OFFICE OF THE INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE

PRE-AUDIT SURVEY OF THE OREGON COMMUNITY SERVICE COMMISSION

OIG Audit Report Number 01-03
July 17, 2000

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This report was issued to Corporation management on October 16, 2000. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than April 16, 2001, and complete its corrective actions by October 16, 2001. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

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CORPORATION
FOR NATIONAL
SERVICE

Office of Inspector General
Corporation for National and Community Service

Pre-Audit Survey of the
Oregon Community Service Commission
OIG Audit Report Number 01-03

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, in accordance with the requirements of the Act, 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 throughout the nation.

During fiscal year 1999, CNS OIG received reports of serious financial management problems at the Oregon Community Service Commission. We provided that information to the Corporation management. Corporation management responded to the information with visits by Corporation staff and technical assistance providers.

During fiscal year 2000, CNS OIG engaged KPMG LLP to perform a pre-audit survey of the Oregon Community Service Commission to provide a preliminary assessment of the Commission's subgrantee selection, fiscal administration, monitoring, and training and technical assistance processes, and to determine the extent to which its financial records could be audited. The survey revealed serious deficiencies in the Commission's fiscal administration and monitoring functions for which corrective actions have only recently been implemented, and that not all of the Commission's corrective actions have been effectively implemented. Nonetheless, KPMG concluded that the Commission's records can be audited. KPMG recommended a full scope audit of CNS funding for all program years.

This pre-audit survey report includes recommendations for improvements in all of the areas covered by the survey. CNS OIG has reviewed the report and work papers supporting its conclusions. We agree with the findings and recommendations presented.

Responses to the report by the Oregon Community Service Commission and Corporation for National Service are included as Appendices C and D, respectively. The Corporation's response indicates that CNS plans to request semi-annual reports from the Commission on its actions to correct the conditions reported and that it agrees with the recommendation that CNS perform annual site visits to the Commission.

The Oregon Commission's response describes its corrective actions. OIG and KPMG will assess and report on the reported corrective actions during the full scope audit of the Commission which has already begun. We presently expect to issue the audit report (01-04) during the third quarter of this fiscal year.

Inspector General
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July 17, 2000

Inspector General
Corporation for National and Community Service:

At your request, KPMG performed a pre-audit survey of the Oregon Community Service Commission (the Commission). The primary purpose of this survey was to follow up on information provided to the Corporation by the Commission that indicated the Commission had serious financial management problems, and to determine whether the Commission was auditable. We were to report our findings to the Office of Inspector General and the Corporation.

Results in Brief

Our pre-audit survey procedures, including interviews with current Commission management, revealed the following:

- The Commission self-reported to the Corporation in May 1998, that subgrantees were holding excess amounts of cash drawdowns.
- In January 1999, the Executive Director became fully aware of the Commission's responsibility to monitor subgrantees, as a result of attending a Corporation training seminar.
- Prior to December 1997, the Commission failed to submit required FSRs.

Although proactive reporting of financial management problems did not occur until after the current Executive Director was hired in February 1998, we concluded that the Corporation should have been aware of these problems. In May 1998, the Corporation dispatched a consultant to the Commission to help the Commission begin to make improvements in its cash management process. However, we saw no other evidence that the Corporation took any action to hold the Commission fiscally accountable until June 1999, when it placed the Commission on a pre-approval basis for drawing down grant funds as a result of problems identified during site reviews conducted during March and April, 1999.

Based on the results of the limited procedures we performed, our preliminary assessment is that the Commission is auditable for all open program years, although the Commission's ability to locate supporting documentation and provide explanations for activity prior to June 1999 may be limited. Therefore, we recommend the performance of a full scope audit at the Commission for program years 1994-95 through 1999-2000. Our limited procedures showed an improvement in the development and implementation of policies and procedures during 1999, which impacted and strengthened the controls for 1999-2000. However, we believe the full scope audit should include this program year to ensure that newly developed controls are functioning effectively to prevent significant noncompliance with laws, regulations and grant agreements.

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The section below entitled *Findings and Recommendations* discusses our observations and sets forth our recommendations for improvements regarding:

- the adequacy of the pre-award selection process;
- the fiscal procedures at the Commission;
- the effectiveness of monitoring of its AmeriCorps State subgrantees, including AmeriCorps Member activities and service hours; and
- the controls over the provision of technical assistance.

The conditions presented in this section will be taken into consideration in determining the extent of audit procedures to be performed during the full scope audit of the Commission as recommended above.

Additionally, we recommend that the Corporation follow up with the Commission to determine that appropriate corrective actions are put into place to address the conditions reported herein, and that the Corporation consider these conditions in its oversight and monitoring of the Commission. Given the significant grants management issues that the Commission has faced and the guidance it currently seeks to improve controls further, the Corporation should perform site monitoring visits at the Commission at least annually for the next three years.

Background

The National and Community Service Trust Act of 1993, P.L. 103-82, which amended the National and Community Service Act of 1990, established the Corporation for National and Community Service.

The Corporation, pursuant to the authority of the Act, awards grants and cooperative agreements to State Commissions, nonprofit entities and tribes and territories to assist in the creation of full and part time national and community service programs. Through these grantees, AmeriCorps Members perform service to meet the educational, human, environmental, and public safety needs throughout the nation, especially addressing those needs related to poverty. In return for this service, eligible Members may receive a living allowance and post service educational benefits.

Currently, the Corporation awards approximately two-thirds of its *AmeriCorps State/National* funds to State Commissions. State Commissions are required to include 15 to 25 voting members. Each Commission has a responsibility to develop and communicate a vision and ethic of service throughout its State.

