OFFICE OF THE INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE

PRE-AUDIT SURVEY OF THE CALIFORNIA COMMISSION ON IMPROVING LIFE THROUGH SERVICE

OIG Audit Report Number 01-18
October 13, 2000

Prepared by:

KPMG LLP
2001 M Street N.W.
Washington, DC 20036

Under CNS OIG MOU # 98-046-5003
With the Department of Labor
DOL Contract # J-9-G-8-0022
Task # B9G0V203

This report was issued to Corporation management on March 8, 2001. 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 September 4, 2001, and complete its corrective actions by March 8, 2002. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of Inspector General
Corporation for National and Community Service

CORPORATION
FOR NATIONAL
SERVICE

Pre-Audit Survey of the California Commission on Improving Life Through Service OIG Audit Report Number 01-18

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.

Thus, state commissions play an important role in the oversight of AmeriCorps programs and expenditures. The Corporation has indicated that it intends to give them greater responsibility. However, the Corporation lacks a management information system that maintains comprehensive information on its grants including those to state commissions and subgrantees. Moreover, although the Corporation began state commission administrative reviews in 1999, the Corporation, historically, has not carried out a comprehensive, risk-based program for grantee financial and programmatic oversight and monitoring. It is also unlikely that AmeriCorps programs are subject to compliance testing as part of state-wide audits under the Single Audit Act due to their size relative to other state programs.

Therefore, CNS OIG has initiated a series of pre-audit surveys intended to provide basic information on the state commissions' operations and funding. The surveys are designed to provide a preliminary assessment of the commissions' pre-award and grant selection procedures, fiscal administration, and monitoring of subgrantees (including AmeriCorps Member activities and service hour reporting). They are a tool that allows OIG to plan future audit work related to the state commission's operations. For each survey, we also issue a report to the state commission and to the Corporation communicating the results and making recommendations for improvement, as appropriate. Recommendations for future audit work consider the pre-audit survey results, known audit coverage, and the amount of funding.

We engaged KPMG LLP to perform the pre-audit survey of the California Commission for Improving Life Through Service. Based on the limited procedures performed, KPMG concluded that the Commission administers an open, competitive process to select national service subgrantees and has developed various control policies and procedures for fiscal administration and sub-recipient oversight. However, there report includes a number of recommendations to improve the Commission's fiscal administration and oversight processes. In addition, KPMG recommends that the Office of Inspector General perform a full scope audit as a follow-up on issues identified by this pre-audit survey and that the Corporation follow-up to determine that appropriate corrective actions have been put into place.

CNS OIG reviewed the report and work papers supporting its conclusions. We agree with the findings and recommendations presented therein.

Inspector General
1201 New York Avenue, NW
Washington, DC 20525

The California Commission's response (Appendix C) takes issue with the findings in the report as well as the overall conclusion that a full scope audit of all grant years be performed. KPMG provided comments on the Commission's response (Appendix E) including additional detail and clarification. KPMG removed one finding from the final report based on the Commission's response related to the Web Based Reporting System (WBRS). The Corporation's response (Appendix D) argues against the need for a comprehensive manual of all financial responsibilities; improvements in record retention practices; and the need for documenting and implementing procedures to follow-up on untimely Financial Status Reports but states that it will follow-up with the Commission on these recommendations to ensure that adequate policies are in place and being followed. The Corporation states that it will follow-up with the Commission to assure that a system is in place to obtain subgrantee Circular A-133 audits. Lastly, the Corporation's response argues the need for instructions on its site visit form and Member file checklist charging that this attempts to direct "arbitrary, exacting standards for the Commission's monitoring of its programs".

