 1
00EDSPA022 Education Award	-	-	
Drawdowns as of 8/31/01	$54,075	$ -	Note 2

Notes

1. Our examination of these costs did not yield any questioned costs.

2. The amount shown above as "Claimed Costs" represents the total expenditure drawdowns by PennSERVE for the Program Years 1998 through the audit cutoff date of September 30, 2001, per reconciliation's with Federal Cash Transaction Reports, Financial Status Reports, PennSERVE cost ledgers and Corporation records. Grant Number 00EDSPA022 was awarded within the audit period covered by this engagement. However, there were no claimed costs prior to the audit cut-off date.

Exhibit D

PennSERVE: The Governor's Office of Citizen Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 01DSCPA037
(Disability Placement)
January 1, 2001, to December 31, 2001

Grant	Claimed Costs	Questioned Costs	Reference
01DSCPA037 Disability Placement Award	$877	$ -	Notes 1, 2

Notes

1. Our examination of these costs did not yield any questioned costs.

2. The amount shown above as "Claimed Costs" represents the total expenditure drawdowns by PennSERVE for Program Years 1998 through the audit cut-off date of September 30, 2001, per reconciliations with Federal Cash Transaction Reports, Financial Status Reports, PennSERVE cost ledgers and Corporation records.

Exhibit E

PennSERVE: The Governor's Office of Citizen Service
Schedule of Award Costs
Corporation for National and Community Service
Award Number 95PDSPA038
(Program Development and Training)
January 1, 1998, to December 31, 2001

Grant	Claimed Costs	Questioned Costs	Reference
95PDSPA038 Training & Technical Assistance, Program Development and Training	$512,238	$146,916	Notes 1, 2

Notes

1. Questioned Claimed Costs include the following items:

Reclassification of Salary and Related Costs	$146,813	(a)
Consultant Overpayments	103	(b)
Total Questioned Costs	$146,916	

   (a) During our audit of expenditures on the PDAT grant, we noted that one PennSERVE employee's salary was being charged to the PDAT grant, while his work was identified, budgeted and assigned by timesheets to the Administrative Grant. Questioned costs represent the salary expenditures for this one PennSERVE individual performing functions under the Administrative grant over the course of the audit period, which were misclassified and erroneously charged to the PDAT grant. A corresponding reclassification should be made to the Administrative grant and such adjustment is reflected in Exhibit F of this report.

   (b) Two consultants were paid in excess of the maximum $443 per day limitation. This adjustment represents the excess amount paid and charged to the grant.

2. The amount shown above as "Claimed Costs" represents the total expenditure drawdowns by PennSERVE for the Program Years 1998 through the audit cut-off date of September 30, 2001, per reconciliations with Federal Cash Transaction Reports, Financial Status Reports, PennSERVE cost ledgers and Corporation records.

Exhibit F

PennSERVE: The Governor's Office of Citizen Service
Schedule of Award Costs
Corporation for National and Community Service
Award Numbers 94SCSPA038 and 01SCSPA038
(Administrative)
January 1, 1998, to December 31, 2001

Grant		Claimed Costs	Questioned Costs	Reference
94SCSPA038	Administrative (Old)	$472,020	4,563	Note 1
94SCSPA038	Administrative (Disability)	46,482	–	
94SCSPA038	(Unified State Plan)	5,483	–	
01SCSPA038	Administrative (NEW)	186,534	(146,813)	Note 2
Total Administrative		$710,519	$(142,250)	Note 3

Notes

1. The questioned amount represents amounts billed by the Pennsylvania Conservation Corps for work performed for the Pennsylvania Department of Transportation that was incorrectly charged to the PennSERVE Administrative grant.

2. The adjustment represents the reclassification of PennSERVE salary costs for one individual over the course of the audit period, from the PDAT grant to the Administrative grant, as described in Exhibit E. While corrective action has been taken to have this individual's future salary payments charged to the Administrative grant, an adjusting entry will have to be prepared on the books of the Commonwealth of Pennsylvania to move the salary from "PDAT" to "Administrative" to correct past accounting records.