The Commissions provide AmeriCorps funding to approved applicants for service programs within their states and are responsible for monitoring these subgrantees' compliance with grant requirements. The Commissions are also responsible for providing training and technical assistance to AmeriCorps State and National Direct programs and to the broader network of service programs in the state. The Commissions are prohibited from directly operating national service programs.

The Corporation's regulations describe standards for financial management systems that must be maintained by State Commissions. The standards require, in part, that the State Commissions

maintain internal controls that provide for accurate, current, and complete disclosure of the financial and programmatic results of financially assisted activities, and provide effective control and accountability for all grant and subgrant cash, real and personal property, and other assets.

Overview of the Oregon Commission

The Oregon Community Service Commission, located in Portland, Oregon, has received federal grant funds from the Corporation for National and Community Service since program year 1994-95. The Commission was established as a division of the Oregon Department of Community Colleges and Workforce Development (DCCWD), through state legislation enacted in 1994, to administer grants under the National and Community Service Trust Act of 1993.

The Commission consists of 11 Governor appointees. Commissioners are appointed for three-year terms. From the Commission's inception through June 30, 2000, DCCWD served as the Commission's fiscal agent. On July 1, 2000, the Oregon Department of Community Housing became the Commission's new fiscal agent. In addition to its fiscal agent, the Commission also uses Portland State University (PSU) as a paying agent.

Through June 30, 2000, the Commission had a staff of 3 full-time and 1 part-time personnel working under an Executive Director. PSU funded three of the positions and DCCWD funded two positions. As of June 30, 2000, two of these positions became vacant with the resignation of the Administrative Officer and the Special Projects Coordinator (both funded by PSU).

In addition to drawing federal funds and disbursing funds to Commission subgrantees, DCCWD handles the financial accounting, including payroll and travel, for the two positions funded through that department and all non-operating expenses of the Commission, such as Commissioner travel. Likewise, PSU typically accounts for the payroll and travel expenses of the personnel positions funded through it and all daily operating transactions originated by the Commission.

As part of the State of Oregon, the Commission is annually subjected to statewide OMB Circular A-133 audits. However, prior to fiscal year 1999, the State did not separately identify and include the Commission funding in its annual A-133 audits. For the fiscal year ended June 30, 1999, the AmeriCorps grant was tested as a major program. As a result of this audit, one material weakness and four reportable conditions were identified related to the Commission's administration of the AmeriCorps grant, as follows:

- *Material Weakness* – The Commission did not begin monitoring subrecipients until Spring 1999.
- *Reportable Conditions* – (1) The Commission's fiscal agent did not separately report the financial information for inclusion in the State's Schedule of Expenditures of Federal Awards; (2) the Commission distributed funds to subrecipients in advance of related program expenditure; (3) the Commission did not perform on-going risk assessments of the AmeriCorps subrecipients; and (4) the password that the Oregon Department of Education used in its drawdown procedures for federal funds had not been changed since 1994.

The Commission provided us with the following information regarding funding received from the Corporation since its inception:

Program Year	Total Corporation Funding*	Number of Subgrantees	Number of Sub-grantees Subject to A-133 Audit Requirements**
1994 Start-up Funding	$ 178,800	None	None
1994-95	920,672	4	4
1995-96	1,817,390	7	7
1996-97	1,690,599	8	8
1997-98	1,689,692	6	5
1998-99	1,738,526	7	5
1999-2000	1,637,004	7	6

* Amounts do not include carryover funding for Program Years 1997-98, 1998-99, and 1999-2000 of $42,966, $270,080, and $131,184, respectively.

** Determination is based on information maintained at the Commission.

Appendix A contains more detailed information on funding received from the Corporation.

Objectives, Scope, and Methodology

We were engaged by the Office of the Inspector General, Corporation for National and Community Service, to provide a preliminary assessment of the systems and procedures in place at the Commission for administering its AmeriCorps grants, for monitoring the fiscal activity of subgrantees, and to determine the auditability of the Commission in addition to providing a preliminary assessment of:

- the adequacy of the pre-award selection process;
- the fiscal procedures at the Commission;
- the effectiveness of monitoring of its Corporation-funded subgrantees, including AmeriCorps Member activities and service hours; and
- the controls over the provision of technical assistance.

We were also to report on the recommended scope of additional audit procedures to be performed at the Commission. Our survey included the following procedures:

- reviewing applicable laws, regulations, grant provisions, the Corporation's *A Reference Manual for Commission Executive Directors and Members*, and other information to gain an understanding of legal, statutory and programmatic requirements;

- reviewing OMB Circular A-133 reports and current program year grant agreements with the Commission;

- obtaining information from Commission management to document the Corporation grant funding for program years 1994-95 through 1999-2000; and

- performing the procedures detailed in Appendix B over the Commission's internal controls, selection of subgrantees, administration of grant funds, evaluation and monitoring of grants, and the technical assistance process.

As part of the procedures performed, we documented and tested internal controls in place at the Commission using inquiries, observations, and examination of a limited sample of source documents. Finally, we summarized the results of our work to develop the findings and recommendations presented in this report. We discussed all preliminary findings identified to date with Commission management during a site visit exit meeting on June 23, 2000. We discussed certain additional findings with the Commission subsequent to that date. We also communicated with the Commission to clarify and resolve certain matters related to our preliminary findings and to obtain additional information to finalize our report. The Commission was provided a copy of all findings included herein.

We provided a draft of this report to the Commission and the Corporation. The Commission's and the Corporation's responses to our findings and recommendations are included as Appendix C and Appendix D, respectively.

