

H. CARL McCALL
STATE COMPTROLLER



A.E. SMITH STATE OFFICE BUILDING
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE
COMPTROLLER

November 23, 1998

Ms. Nikki Smith
Executive Director
New York State Office of National
& Community Service
Division of the Budget
Executive Chamber, Capitol
Albany, NY 12224

Re: City Volunteer Corps, Inc.
Report 97-R-1

Dear Ms. Smith:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we audited the books and records of the City Volunteer Corps, Inc. (CVC), for the period of September 16, 1995 through September 30, 1996. Our audit related to reimbursements claimed by CVC under contract C-000106, awarded by the New York State Office of National and Community Service (ONCS).

The objectives of our financial-related audit were to determine whether costs claimed by CVC were allowable, had been documented adequately, and had been incurred for services funded under the contractual agreement we were auditing. To accomplish these objectives, we reviewed the contractual agreement, CVC's books and records of revenues and expenditures, internal controls over charges to the contract, and the level of CVC's compliance with contractual terms.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of CVC that are included within our audit scope. Further, these standards require that we review and report on CVC's internal control structure and its compliance with those laws, rules and regulations that are relevant to CVC's operations included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions, and recommendation.

In planning and performing our audit procedures, we considered CVC's internal control structure. Our consideration was limited to a preliminary review of this structure that would enable us to understand the control environment and the way in which transactions flowed through the systems supporting CVC's claims. Because we did not intend to rely on the internal control structure in performing our work, our assessment did not extend beyond the preliminary review phase. Instead, we appropriately extended our substantive audit tests.

In conducting our audit, we performed tests of CVC's compliance with certain terms of the contract. Our objective in performing these tests was to obtain reasonable assurance about the allowability of amounts that CVC had received from ONCS, not to provide an opinion on CVC's overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, CVC did not comply, in many cases, with the provisions referred to in the preceding paragraph. We found that CVC did not adhere to the contract terms when claiming administrative and other operating costs. This noncompliance is discussed further in Section B of this report.

A. Background and Contract Terms

Originally incorporated in 1984 as a not-for-profit organization known as the National Service Corporation for the City of New York, and renamed the City Volunteer Corps in 1992, CVC was formed to recruit and organize teenagers and young adults, aged 14-25, into volunteer service groups. CVC's service programs, which operated throughout New York City, included the AmeriCorps Community Leadership Program (CLP), the AmeriCorps Nature and Neighborhood Program, the YouthBuild Program, and the Youth Volunteer Corps Program. The basic objective common to these programs is the personal development of the participants through their participation in community service, internships, and job training. Some examples of community service include tutoring school children, working with the elderly and developmentally disabled, and conducting neighborhood clean-up campaigns. CLP program participants receive weekly stipends to cover their expenses. In addition, those who complete a specific number of service hours are eligible to receive college scholarship funds (referred to in the contract as member support).

CVC reported that it had received \$2.9 million in revenues, including nearly \$1.4 million from ONCS for program support, during the fiscal year ended June 30, 1996. During the contract period from September 16, 1995 through September 30, 1996, ONCS paid CVC \$1,346,552 under contract C-000106 to operate the CLP program. The CLP contract budget was structured by expenditure line-item categories, including: staff salaries and fringe benefits; participants' stipends; and other costs for items such as rent, liability insurance, legal services, and administration. CVC submitted quarterly claims for the program year, the fourth of which represented the final claim. In June 1997, CVC submitted a "revised" final claim to ONCS.