3. The amount shown above as "Claimed Costs" represents the total expenditure drawdowns by PennSERVE for the Program Years 1998 through the audit cut-off date of September 30, 2001, per reconciliations with Federal Cash Transaction Reports, Financial Status Reports, PennSERVE cost ledgers and Corporation records.

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Inspector General
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 F, that summarize the claimed costs of PennSERVE under the Corporation awards listed below, and have issued our report thereon dated March 19, 2003.

Program	Award Number	Award Period	Audit Period
AmeriCorps	94ASCPA039	8/1/94 to 6/30/02	7/1/98 to 12/17/00
AmeriCorps	00ASFPA039	9/1/00 to 12/31/03	9/1/00 to 8/31/01
AmeriCorps	00ASCPA039	7/1/00 to 8/31/03	8/1/00 to 7/31/01
AmeriCorps	98ARCPA042	9/1/98 to 12/31/00	9/1/98 to 12/31/01
Learn & Serve	94LCSPA012	7/1/94 to 12/31/00	7/1/98 to 12/31/00
Learn & Serve	00LCSPA038	9/1/00 to 8/31/03	9/1/00 to 8/31/01
Education Awards	97EDSPA022	7/1/97 to 7/31/00	7/1/98 to 12/31/00
Education Awards	00EDSPA022	8/1/00 to 8/21/03	8/1/00 to 8/31/01
Disability Placement	01DSCPA037	1/1/01 to 12/31/03	1/1/01 to 12/31/01
PDAT	95PDSPA038	11/1/95 to 12/31/01	1/1/98 to 12/31/01
Administrative	94SCSPA038	1/28/94 to 12/31/00	1/1/98 to 12/31/00
Administrative	01SCSPA038	1/1/01 to 12/31/03	1/1/01 to 12/31/01

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *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 PennSERVE'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

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provisions of laws, regulations, and the terms and conditions of the awards. However, our objective was not to provide an opinion on overall compliance with such provisions.

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

Compliance Findings

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

1. The Pennsylvania Department of the Auditor General, which is the repository of original Commonwealth travel documents, is not retaining travel records in accordance with the Corporation's Grant Provision Number 26, Retention of Records, which requires that records supporting claimed costs be retained for three years after submission of the final Financial Status Report. This grant provision implements the record retention requirements found in 45 CFR § 2541.420, the Corporation's regulation on grant administration. The current policy of the Auditor General is to retain such records for the current and seven preceding fiscal years.

This condition appears to be caused by the fact that the records retention policies of the Auditor General do not consider situations where grants may still be active or administratively "open," and subject to audits of supporting documentation or other record retention requirements.

This condition may result in a violation of the grant's terms and conditions and might result in, or fail to disclose on a timely basis, potential funding misapplications. While there are no costs questioned, we found that problems can occur because both the grantor and grantee lack original supporting source documentation for claimed costs on grants that have not been closed out.

Recommendation

We recommend that PennSERVE communicate and coordinate with the Auditor General to establish policies and procedures that will ensure that records are retained as required by the terms and conditions of the Corporation's grants.

2. The accounting system used to record PennSERVE's staff salaries is not properly recording an employee's time. The employee, the coordinator of the Web Based Reporting System, is correctly completing his timesheet to charge the Administrative grant, but the accounting system is ignoring this information and applying the individual's salary to the PDAT grant. Corporation provisions require a financial management system that "must be capable of distinguishing expenditures attributable to this grant from expenditures not attributable to this grant."

The cause of this condition appears to be an initial miscoding of this individual at the time he was hired. The personnel/payroll office may have incorrectly assumed that the new hire was replacing a PennSERVE employee who had recently resigned and who worked on the PDAT grant. The total

amount of salary cost mischarged to the Administrative grant from the time the employee was hired until December 31, 2001, is $146,813.

The employee timesheet is the key source document supporting grant labor costs and is certified as correct by the employee and approved by the supervisor. Therefore, the time sheet should be the controlling document regarding labor cost charges to the Corporation's grant.