Our procedures were performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. We were not engaged to, and did not, perform an audit of any financial statements, and the procedures described above were not sufficient to express an opinion on the controls at the Commission or its compliance with applicable laws, regulations, contracts and grants. Accordingly, we do not express an opinion on any such financial statements or on the Commission's controls or compliance. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Findings and Recommendations

The Commission is in the process of documenting its policies and procedures relating to the selection of subgrantees, administration of grant funds, evaluation and monitoring of subgrantees, and providing training and technical assistance to subgrantees. As this project is being completed, we recommend that the Commission consider the recommendations discussed below that we developed based on specific findings within each area.

Selecting Subgrantees

According to *A Reference Manual for Commission Executive Directors and Members*, section 3.2, "Commissions are expected to develop a fair and impartial process for reviewing and selecting applicants for potential funding." The Commission has developed and implemented various procedures to meet this responsibility. However, these procedures were not consistently applied to all program years. Because of funding constraints in program years 1996-97 and 1999-2000, the Commission elected to offer funding only to existing programs to ensure programs in good standing were not eliminated or penalized for the lack of new or additional funds.

Even though the selection process may only encompass renewal applications from existing subgrantees, the Commission does require the peer reviewers who evaluate these applications to sign conflict of interest statements before the commencement of the selection process. In addition, beginning with the 2000-01 selection process, peer reviewers use a standard form, which includes an area for the assessment of financial systems and organizational capacity, to evaluate each applicant.

We identified the following areas for improvement within the selection process.

Assessment of Applicants' Financial Systems during the Selection Process

Prior to the 2000-01 selection process, peer reviewers did not consider the adequacy of the applicants' financial systems during the Commission's subgrantee selection process. The application form provided by the Corporation and used prior to the PY 2000-01 selection process did not specifically address the applicant's financial system. Commission selection procedures also did not require applicant's to provide information related to their financial systems. As a result, grant funds may have been provided to organizations that did not have the financial systems in place to properly account for those funds or to ensure compliance with grant requirements.

Missing Documentation Related to Rejection of Funding Decisions

We selected a sample of four applicants, one each from program years 1994-95 through 1998-99 for which funding had been denied by the Commission. For three of these items, the Commission was unable to provide all requested documentation related to the denial of funding decision. Documentation to support communication of one funding rejection and detailing the Commission's rationale for rejection in the case of two of the others was not available. As a result, if one of these rejected applicants questions the reason for rejection, the Commission has no records to reference which support its decisions.

Composition of the Board of Commissioners

The composition of the Board of Commissioners does not appear to be representative of the population of the State of Oregon. Currently, nine of 11 Board members reside in the Salem and Portland areas. The remaining two Board members are from southern Oregon. Although the Board members do not serve as panelists for selection of subgrantees, they have significant influence in the selection of the panelists. The needs of the more rural areas of the State may not be adequately addressed since representatives from these areas are not included in the decision-making processes.

Recommendations

We recommend the Commission focus on measures for improving the effectiveness of its subgrantee selection process as follows:

- Develop and implement procedures to ensure that adequate documentation is maintained to support funding decisions and communication of those decisions to applicants.

- Review the current composition of the Board of Commissioners and restructure it, if necessary, to ensure that all areas of the State are adequately represented.

Administering Grant Funds

Guidelines to be followed in the grant administration process for Corporation grantees are set forth in *A Reference Manual for Commission Executive Directors and Members*. Guidance is provided in the manual for performance of general administrative activities at the Commission level, and for evaluation of subgrantee administrative activities. Section 4.3 of the manual states, "Commissions must evaluate whether subgrantees comply with legal, reporting, financial management and grant requirements and ensure follow through on issues of non-compliance."

We identified the following areas for improvement related to the administration of grant funds at the commission level and to the evaluation of subgrantee compliance with reporting and other administrative grant requirements.

Adequacy of Staffing Levels Beginning July 1, 2000

As of July 1, 2000, the Commission lost two staff members, the Administrative Officer and Special Projects Coordinator. The Commission currently does not plan to immediately fill these positions. Instead, other staff members will temporarily absorb the duties and responsibilities of these positions.

The duties of the Administrative Officer are integral to the Commission's success in achieving its mission, and include such tasks as reconciling the financial activities of the Commission's two fiscal entities (i.e., DCCWD and PSU) and performing fiscal monitoring of subgrantees. The Special Projects Coordinator's duties are equally important; this position is responsible for managing the Disability, Promise Fellows and other grant programs and organizing training activities. Failure to maintain adequate staffing levels may lead to the overburdening of the remaining employees, inadequate and/or untimely completion of assigned duties, performance of

incompatible duties for internal control purposes, and ultimately to additional turnover which might place the ongoing activities of the Commission at risk.

Failure to Submit FSRs for Administrative, PDAT and Disability Grants

Prior to December 1997, the Commission did not submit FSRs for Administrative, Program Development and Training and Disability grants. Since that time, the Commission has prepared and submitted restated FSRs to the Corporation for the periods previously omitted.

Lack of Evidence of FSR Review, Including Matching Recalculation

Commission procedures require that subgrantee FSRs be reviewed upon receipt and that matching requirements be recalculated at that time. However, prior to March 1998, there is no evidence that Commission personnel performed this function. Performance of this review is an essential control in the detection and correction of errors on FSRs. Documentation of the review process fixes responsibility for its performance and reduces the risk that errors on FSRs may exist and remain undetected. Beginning in March 1998, the Commission began using a formal review form to document the FSR review process.

Disbursement of Funds to Subgrantees

Prior to March 1998, the Commission awarded funds to subgrantees on a pro rata basis, either quarterly or on another basis determined by the subgrantee, instead of on a reimbursement or proximate need basis. As a result, subgrantees likely maintained cash on hand that exceeded their immediate cash flow requirements for AmeriCorps program expenditures.