A crucial feature of contract C-000106 involved matching funds. The AmeriCorps Federal grant provisions, which govern ONCS contracts, obligate contractors to contribute the amount of cash or in-kind matching funds agreed to in the contract budget. ONCS funding was conditional upon CVC's ability to obtain at least the specified share of matching funds. The budget set the proportional funding shares for both ONCS and CVC. CVC budgeted and claimed expenses and matching revenues under contract C-000106 for the period from September 16, 1995 through September 30, 1996, as follows:

	<u>Budgeted</u>	<u>Claimed</u>
ONCS Reimbursable	\$1,554,000	\$1,377,139
CVC Matching	<u>694,275</u>	<u>651,707</u>
Totals	<u>\$2,248,275</u>	<u>\$2,028,846</u>

B. Results of Audit

As discussed below and detailed in the attached exhibit, we determined that ONCS is due a refund of \$386,105.

1. Administration Cost Allocation

The CLP contract budget included a separate line item for CVC's administration costs, which, according to the contract, could be up to 5 percent of the total ONCS grant amount. However, in addition to the administration expense line-item allotment, CVC also budgeted and claimed administration costs within the contract's "staff," "operating costs," and "internal evaluation" line items. For example, CVC claimed the \$31,012 salary of its Payroll Coordinator across two line items: \$12,418 under "staff" and \$18,594 under "administration expense." Similarly, CVC claimed \$84,726 in rent expenses under the operating costs line item (non-personal service costs) and \$6,807 under administration -- a total of \$91,533. ONCS officials indicated to us that CVC's reimbursable administration expenses under the contract were not limited to 5 percent of the grant; they said they would reimburse reasonable contract-related administration expenses. Therefore, with ONCS officials' concurrence, we audited the reasonableness of CVC's claimed administration costs, regardless of the line items under which they were claimed and found the allocation of these costs to the contract to be excessive.

a. Administration Salaries and Fringe Benefits

CVC's administration employees reportedly earned a total of \$723,521 during our contract period. CVC had charged \$645,255 (nearly 90 percent) of that amount to the contract (\$577,625 to staff, \$43,402 to administration, and \$24,228 to the internal evaluation line items). We disallowed a total of \$247,176 of these claimed salaries, due to the excessive allocation of administration staff salaries to the CLP program, as well as undocumented

administration salary costs totaling \$37,403. In addition, we disallowed fringe benefit costs, totaling \$38,834, related to the disallowed salaries.

The grant provisions require a specific method of allocating salaries of employees who work on more than one program or function. The method is predicated on the proportion of time the employees work on the program, and requires that salary claims be supported by individual time distribution records. We found that CVC did not maintain individual time distribution records and used a different method -- participant service hours -- to allocate administration salaries. CVC estimated the number of participant service hours in each of its programs and projected that CLP-service hours would comprise 70.68 percent of total service hours. According to ONCS officials, this violated contract terms and was not an acceptable method for allocating administration salaries. In fact, CVC claimed \$645,255, or nearly 90 percent of the total \$723,521 that the administration employees reportedly earned. (To arrive at their original claim, CVC officials applied the 70.68 percent rate to the total administration salaries; then added to that amount in their revised final claim, resulting in the actual claimed rate of 90 percent.)

Our audit of the claimed administration salaries identified \$37,403 in undocumented costs. We found that \$21,763 in claimed salaries for a Systems Analyst and a Program Analyst were in excess of the amounts those employees actually earned. We also found the salary claimed for a Special Assistant, totaling \$15,640, was not authorized in the budget and CVC did not identify the individual who held the position. Therefore, we disallowed the entire \$37,403. In the absence of individual time-distribution records, we reallocated the remainder of CVC's administrative salaries based on its revenue sources. ONCS provided 49.85 percent of CVC's total revenues in the 1995-96 program year. Therefore, we allowed 49.85 percent of actual salaries for the administration employees in the contract period, rather than the 90 percent CVC ultimately claimed. As a result, we disallowed \$247,176 in salaries (\$201,309 in staff, \$2,465 in internal evaluation, and \$43,402 in administration). We also disallowed a total of \$38,834 in claimed fringe benefits related to the disallowed staff salaries.

b. Other Administration Expenses

ONCS officials agreed that CVC could allocate nonpersonal service administration costs using the ratio of CLP participant service hours to the total service hours for all CVC programs. However, since the CVC officials could not provide us with documentation for the allocation methodology they used to calculate the administration expense claims, we also allocated them according to the State's share of CVC revenue (49.85 percent). Using this method of allocation, we found that CVC had claimed excess allocations totaling \$70,379 -- \$46,130 charged as operating costs and \$24,249 charged to the administration line.