Pre-Audit Survey of the
California Commission on Improving Life Through Service
Table of Contents

RESULTS IN BRIEF 1

BACKGROUND 2

OVERVIEW OF THE CALIFORNIA COMMISSION 3

OBJECTIVES, SCOPE, AND METHODOLOGY 4

FINDINGS AND RECOMMENDATIONS 5

APPENDIX A, COMMISSION FUNDING: 1994-95 THROUGH 1999-2000 ..... A.1

APPENDIX B, DETAILED ENGAGEMENT OBJECTIVES AND METHODOLOGY B.1

APPENDIX C, CALIFORNIA COMMISSION ON IMPROVING LIFE THROUGH SERVICE RESPONSE C.1

APPENDIX D, CORPORATION RESPONSE D.1

APPENDIX E, KPMG's COMMENTS ON COMMISSION RESPONSE E.1

2001 M Street, N.W.
Washington, D.C. 20036

October 13, 2000

Inspector General
Corporation for National and Community Service:

At your request, KPMG LLP (KPMG) performed a pre-audit survey of the California Commission on Improving Life Through Service (the Commission). The primary purpose of this survey was to provide a preliminary assessment of:

- the adequacy of the pre-award selection process;
- the fiscal procedures; and
- the effectiveness of monitoring of its AmeriCorps State subgrantees, including AmeriCorps Member activities and service hours and program accomplishments reporting.

We were also to report on the recommended scope of additional audit procedures to be performed at the Commission.

Results in Brief

Based on the results of the limited procedures performed, we have made the following preliminary assessments regarding the Commission's systems for administering its AmeriCorps grants:

- The Commission administers an open, competitive process to select national service subgrantees. However, prior to program year 1999-2000, the Commission could not provide documentation to support its evaluation of applicants' financial management systems and past experience.

- The Commission has developed control policies and procedures to administer the Corporation's grant funds. However, prior to program year 1999-2000, differences were noted between amounts reported on the Commissions' Financial Status Reports (FSRs) submitted to the Corporation and the Commission's financial records.

- The Commission has established controls to evaluate and monitor subgrantees. However, the Commission does not have adequate procedures for: (i) obtaining and reviewing subgrantees' Office of Management and Budget (OMB) Circular A-133, *Audits of State, Local Governments, and Non-profit Organizations* audit reports, and (ii) following up to ensure the timely resolution of identified deficiencies. In addition, the Commission did not

KPMG LLP KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

conduct adequate procedures during its site visits prior to program year 1999-2000 to verify the financial management activities of its subgrantees.

The section below entitled Findings and Recommendations describes the weaknesses noted above in further detail and addresses additional issues noted during the survey.

The Commission is a part of an agency of the State of California, and as such, is annually subject to an OMB Circular A-133, *Audits of State, Local Governments and Non-Profit Organizations,* audit performed by the California State Auditors' Office. The State Auditors identified the Commission's AmeriCorps grants as a major program and reported findings pertaining to the Commission's AmeriCorps program in fiscal years 1997, 1998 and 1999. In 1997 and 1998, a state subgrantee of the Commission administering various AmeriCorps programs was cited for unsupported costs and inadequate monitoring of its subrecipients. Additionally, in 1998 the State Auditors reported the Commission's inaccurate reporting of AmeriCorps grant activities. In 1999, the State Auditors cited the above mentioned subgrantee for inadequate monitoring and reporting of subreceipient activities.

Based on our preliminary assessments, the significant AmeriCorps funding that the Commission has received, and the nature of the findings identified herein, we recommend the performance of a full scope audit of the Commission for program years 1994-1995 through 1999-2000.

Additionally, we recommend that the Corporation follow up with the Commission to determine that appropriate corrective actions are implemented to address the conditions reported herein, and that the Corporation consider these conditions in its oversight and monitoring of the Commission.

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 California Commission

The California Commission on Improving Life Through Service, located in Sacramento, California, has received AmeriCorps grant funds from the Corporation for National and Community Service since program year 1994-95. The Commission operates as part of the State of California's Office of Planning and Research. The Commission has twenty employees including an Executive Director, a Deputy Director, a Director of Fiscal Affairs, Directors for Legal Affairs, Communications, Development, Programs and Administration, and Special Projects, and various assistant directors and support staff.

As part of the Office of Research and Planning of the State of California, the Commission is annually subject to an OMB Circular A-133 audit performed by the California State Auditors' Office. The AmeriCorps grants were identified as major programs in fiscal years 1997, 1998 and 1999, and as noted above, findings related to these programs have been reported each year.