Proper Authorization for the Disbursement of Funds

The Commission does not have procedures in place to ensure that disbursements of funds have been properly authorized by responsible personnel. The fiscal agent, acting on orders received from the Commission, draws down federal funds and disburses them to the appropriate subgrantees. However, clear guidance on who has the proper authority to direct the draw downs is not communicated to the fiscal agent, thus increasing the risk that funds may be drawn down for other than authorized purposes.

Timely Drawdown of Federal Funds

The Commission does not have adequate procedures in place to ensure the timely drawdown of federal funds. As of the date of this report, the Commission's fiscal agent has not drawn down federal funds to reimburse the Commission for administrative expenses since August 1999. The consequences of not having drawn down funds timely are: (1) the State of Oregon, in effect, is funding all Commission activities; (2) the Commission's current inability to apply for additional Corporation grant awards because funds remain in the current draw account, even expenses have been incurred in excess of the current balance of the draw account; and (3) the Corporation's record of grant advances to the Commission may be misstated for financial reporting purposes.

Lack of a Comprehensive Agreement with Fiscal Agent

In the Commission's agreement with its first fiscal agent, DCCWD, the Commission did not establish formal policies and procedures to ensure a mutually productive and satisfactory working relationship. For example, formal procedures were not implemented to:

- ensure that draw downs were properly authorized by appropriate Commission personnel;
- ensure the retention of the Commission's documentation maintained by the fiscal agent, permit access by Commission personnel to these records, or require the availability of fiscal agent personnel for audits or reviews;
- resolve disputes between the Commission and its fiscal agent (i.e., grievance procedures); and
- provide for open channels of communication between the Commission and its fiscal agent to ensure an effective exchange of information to address grant administration issues.

The lack of a comprehensive agreement has led to inconsistencies in grants administration. As of June 30, 2000, the Oregon Housing and Community Service Department (OHCS) became the fiscal agent of the Oregon Community Service Commission. The new agreement contains more descriptive language regarding roles and responsibilities of both the DCCWD and the OHCS.

Written Policies and Procedures

The Commission's fiscal policy manual developed in September 1999 relates to Commission staff members and programs receiving AmeriCorps competitive and formula funding. However, formal policies have not yet been developed for other grant programs such as Learn and Serve, Planning Development and Training, Disability and Administrative grants.

Classification and Support for Administrative Grant Expenses

The Commission could not provide adequate support for one recurring type of administrative grant expense selected for review (charges allocated to the Commission by its fiscal agent for amounts related to the fiscal agent's agreement with the Oregon Department of Education for the drawing of federal funds). The item selected for review amounted to $13,964 and was purported to represent the annual charge for services provided. Because the documentation provided by the Oregon Department of Education did not adequately demonstrate how the amounts charged to the Commission were derived, we could not ascertain if the charges were reasonable. Inadequate supporting documentation may result in Corporation funds being used for unallowable expenses.

Additionally, the Commission did not properly classify 2 of 16 administrative grant award expenses selected for review in its general ledger. Misclassifications may lead management to make erroneous conclusions based on the information provided, potentially resulting in noncompliance with grant provisions and inaccurate reporting of program activity to the Corporation.

Timeliness of Receipt of FSRs

The Commission had not routinely date-stamped FSRs from subgrantees as they are received. Therefore, the Commission cannot verify if these documents were submitted timely in compliance with the grant agreement. As a result, subgrantee FSRs may have been submitted late. We noted that the Commission began utilizing the Web Based Reporting System which electronically records the date subgrantees submit their FSRs to the Commission during the fiscal year ending September 30, 2000. As a result, no recommendation is required related to date stamping of FSRs currently being received.

Recommendations

We recommend the Commission focus on measures for improving the effectiveness of its grant administration process as follows:

- Determine and maintain realistic staffing levels based on funding, related duties and responsibilities. As an alternative to hiring additional personnel, the Commission could amend the current agreements with either of its paying agents to expand their scope of services to include performing the duties previously performed by the Administrative Officer. These duties include periodically reconciling Commission's expenses processed by both of its paying agents, performing subgrantee fiscal monitoring and ensuring compliance with relevant Corporation, grant and federal guidance for PDAT, Administrative and Disability grants.

  With respect to the duties previously performed by the Special Projects Coordinator, we recommend that the Commission consider staffing this position at an appropriate FTE level or contracting for the related services. In the absence of hiring additional staff, we recommend that the Commission segregate incompatible accounting functions as much as possible.

- Continue the development and implementation of procedures to review subgrantee FSRs, recalculate matching requirements and formally document the review procedures performed.

- Continue developing formal policies and procedures to encompass all grants awarded by the Commission, including Administrative, Program Development and Training and Disability.

- Evaluate the effectiveness of the new interagency agreement with OHCS after six months to determine whether any amendments are necessary to ensure a smooth working relationship between the Commission and its fiscal agent.

- Meet with the Oregon Department of Education to obtain an understanding of and support for the amounts charged to the Commission for services provided in drawing down federal funds for program expenses. Based on the information obtained, ascertain whether any adjustments should be made to reported allowable grant expenses and take appropriate corrective action.

- Establish a process for review by a second person of the propriety of expenses as classified in the general ledger. Any discrepancies noted should be corrected on a timely basis to ensure the accuracy of grant expense information reported to the Corporation.

- Establish a process to conduct formal, periodic staff meetings with the fiscal agent to address important grant administration issues as they arise.

Evaluating and Monitoring Subgrantees

As noted above, the Commission is responsible for evaluating whether subgrantees comply with legal, reporting, financial management and grant requirements and ensuring follow through on issues of noncompliance. Prior to February 1998, no documentation exists to support any site visits to subgrantee locations the Commission may have performed. Between February and December 1998, the Commission was understaffed and experienced a significant amount of turnover. During that time, no on-site monitoring visits occurred. Instead, the Commission relied on telephone calls and periodic meetings with subgrantee Program Directors to address programmatic concerns and issues.