Recommendation

PennSERVE has notified the Accounting Department to take corrective action on this issue, which should correct the condition for the future. To correct the past accounting entry, an adjusting entry should be prepared on the books of the Commonwealth of Pennsylvania to reclassify salary from "PDAT" to "Administrative." The precise distribution of the $146,813 between the "OLD" and "NEW" Administrative grants has to be determined, and the "OLD" Administrative grant has been administratively closed on the Commonwealth's books. The Corporation and PennSERVE will have to agree on an equitable resolution of this adjustment. It should be noted that the "OLD" Administrative grant had sufficient remaining funds to cover this adjustment. For the purposes of this audit, we have assigned the entire amount of this adjustment to the "NEW" Administrative grant.

We also recommend that a coordinated effort by PennSERVE and the LECS Personnel Office be made to review existing payroll procedures and preclude this condition from occurring in the future.

Internal Controls Over Financial Reporting

In planning and performing our audit of awards costs, as presented in Exhibits A through F for the period of July 1, 1998, to December 31, 2001, we considered PennServe'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.

PennSERVE'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. Internal controls also provide management with reasonable, but not absolute, assurance 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 controls 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, process, 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

Finding No. 2, set forth in the *Compliance* section of the report regarding incorrect time charging, is also considered a finding on internal controls.

Additionally, we noted the following matters which, while not considered to be *"Reportable Conditions,"* we believe would nevertheless provide additional internal controls and strengthen PennSERVE processes.

1. In addition to our verification of updated procedures, we reviewed additional information concerning the current status of subgrantee monitoring that was available from the Corporation's State Administrative Standards review, performed in April 2001. This review concluded that PennSERVE is meeting all standards for the section entitled "Conducts Proper Grant Process."

One of the checklist items covered in that study was the PennSERVE Staff's review of applicants' proposals and budgets. While there was no adverse finding in this area, we believe that PennSERVE's oversight would be substantially strengthened through the use of the services of the LECS Audit Office for pre-award assessments of amounts budgeted and financial management systems and controls. This is now done on an after-the-fact basis. We believe that such reviews would put controls "up-front" in the subgrantee evaluation process, and preclude potential budget and performance problems.

Recommendation

We recommend that PennSERVE coordinate with the LECS Comptroller's Office to request that the services currently provided by the LECS Audit Office be expanded to include pre-award assessments of new subgrantees' budgets and financial management systems and controls.

2. Costs questioned resulting from this audit were related exclusively to the PDAT and Administrative grants. While there has been considerable oversight provided on the AmeriCorps grants, these PDAT and Administrative grants tend to receive either limited or no independent outside surveillance. As a result, we found transactions that were misclassified and other

unallowable costs.

Recommendation

An annual independent review of in-house administered programs, such as the PDAT and Administrative grants, would provide feedback on current recording procedures and highlight any necessary corrective action. Although the LECS auditors may not provide an independent examination, perhaps a peer review exchange of Commonwealth staff, or Auditor General services, would be feasible for the purpose of examining proper grant cost compliance.

Follow-Up On Pre-Audit Survey Findings
OIG Audit Report No. 00-14
Pre-Award Survey Report of the
PennSERVE: The Governor's Office of Citizen Service

The results of the Pre-Audit Survey and related Findings and Recommendations are scheduled below:

I. Selecting Subgrantees

There were no significant areas noted for improvement with the process used at PennSERVE.

II. Administering Grant Funds

Adequacy of Staffing Levels - Sufficient staffing does not exist to perform all required duties in an effective manner. The current personnel appear to have adequate skills and the experience to manage the Corporation's grant funds and another management-level position was added at the beginning of calendar year 2000. Additional increases in funding levels or subgrantees, without an additional increase in personnel, could result in potential control weaknesses or instances of material noncompliance.

Timeliness of Receipt of Progress Reports - Prior to October 1999, PennSERVE did not keep track of when initial quarterly progress reports from subgrantees were received. PennSERVE therefore could not verify if the documents were submitted on time.

Recommendations for Administering Grant Funds

1. Evaluate current resources and the Corporation's program requirements to determine the staffing levels necessary to evaluate and monitor each subgrantee. Also, PennSERVE should request additional funding, as needed, from the Commonwealth of Pennsylvania's Office of Administration.