The Commission provided us with the following information for all program years:

Program Year	Total Corporation Funding	Number of Subgrantees	Number of Subgrantees Subject to A-133 Audits*
1994-95	$ 13,012,542	22	18
1995-96	17,342,207	27	27
1996-97	19,304,880	32	32
1997-98	20,637,468	37	33
1998-99	27,027,341	52	41
1999-2000	33,037,524	69	49

* Determination is based solely on dollar value of federal awards passed through the Commission for each program year. Remaining subgrantees could be subject to an OMB Circular A-133 audit if they received additional federal grant funds from other sources.

Appendix A contains more detailed information on funding received from the Corporation during program years 1994-1995 through 1999-2000.

Objectives, Scope, and Methodology

We were engaged by the Office of the Inspector General, Corporation for National and Community Service, to provide an assessment of the systems and procedures in place at the Commission for administering its AmeriCorps grants and for monitoring the fiscal activity of subgrantees. The primary purpose of this pre-audit survey was to provide a preliminary assessment of:

- the adequacy of the pre-award selection process;
- the fiscal procedures at the Commission; and
- the effectiveness of monitoring of its AmeriCorps State subgrantees, including AmeriCorps Member activities and service hours and program accomplishment reporting.

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 *State Administrative Standards Tool*, 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 for the Commission;

- obtaining information from Commission management to complete flowcharts documenting the hierarchy of AmeriCorps grant funding for program years 1994-95 through 1999-2000; and

- performing procedures to achieve the objectives detailed in Appendix B to assess the Commission's internal controls, selection of subgrantees, administration of grant funds, and monitoring of subgrantees, including internal controls over service hours and performance accomplishment reporting.

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 findings with Commission management during an exit conference on October 13, 2000.

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 on 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.

We provided a draft of this report to the Commission and the Corporation. The Commission's and Corporation's responses to our findings and recommendations are included as Appendix C and D respectively. Our comments on the Commission's response is presented in Appendix E.

Findings and Recommendations

Selecting Subgrantees

According to 45 CFR Section 2550.80 (b)(1), "Each State must administer a competitive process to select national service programs to be included in any application to the Corporation for funding."

The Commission administers an open, competitive process to select national service subgrantees. The Commission advertises funding availability through mailing lists, newspapers and newsletters. In addition, selection officials sign conflict of interest statements annually, receive an instruction package, and uses a standard form to evaluate each applicant. However, we identified the following areas for improvement during the selection process.

Assessment of an Applicant's Financial Management System

Due to a lack of documentation, we were unable to confirm whether the procedures followed by the Commission prior to program year 1999-2000 included a process to identify whether a potential subgrantee had a financial management system that provides adequate accounting for allowable and unallowable costs, documentation of expenditures, allocation of costs and cash management. Office and Management Budget Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, as revised, prescribes the need for assessing the adequacy of an applicant's financial management system, by relying on readily available sources of information, such as audit reports, to the maximum extent possible. It also prescribes that if additional information is necessary to assure prudent management of funds, it shall be obtained from the applicant or from an on-site review. No recommendation is considered necessary at this time because the Commission revised its procedures to include documentation of its grant evaluation of applicant's financial management systems beginning with program year 1999-2000.

Assessment of an Applicant's Past Experience

Due to a lack of documentation, we were unable to determine whether the procedures followed by the Commission prior to program year 1999-2000 included a process to assess the potential subgrantee's past experience. 45 CFR Section 2522.410 (b)(2), *Organizational Capacity*, prescribes the basis upon which the Commission is required to consider the capacity of an organization to carry out the program, which includes consideration of the past experience of an organization or program in addition to other factors. No recommendation is considered necessary at this time because the Commission revised its procedures to include documentation of its evaluation of grant applicant's past experience beginning with program year 1999-2000.

Administering Grant Funds

As part of the grant administration process, "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity" (45 CFR Section 2541.400 (a)).