We identified the following areas for improvement related to the evaluation and monitoring of subgrantees.

Semi-annual Site Visits

Beginning in program year 1998-1999 (June 1999), the Commission established a policy to perform semi-annual site visits for each subgrantee using a standard monitoring tool. Actual visits to subgrantee locations did not commence until November 1999. Such visits were to include visits to program locations on a sample basis to observe Member activities. After each visit, the site monitors were expected to notify the subgrantee of the results of site visits, including strengths, challenges, recommendations and any necessary follow-up requirements. However, this policy was never fully implemented as designed.

Improved Documentation of Site-Monitoring

As noted above, the Commission developed and began using a standard site monitoring tool to provide reasonable assurance that subgrantees were complying with federal and grant requirements and that the review was adequately documented. However, the use of this tool does not currently provide for adequate documentation of the sample items selected for review, the rationale for selecting the sample items, or a provision for review of Member timesheets and expenses. Improved documentation of procedures performed during on-site monitoring ensures that procedures are performed consistently across all subgrantees and that significant areas of internal control and compliance, such as Member time and expense reporting, are addressed. Additionally, it enables Commission management to evaluate the monitor's rationale and place greater reliance on the conclusions reached.

Review of Subgrantee OMB Circular A-133 and Other Reports

OMB Circular A-133 Compliance Supplement, April 1999, Part 6 – Internal Control suggests that review of and follow-up on subgrantees' audit reports is a key component of a program to monitor subgrantees' compliance with federal grant requirements. In 1999, the Commission formally implemented procedures to require receipt and review of OMB Circular A-133 or other audit reports. Prior to 1999, there is no evidence that subgrantees' reports were routinely requested or that they were reviewed by the Commission. Without adequate review and follow-

up on matters contained in OMB Circular A-133 audit reports, control weaknesses or instances of material noncompliance noted and disclosed in such audit reports may continue to occur and not be corrected timely.

Follow-up Procedures on Deficiencies Noted during Site Monitoring Visits

The Commission began performing site monitoring visits in November 1999. For two of four subgrantee files reviewed for evidence of site monitoring since that date, there is no documentation of the follow-up of deficiencies noted during those visits.

Recommendations

We recommend the Commission focus on measures for improving the effectiveness of its evaluation and monitoring of subgrantees as follows:

- Develop and implement procedures to document the review and testing of subgrantees' Member timesheets and expense documentation during financial site visits. These procedures should require identification of selection criteria and items selected for testing.

- Continue developing its OMB Circular A-133 audit report tracking database to provide reasonable assurance that the Commission receives and reviews the audit reports from all subgrantees subject to such audits, and follows up on any deficiencies noted in these reports in a timely manner.

- Obtain and review the most recent OMB Circular A-133 reports as a part of the compliance site visits for all subgrantees. If an OMB Circular A-133 audit is in process when the site visits occurs, the Commission should note this in an "outstanding reports" listing, which should be reviewed periodically during the year to ensure all OMB Circular A-133 reports are obtained and reviewed timely.

- Develop written policies and implement procedures to ensure that adequate corrective actions are taken in a timely manner when deficiencies are noted either by the Commission during site visits, or during review of OMB Circular A-133 reports.

- Enforce current procedures requiring semi-annual site monitoring.

Providing Technical Assistance

Annually, the Commission receives grant funds to provide technical assistance to its subgrantees. Procedures are in place at the Commission to (1) identify training needs of subgrantees through site visits, training evaluations, and need and resource assessment surveys; (2) notify subgrantees of training programs; and (3) provide needed training to subgrantees. The Commission currently uses the services of Northwest Regional Educational Labs (NWREL) to provide training to Commission and subgrantee personnel. We identified no significant areas for improvement in this area.

However, in conversations with the Executive Director of the Commission, we understand the Commission is considering severing its relationship with NWREL and developing its own internal training program, in an effort to reduce costs. We recommend the Commission

determine the impact such a decision may have on the already strained resources of the Commission staff. Before such action is taken, we also recommend focused attention be given to developing an ideal course curriculum for Commission staff and subgrantees.

*****

This report is intended solely for the information and use of the Office of the Inspector General, the management of the Corporation for National and Community Service, the management of the Oregon Governor's Community Service Commission, and the United States Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Commission Funding Appendix A

The table below and the flowcharts on the following pages depict the Commission's funding since 1994. We were unable to agree the funding amounts to the Commission's FSRs for (a) 1999-2000 because the final FSR for the program year had not been completed at the time of field work and (b) previous program years because those FSRs had been prepared on a cumulative, not program year, basis.

Funding Source and Type	1994	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
CNS Formula Grant Funds		601,135	797,618	768,920	885,785	1,017,577	1,025,949
CNS Competitive Grant Funds		63,440	555,484	588,657	633,001	550,395	441,460
CNS Promise Fellows Funds						65,000	53,500
CNS Educational Only Awards			4,000	22,650	18,700	7,900	15,500
CNS Learn and Serve Funds					98,476	95,654	98,595
CNS Governor's Initiative Funds			79,000				
CNS Make a Difference Day Funds							2,000
CNS Disability Funds				88,936			
CNS PDAT Funds		35,000	50,000	60,736	46,550	2,000	
CNS Administrative Funds	178,800	221,097	331,288	160,700	7,180		
CNS Carryover Funds					42,966	270,080	131,184
State Matching Funds	34,139	406,993	834,222	661,071	1,187,585	1,482,203	433,599
Total Funding	212,939	1,327,665	2,651,612	2,351,670	2,920,243	3,490,809	2,201,787

Internal Controls

Our objective was to make a preliminary assessment of the adequacy of the Commission's financial systems and documentation maintained by the Commission to provide reasonable assurance that transactions are properly recorded and accounted for to: (1) permit the preparation of reliable financial statements and Federal reports; (2) maintain accountability over assets; and (3) demonstrate compliance with laws, regulations, and other compliance requirements.