2. Implement procedures to maintain a log in order to monitor the receipt of progress reports, review the log prior to expected due dates and take necessary action when reports are not received in a timely manner. PennSERVE should consider sending reminder notices to subgrantees to improve the timely receipt of reports.

Current Status

1. Since the issuance of the Pre-Audit Survey Report, PennSERVE added an additional staff person.

2. PennSERVE currently tracks receipt of all progress reports from subgrantees. Other administrative controls have also been incorporated.

We consider PennSERVE's actions to be fully responsive to the Pre-Audit Survey reported conditions.

III. Evaluating and Monitoring Subgrantees

Documentation of Subgrantees' Financial Systems, AmeriCorps Member Timesheets and Expense Documentation Examined During Site Visits - Commission personnel do not specifically document the subgrantees' financial systems, AmeriCorps member timesheets or expenses examined during site visits. As a result, it is not possible to assess if the sample size selected was adequate or to review the same documentation if a question arose about the results of the test.

Schedule of Planned and Actual Site Visit Dates - PennSERVE does not maintain a schedule of planned and actual dates of site visits for each program year. Without such documentation, PennSERVE could overlook a particular site visit or not perform visits in a timely manner.

Written Policies and Procedures Related to Follow-up on Deficiencies Noted at Subgrantees - PennSERVE does not have written policies and procedures to ensure that subgrantees correct deficiencies identified by PennSERVE. As a result, PennSERVE may not properly or, in a timely manner, ensure the correction of noted subgrantee deficiencies.

Verifying Information on Progress Reports at Site Visits - PennSERVE does not formally verify information on subgrantees' progress reports as part of their annual or detailed site visits. As a result, PennSERVE cannot determine if reported information is consistent with site visit observations.

Monitoring Recommendations

1. Develop and implement procedures to document the subgrantees' financial systems, member timesheets and expense items that are reviewed during site visits.

2. Maintain a clear, concise schedule of site visits to be performed in the program year and record the dates on which site visits are actually performed. The schedule should be periodically reviewed to ensure its completeness and to assure that the visits are performed in a timely manner and in accordance with PennSERVE policy.

3. Develop and implement written policies and procedures to ensure that when PennSERVE notes deficiencies, adequate corrective actions are taken in a timely manner.

4. Establish and implement formal procedures to verify the accuracy of subgrantee quarterly progress reports and document the verification results. PennSERVE should also document the types of data requested and obtained to support the accuracy of the progress report.

Current Status

1. Procedures have been implemented to specifically document these areas during site visits. In addition, PennSERVE utilizes the services of the LECS Audit Office to conduct site visits of AmeriCorps subgrantees. These reviews include tests of the accounting records, internal controls, verification of revenues, matching requirements, accruals, expenditures and other tests considered necessary. Both PennSERVE site visits and the LECS audits document the data and documents that were reviewed. PennSERVE uses its "Monitoring Tool" to document the systems reviewed, expenses examined and the name of each member is inserted at the top of each individual checklist. Based on guidance received from the LECS auditors, PennSERVE staff selects about 20 to 25 percent of the total number of members for review. A "random start-fixed interval" statistical sampling procedure is used. The selection method is documented on the master monitoring tool used at each subgrantee location.

2. A schedule of planned and actual site visits is prepared and communicated to subgrantees. Written policies also provide for unannounced site visits.

3. Written policies and procedures are now included in the annual PennSERVE AmeriCorps Education Award Program Manual, and a PennSERVE policy entitled "Correction of Deficiencies Documented at Pennsylvania AmeriCorps State Programs." But there is a discrepancy between the two documents regarding the subgrantee's response time. The stated response time in the program manual, the document most likely to be utilized by the subgrantees, is 30 days. The actual policy statement calls for six weeks. PennSERVE should resolve this difference.

4. Site visits now include information from progress reports. Evidence from actual site visits indicates the "Monitoring Tool" is being used to verify progress report information. Memoranda are prepared detailing feedback regarding progress reports.