2. Costs for Match

CVC claimed \$22,900 as a subcategory of operating costs called "costs for match."

This expense had not been authorized by ONCS in the contract budget. CVC officials explained that this category referred to expenses incurred in the course of raising matching funds. ONCS officials informed us that expenses of this type are not allowable because they are not considered program-related. We disallowed the \$22,900.

C. Response of ONCS Officials to Audit

Subsequent to our field work, ONCS officials informed us that CVC was unable to sustain its required share of matching funds for the 1996-97 contract period. New York City, which had provided the largest share of matching revenues, stopped funding CVC. When ONCS determined that CVC would be unable to obtain sufficient funding from other sources, ONCS chose not to renew its contract with CVC when it expired on September 30, 1997. We were informed by ONCS officials that CVC had ceased operations at that time.

ONCS officials now believe it is not feasible to obtain a refund, because the program has been disbanded and key employees are no longer available. On the advice of our legal counsel, we recommend that ONCS refer the matter to the Office of the Attorney General for review, to determine whether it is appropriate to pursue an action against CVC's directors, and obtain a judgment against them.

Recommendation

Refer the matter of recovering a \$386,105 refund from CVC to the Office of the Attorney General with a request for a review of the appropriateness of obtaining a judgment against CVC's directors.

Major contributors to this report were Kenneth Spitzer, Debra Wolrich, Michael Miller, Milton Cyntje, and Jeremy Mack.

We would appreciate receiving your response to the report recommendation within 30 days, indicating any actions planned or taken to implement it. We wish to thank the management and staff of the City Volunteer Corps, Inc., and the Office of National and Community Service for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

Frank J. Houston
Audit Director

cc: Robert L. King

EXHIBIT A

CITY VOLUNTEER CORPS, INC.
CONTRACT C-000106
SUMMARY OF BUDGETED, CLAIMED, DISALLOWED, AND ALLOWED
EXPENSES
SEPTEMBER 16, 1995 THROUGH SEPTEMBER 30, 1996

<u>Description</u>	<u>Budgeted</u>	<u>Claimed</u>	<u>Disallowed</u>	<u>Allowed</u>
Member Support	\$639,555	\$420,196		\$420,196
Other Member Costs	155,263	134,863		134,863
Staff	990,608	1,003,626	\$255,783 [a]	747,843
Operating Costs	357,187	368,233	69,030 [b]	299,203
Internal Evaluation	27,962	24,228	24,228 [c]	0
Administration	<u>77,700</u>	<u>77,700</u>	<u>67,651</u> [d]	<u>10,049</u>
Total Expenses	\$2,248,275	\$2,028,846	\$416,692	\$1,612,154
Matching Revenues	<u>\$694,275</u>	<u>\$651,707</u>	_____	<u>\$651,707</u>
Net Reimbursable	<u>\$1,554,000</u>	<u>\$1,377,139</u>	<u>\$416,692</u>	\$960,447
State Payments				<u>\$1,346,552</u>
Refund Due the State				<u>\$386,105</u>

Notes:

- [a] Represents undocumented salaries (\$15,640), excess allocation of claimed administration salaries (\$201,309), and related fringe benefits (\$38,834).
- [b] Represents excess allocations of claimed other administration expenses (\$46,130) and unauthorized claims for "costs for match" (\$22,900).
- [c] Represents undocumented salaries (\$21,763) and excess allocation of claimed administration salaries (\$2,465).
- [d] Represents excess allocations of claimed administration salaries (\$43,402) and other administration expenses (\$24,249).