In order to achieve the above objective, we identified the compliance requirements with a direct and material effect on the Commission's AmeriCorps grant program, as follows: activities allowed or unallowed and allowable costs; cash management; eligibility; matching; period of availability of Corporation funds; procurement, suspension and debarment; subrecipient monitoring; and reporting by the Commission to the Corporation. We then interviewed key Commission personnel to assess the Commission's controls surrounding these requirements.

Selecting Subgrantees

Our objectives were to make a preliminary assessment:

- of the adequacy of the systems and controls utilized by the Commission to select national service subgrantees to be included in an application to the Corporation;
- as to whether the Commission evaluated the adequacy of potential subgrantee financial systems and controls in place to administer a Federal grant program prior to making the award to the subgrantees; and
- as to whether Commission involvement in the application process involved any actual or apparent conflict of interest.

In order to achieve the above objectives, we interviewed key Commission management and documented procedures performed by the Commission during the pre-award financial and programmatic risk assessment of potential subgrantees. We also reviewed documentation to determine if conflict of interest forms were signed by selection officials annually and maintained by the Commission.

Administering Grant Funds

Our objectives were to:

- make a preliminary assessment of the adequacy of the systems and controls utilized by the Commission to oversee and monitor the performance and progress of funded subgrantees;
- make a preliminary assessment as to whether the Commission's organizational structure and staffing level and skill mix are conducive to effective grant administration and whether the Commission has a properly constituted membership;

- make a preliminary assessment as to whether the Commission provided adequate guidance to subgrantees related to maintenance of financial systems, records, supporting documentation, and reporting of subgrantee activity;

- make a preliminary assessment of the adequacy of financial systems and documentation maintained by the Commission to support oversight of subgrantees and required reporting to the Corporation (including Financial Status Reports, enrollment forms and exit forms); and

- determine whether the Commission has procedures in place to verify the accuracy and timeliness of reports submitted by the subgrantees.

In order to achieve the above objectives, we reviewed Financial Status Reports submitted by subgrantees, as well as Financial Status Reports submitted by the Commission to the Corporation, to preliminarily assess the accuracy of submitted Financial Status Reports. We also determined whether the Commission has implemented the Web Based Reporting System (WBRS).

Evaluating and Monitoring Subgrantees

Our objectives were to:

- make a preliminary assessment of the adequacy of the systems and controls utilized by the Commission to implement a comprehensive, non-duplicative evaluation and monitoring process for their subgrantees;

- determine whether the Commission has an established subgrantee site visit program in place and make a preliminary assessment of the effectiveness of its design in achieving monitoring objectives;

- make a preliminary assessment of the adequacy of the Commission's procedures used to assess subgrantee compliance with Corporation regulations (e.g., those governing eligibility of Members, service hour reporting, prohibited activities, payment of living allowances to Members and allowability of costs incurred and claimed under the grants by subgrantees (including reported match));

- make a preliminary assessment of the adequacy of the Commission's procedures for obtaining, reviewing and following up on findings included in the subgrantee OMB Circular A-133 audit reports, where applicable;

- determine whether program goals are established and results are reported and compared to these goals; and

- make a preliminary assessment of the adequacy of the procedures in place to evaluate whether subgrantees are achieving their intended purpose.

In order to achieve the above objectives, we documented the procedures performed by the Commission to evaluate and monitor individual subgrantees. In addition, we judgmentally selected subgrantees and obtained the Commission's documentation for site visits. We reviewed

the documentation to preliminarily assess the adequacy of the procedures performed by the Commission to assess financial and programmatic compliance and related controls at the sites. We also determined whether the Commission received and reviewed OMB Circular A-133 audit reports from subgrantees.

Providing Technical Assistance

Our objectives were to:

- make a preliminary assessment of the adequacy of the systems and controls utilized by the Commission to provide technical assistance to subgrantees and other entities in planning programs, applying for funds, and implementing and operating programs;

- determine whether a process is in place to identify training and technical assistance needs; and

- determine whether training and technical assistance is provided to identified subgrantees.

In order to achieve the above objectives, we documented the procedures performed by the Commission to identify and satisfy training needs for the subgrantees and Commission employees. We also obtained a summary of all training costs incurred during the current year to ensure they properly related to training activities that were made available to all subgrantees.

Oregon Community Service Commission Response

OREGON COMMUNITY SERVICE COMMISSION

September 22, 2000

Luise S. Jordan
Inspector General
Corporation for National Service
1201 New York Avenue, NW
Washington DC 20525

Dear Ms. Jordan,

On behalf of the members of the Oregon Community Service Commission, I am pleased to provide our response to the draft report on your pre-audit survey of our Commission.

As you will note, three general themes are reflected throughout our response. First, both paid staff and Commissioners share a real sense of accomplishment in the progress we have made toward impeccable grant management policies and procedures.

Second, we also share a commitment to continuous improvement in our work on behalf of the state of Oregon.

Third, we want to recognize the assistance that we have received from the Corporation for National Service Office of Grants Management, the Oregon Audits Division, and your audit team in our restructuring efforts. Each of those units has provided valuable guidance and recommendations that have been instrumental in the reinvention of the Commission.

If you have any questions, or wish to discuss our response, please contact me at (503) 725-5903.