In addition to our verification of updated procedures, additional information concerning the current status of subgrantee monitoring is available from the Corporation's State Administrative Standards review performed in April 2001. This review concluded that PennSERVE was meeting all the standards for the sections entitled "Properly Monitors Programs and Ensures Compliance" and "Properly Monitors Member Records."

We consider PennSERVE's actions to be fully responsive to the above conditions.

Providing Technical Assistance:

There were no significant areas noted for improvement within the process used at PennSERVE.

This report is intended for the information and use of the Office of Inspector General, as well as the management of the Corporation, PennSERVE and its sub-recipients, 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
March 19, 2003

Appendix A

Response of PennSERVE: The Governor's Office of Citizen Service

DEPARTMENT OF
LABOR & INDUSTRY
COMMONWEALTH OF PENNSYLVANIA

PennSERVE
THE GOVERNOR'S OFFICE OF CITIZEN SERVICE
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July 8, 2003

Mr. J. Russell George
Inspector General
Corporation for National and Community Service
1201 New York Avenue, NW
Suite 830
Washington, DC 20525

Dear Mr. George:

Enclosed is PennSERVE's response to the findings and recommendations contained in the draft report on the results of your audit of PennSERVE: The Governor's Office of Citizen Service from January 1, 1998, through December 31, 2001. We accept the findings of the draft audit report and have taken action on the recommendations included in the draft.

As an update, the $103.00 in consultant overpayments has been returned to the Corporation for National and Community Service (CNCS) as a credit to the PDAT grant. In addition, the $4,563.14 for personnel costs related to the Pennsylvania Conservation Corps (PCC) has been transferred out of the Administration grant to the PCC's state funded appropriation. These funds have also been returned to CNCS.

As the new Executive Director of PennSERVE, I have entered the picture after the completion of the audit; however, I do want to provide you with some of the comments of PennSERVE's staff who were involved in the process. PennSERVE found both the Inspector General's staff and the auditors of Leonard G. Birnbaum and Company to be helpful, instructive and professional in their relationship with this office. We at PennSERVE intend to follow through on the recommendations made in the draft audit. The results of the audit will make the operation of this office even more effective and efficient.

If you have any questions concerning our response to the findings and recommendations of the draft audit, please contact Peg Davis at 717-772-5431 or mdavis@state.pa.us. Thank you and your staff for assisting PennSERVE to continue to be good stewards of public funds.

Sincerely,

Karen Kaskey
Executive Director

PennSERVE'S RESPONSE TO FINDINGS AND RECOMMENDATIONS OF THE AUDIT REPORT NOMBER 03-07 OF THE PENNSYLVANIA STATE COMMISSION

Compliance Findings

1. The Deputy Secretary for Administration has sent a letter to the Deputy Secretary for Comptroller Operations for the Governor's Budget Office requesting a review of the Bureau of Commonwealth Payroll Operations' travel records retention policy. A copy of that letter is attached.

2. PennSERVE and the Bureau of Human Resources will review all personnel assignments on a semi-annual basis. The salaries erroneously paid from the PDAT grant for the period subsequent to December 31, 2000, have been transferred to the current Administrative grant. The total transferred was $43,489.58. The balance of $103,323.42 applicable to the previous Administrative grant awarded prior to December 31, 2000, has not yet been transferred. We have asked Doug Gerry, Grants Officer, for the Corporation for National and Community Service, to request officials at the Health and Human Services' Payment Management System to reopen this grant in the system and make funds available for drawdown. We are still waiting for a response from Mr. Gerry to our request. All salaries previously charged to the current PDAT grant have been transferred to the current Administrative grant.

Internal Controls Findings

1. PennSERVE will only award planning grants for the first year to new successful applicants. This will allow us the opportunity to review the financial and management capabilities of these applicants. The LECS Audit Office will conduct a financial systems review during the one-year planning grant period. If it is determined during the LECS review that the applicant cannot meet the financial requirements and obligations of a federal grant, the applicant will not be awarded funding after the planning grant period.

2. PennSERVE is working with the new Acting Comptroller of LECS to determine the appropriate review procedure for the purpose of examining proper grant cost compliance. A copy of the memo from PennSERVE to the Comptroller requesting information on the proper review procedure is attached.