Sincerely,

Kathleen A. Joy
Executive Director

Enclosure

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Oregon Community Service Commission Response

September 20, 2000

Inspector General
Corporation for National Service

The members of the Oregon Community Service Commission, as well as its staff, welcome the opportunity to respond to the Oregon Pre-Audit Survey report prepared for your office by KPMG and forwarded to us for comment on August 25.

Response in Brief

The report clearly details the continuous improvement made by the Commission since the hiring of new staff beginning in spring, 1998. Through a strong partnership between Commissioners and staff members, each of the findings outlined by your audit team had already been identified as an area of improvement. We are pleased that we have been able to gain significant strength in our ability to manage federal grants, while continuing to operate our current programs at a highly professional level.

We believe that the report also reflects our commitment to continuous improvement and recognizes the conscious decision made by Commissioners in January, 1999 to focus our efforts on strengthening the grants management policies and procedures implemented by staff. We acknowledge the guidance provided by the Office of Grants Management, Corporation for National Service, as well as the State of Oregon Audits Division, and the KPMG audit team.

At the same time, we continue to express our concern over the audit team's use of the *Reference Manual for Commission Executive Directors and Members* as the source document for Corporation grants management guidance. This manual, which was developed outside the Corporation as a compilation of best practices, has never been vetted by the Office of Grants Management. Throughout our reinvention efforts, we have been repeatedly advised by the Corporation **not** to use the document as a source for regulations or Office of Grants Management recommendations. We do not believe that this is the appropriate document to be used by auditors when evaluating field level compliance with the requirements of the Corporation.

Our response to this report indicates that all of the recommendations have been reviewed. Most have been fully implemented, while a few are still in process. We are pleased that we have been able to continue our strengthening of sound management policies and procedures as a result of this review.

Response to Findings and Recommendations

Selecting Subgrantees

Recommendation 1:
Develop and implement procedures to ensure that adequate documentation is maintained to support funding decisions and communication of those decisions to applicants.

Oregon Community Service Commission Response

Commission Response:
The 2000-2001 AmeriCorps application was the first open application process developed and managed by our new staff. As part of that process, applicants were required to provide financial management information in two formats. As part of the concept paper application phase, each applicant completed a checklist assessment of its financial management capacity. These reports were reviewed by staff during the applicant selection process.

As part of the full application process each applicant was required to complete a narrative annex detailing their fiscal management policies and procedures. These were also reviewed by staff, and used in consideration by the AmeriCorps Program Committee and the Commissioners during the selection of the final formula portfolio applicants.

In the future, we will further refine the application packages. They will detail all elements considered for funding recommendations and the methods by which those recommendations will be communicated to all applicants, successful and unsuccessful. Basic elements of the application process will be included in the Commission Policies and Procedures Manual. These will include the process for requesting proposals, review procedures, appeal procedures, and procedures that will be used by the Commission to communicate decisions to all applicants.

Recommendation 2:
Review the current composition of the Board of Commissioners and restructure it, if necessary, to ensure that all areas of the State are adequately represented.

Commission Response:
The Commission has been working with the Office of the Governor Appointments Unit for the past nine months to identify and recruit Commissioners representative of a broader geographical distribution of the state. Representatives from the limited populations east of the Cascade Mountains are actively sought by the more than 260 state Boards and Commissions serving the Governor. We are pleased to have recruited a new Commissioner from central Oregon in early August and expect to continue our efforts for expansion during the coming months.

Administering Grant Funds

Recommendation 3:
Determine and maintain realistic staffing levels based on funding, related duties and responsibilities.

Commission Response:
Prior to 1998, the Commission had always maintained a staff of three: Executive Director, Program Assistant, and Office Manager. With the hiring of a new Executive Director, it became clear that additional staff would be necessary to implement the Commission's strategic plan for reinvention. The Special Projects Coordinator was hired with the specific responsibility for program support in fall, 1998. When the limited term position was created, it was with the clear understanding that the position would be reevaluated on June 30, 2000.

The Administrative Officer position was also created on a limited term basis. It was originally designed as a .5 FTE. Due to the complexity of reconstructing prior year records, it became a 1. FTE in spring, 1999, with the agreement that the position would be reevaluated in June, 2000.

Oregon Community Service Commission Response

With the close of the employee contracts in June, the Commission began a reassessment of the roles and responsibilities of the staff. It has never been our intent to leave the positions unfilled, but rather to evaluate and determine the most appropriate staffing levels and work plans to carry out our programs. This evaluation also provides us with an opportunity to integrate the support provided by our new fiscal agent, Oregon Housing and Community Services (OHCS), into our work plans.

Recommendation 4:
Continue the development and implementation of procedures to review sub-grantee FSRs, recalculate matching requirements, and formally document the review procedures performed.

Commission Response:
With the implementation of the Web Based Reporting System (WBRS) in 1999, matching requirements are automatically calculated by the system on each Periodic Expense Report (PER) which is required monthly. These forms are monitored by staff when processing the Requests for Reimbursement received from programs.

Recommendation 5:
Continue developing formal policies and procedures to encompass all grants awarded by the Commission, including Administrative, Program Development and Training, and Disability.

Commission Response:
The move to a new fiscal agent will allow us to more formally integrate State of Oregon policies and procedures into our Commission Policies and Procedures manual.

Recommendation 6:
Evaluate the effectiveness of the new interagency agreement with OHCS after six months to determine whether any amendments are necessary to ensure a smooth working relationship between the Commission and its fiscal agent.

Commission Response:
This evaluation has been scheduled.

Recommendation 7:
Meet with the Oregon Department of Education to obtain an understanding of and support for the amounts charged to the Commission for services provided in drawing down federal funds for program expenses. Based on the information obtained, ascertain whether any adjustments should be made to reported allowable grant expenses and take appropriate corrective action.