OFFICE OF THE DEPUTY SECRETARY FOR ADMINISTRATION
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DEPARTMENT OF LABOR & INDUSTRY
COMMONWEALTH OF PENNSYLVANIA

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June 10, 2003

Mr. Harvey C. Eckert
Deputy Secretary for Comptroller Operations
Office of the Budget
207 Finance Building
Harrisburg, PA 17120

Dear Mr. Eckert:

Recently, PennSERVE of the Department of Labor and Industry underwent an audit by the Inspector General of the Corporation for National and Community Service. Although the audit found very few problems, there was one compliance finding which relates to the Bureau of Commonwealth Payroll Operations.

The finding states:

The Bureau of Commonwealth Payroll Operations, which is the repository of all Commonwealth travel documents, is not retaining travel records in accordance with the Corporation's Grant Provision Number 26, Retention of Records, which requires that records supporting claimed costs be retained for three years after submission of the final Financial Status Report. The current policy is to retain such records only for the current and two preceding fiscal years.

The condition appears to be caused by the fact that the records retention policies of the Bureau of Commonwealth Payroll Operations currently do not consider situations where grants may still be active or administratively "open" and subject to audits of supporting documentation or other record retention requirements.

This condition results in a violation of the grant's terms and conditions and might result in, or fail to disclose on a timely basis, potential funding misapplications. While we were able to satisfy ourselves on the validity of selected test items based on independent records maintained by PennSERVE we found that problems can occur because both the grantor and grantee lack original supporting source documentation for claimed costs on grants that have not been closed out.

It is my understanding that **all** federal grants have the same or similar retention provisions. In order that no future audit exceptions occur please provide the Department with a Corrective Action Plan that addresses this issue.

If you have any questions concerning this request or need additional information, please contact me at 787-8667 or johnthomas@state.pa.us. Thanks for your assistance with this important matter.

Sincerely,

John S. Thomas

cc: William A. Hardenstine, Jr.

PennSERVE
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July 8, 2003

Connie Huber
Acting Comptroller
Labor, Education and Community Services
Office of the Budget
Comptroller Operations
15th Floor
Labor & Industry Building
Harrisburg, Pa 17120

Dear Connie:

The Office of Inspector General for the Corporation for National and Community Service (CNCS) recently completed a draft report on an audit of CNCS grants awarded to PennSERVE. The draft audit contains an internal control finding and recommendation on which I seek your assistance.

The finding concludes that while considerable oversight is provided on the AmeriCorps grants, the PDAT and Administration grants tend to receive either limited or no independent outside surveillance. A recommendation is made in the draft audit that an annual independent review of these grants be conducted. Although your office many not prove to be the correct agency to conduct this review, I am requesting your assistance to determine how an independent review of these grants may be done.

I will await your advice on this request. If you need more information, please contact Peg Davis at 772-5431 or mdavis@state.pa.us. Thanks for your assistance with this matter.

Sincerely,

Karen Kaskey
Executive Director

Appendix B

Response of the Corporation for National and Community Service

Corporation for
NATIONAL & COMMUNITY SERVICE

To: J. Russell George, Inspector General

From: Peg Rosenberry, Director of Grants Management

Date: July 15, 2003

Subj: Response to OIG Draft Audit Report 03-07: Incurred Cost Audit of Grants Awarded to PennSERVE: The Governor's Office of Citizen Service

We have reviewed the draft audit report of the grants to PennSERVE and are pleased to note the low level of questioned costs identified by the auditors, most of which resulted from classification errors PennSERVE has already corrected. As a result, we have disallowed only $4,666, less than 1% of the funds granted to the state. PennSERVE has already agreed that the charges were in error and has returned them to the Corporation.

In addition, the PennSERVE response addresses the recommendations related to compliance and internal controls made by the auditors and the Corporation has accepted those responses. As a result, this response to the draft audit also serves as the Corporation's Management Decision on the audit. Within the next three months, we will follow up with the Commission to confirm that corrective action is complete.