Commission Response:
This meeting will be held as part of the formal closeout of the Administrative grant.

Recommendation 8:
Establish a process for review by a second person of the propriety of expenses as classified in the general ledger. Any discrepancies noted should be corrected on a timely basis to ensure the accuracy of grant expense information reported to the Corporation.

Oregon Community Service Commission Response

Commission Response:
This process has been established as part of the implementation of the transfer to our new fiscal agent, OHCS.

Recommendation 9:
Establish a process to conduct formal, periodic staff meetings with the fiscal agent to address important grant administration issues as they arise.

Commission Response:
As part of the transfer to a new fiscal agent, Commission staff have regularly scheduled meetings with both management and fiscal administrative staff at Oregon Housing and Community Services.

Evaluating and Monitoring Subgrantees

Recommendation 10:
Develop and implement procedures to document the review and testing of sub-grantees' Member timesheets and expense documentation during financial site visits. These procedures should require identification of selection criteria and items selected for testing.

Commission Response:
During the 1999-2000 program year, all sites received a copy of the site monitoring tool. All sites were reviewed based on this tool. Member timesheets were reviewed and each file review report documents this review, which occurred for all programs. The Oregon Supplement to the 2000-2001 Program Director's Manual defines specific site visit protocol that will be used during the semi-annual visits to each program.

Recommendation 11:
Continue developing its OMB Circular A-133 audit tracking database to provide reasonable assurance that the Commission receives and reviews the audit reports from all sub-grantees subject to such audits and follows up on any deficiencies noted in these reports in a timely manner.

Commission Response:
The database and development of concurrent policies and procedures were completed in July, 2000.

Recommendation 12:
Obtain and review the most recent OMB Circular A-133 reports as part of the compliance site visits for all sub-grantees. If an OMB Circular A-133 audit is in process when the site visit occurs, the Commission should note this in an "outstanding reports" listing, which should be reviewed periodically during the year to ensure all OMB Circular A-133 reports are obtained and reviewed timely.

Commission Response:
Commission policies require the submittal of the most recent audit as part of the application/renewal process. Review of these reports is conducted by the fiscal/administrative staff and the report is shared with the Program Director. Follow-up policies will mirror those of our new fiscal agent. It is Commission policy that sub-grantee contracts not be issued to programs whose most current A-133 has not been received and reviewed by the Commission staff.

Oregon Community Service Commission Response

Recommendation 13:
Develop written policies and implement procedures to ensure that adequate corrective actions are taken in a timely manner when deficiencies are noted either by the Commission during site visits, or during review of OMB Circular A-133 reports.

Commission Response:
The Oregon Supplement to the 2000-2001 Program Directors Manual includes written policies and procedures on site visit follow-up and corrective action plans.

Providing Technical Assistance

Recommendation 14:
The Commission should determine the impact that a decision to sever its relationship with NWREL may have on the already strained resources of the Commission staff. Before such action is taken, we also recommend focused attention be given to developing an ideal course curriculum for Commission staff and grantees.

Commission Response:
The evaluation of staffing needs and resources currently underway (see response to Recommendation 3) is designed to determine the appropriateness of hiring a full-time Training Coordinator rather than continue to contract with an outside agency. It has never been the intent of the Commission to add the responsibility for training and special projects to the three permanent staff positions.

Course curriculum for Commission staff and grantees is well-defined by National Service Leadership Institute (NSLI) of the Corporation for National Service. The Commission has worked actively to ensure that all current state-funded program directors have participated in one or more NSLI training events. As we have since 1995, we will continue to supplement National training with programs designed to meet the specific needs of the programs operating in Oregon.

This year, we also partnered with the California Commission and other Pacific Cluster states to design and conduct a formal training for new AmeriCorps program staff. In addition, we will be joining with other Commissions in the Pacific Cluster, to develop an annual training program for Commission staff. These efforts are part of our continuing commitment to program excellence throughout the state.

Appendix D

Corporation Response

AmeriCorps National Service

CORPORATION FOR NATIONAL SERVICE

MEMORANDUM

TO: Luise S. Jordan, Inspector General

THRU: Anthony Musick, Chief Financial Officer

FROM: Deborah R. Jospin, Director of AmeriCorps
Bruce H. Cline, Director of Grants Management

DATE: September 25, 2000

SUBJECT: Response to the Draft Audit Report 00-40 Pre-Audit Survey of the Oregon Community Service Commission

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We have reviewed the draft report on your pre-audit survey of the Oregon Commission. The draft audit report includes the following recommendation to the Corporation:

> "Given the significant grants management issues that the Commission has faced and the guidance it currently seeks to improve controls further, the Corporation should perform site monitoring visits at the Commission at least annually for the next three years."

The Corporation agrees with the recommendation. As set forth in memos to the Office of Inspector General from Deb Jospin dated March 23, 1999 and June 20, 1999, the Corporation has been actively engaged in supporting the Oregon Commission in identifying and correcting problems with its fiscal management. In April 1998, a representative from Walker and Co. provided technical assistance to the Commission. In May 1998, the Senior AmeriCorps Program Officer conducted a site visit to the Commission in conjunction with a TASC consultant. In January 1999, the Commission attended the Corporation's Financial and Program Management and Accountability Seminar. In March 1999 and April 1999, the Corporation conducted management visits in conjunction with the Corporation's Pacific Cluster Area Manager. Also, a Senior Grants Officer conducted an in-depth site visit during the last week of April 1999. Since June 1999, when the Corporation limited Oregon's access to its grant funds, the AmeriCorps program staff have made several additional visits to Oregon.

In addition to planned site visits and other reviews, we will also request that the Oregon Commission provide semi-annual reports on their actions to correct conditions cited in the OIG pre-audit survey.

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