The Commission has developed and implemented procedures that are intended to provide reasonable assurance that grant funds received from the Corporation are properly administered. Procedures are in place to withhold funding payments if subgrantees do not submit Financial Status Reports (FSRs) timely; to manage cash draw downs and disbursements to subgrantees made by the Office of Planning and Research since 1994, as the Commission's fiscal agent; and to ascertain whether subgrantees have met their matching requirements. The Commission's personnel have adequate skills and experience to manage and administer Corporation grant funds. However, we identified the following areas for improvement within the administering process.

Discrepancies between Financial Status Reports and Financial Records

Certain Financial Status Reports (FSRs) that were submitted to the Corporation during program years 1995-1996 through 1997-1998, did not agree to the financial records that were maintained by the Commission. Examples of FSRs that were submitted to the Corporation that did not agree to the financial records of the Commission include the FSR for the Program Development and Assistance Training (PDAT) grant for September 30, 1997 and June 30, 1998, and the AmeriCorps Grant for June 30, 1995. 45 CFR Section 2543.21(a) prescribes standards for financial management systems of grant recipients. Federal grant recipients financial management systems are required to provide accurate, current, and complete disclosure of the financial results of each federally sponsored project or program. Financial management systems are also required to provide for records that identify the source and application of funds for federally sponsored activities. No recommendation is considered necessary at this time because the Commission implemented reconciliation and documentation procedures to correct these problems during fiscal year 1998.

Documentation of Financial Management Processes at the Commission Level

A comprehensive policies and procedures document has not been developed to address the financial management processes at the Commission level. For example, written polices and procedures do not exist for tasks conducted by personnel who are responsible for the administration and accounting of grant funds, to ensure consistent and appropriate administrative and financial oversight of the Commission's direct expenditures and those of its subgrantees. OMB Circular A-133 Compliance Supplement, Part 6 – *Internal Control,* suggests that clearly written operating policies and procedures should form part of the Commission's control activity to help ensure management's directives are carried out.

Document Retention

Certain documentation required to be maintained by the Commission could not be located. For example, the Commission could not locate:

- 1998-99 site visit reports for Building Individual Community (1 of 1 such report requested)
- 1996-97 progress reports for Watershed-CCC (3 of 3 such reports requested)
- 1996-97 year end FSR for El Dorado Co. Tahoe-Sierra AmeriCorps

45 CFR Section 2543.53 (b) provides requirements for record retention. Financial records, supporting documents, statistical records and all other records pertinent to an award are to be retained for a period of three years from the date of the submission of the final expenditure report, or for awards that are renewed quarterly or annually, from the submission of the quarterly or annual financial report, as authorized by the awarding agency.

Timeliness of Subgrantee FSRs

AmeriCorps Provisions 16 (a) prescribe that Grantees such as the Commission should set subgrantee reporting requirements consistent with their need for timely and accurate reports. The Commission requires FSRs to be submitted on a quarterly basis during a program year. The FSRs are due 30 days after the quarter ends, with the exception of the final FSR being due four months following the last quarter. We have been informed that the Commission had procedures in place to monitor the timely submission of subgrantees FSRs during program years 1994-1995 through 1997-1998. Procedures included follow-up through e-mail. Our procedures identified 8 subgrantee FSRs which were submitted late out of a total of 40 selected for review. Follow-up on these late submissions could not be verified due to missing e-mail documentation.

Recommendations

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

- Prepare a comprehensive manual that is reflective of its financial responsibilities. This manual should include:

    - Subject matter
    - Source (identification of key documents)
    - Identification of responsible official(s)
    - Process
    - Related internal controls in place
    - Timelines (for review and reporting)
    - Sample documents
    - Requirements for the retention of documents
    - Filing requirements

  This comprehensive manual should seek to incorporate documented procedures already developed for certain areas.

- Improve its record retention practices by the use of a file checklist that identifies the nature and type of documents that should be retained. This checklist should also identify the requirements for record retention. A periodic review should be conducted by someone other than the individual who is responsible for filing to ensure that appropriate procedures are being followed. Additionally, information should be stored in a manner that will facilitate retrieval.

- Document and implement procedures regarding follow-up on untimely FSR submissions by subgrantees. These procedures must emphasize the need for consistent follow up action on all subgrantees who are late at any time. The Commission should continue to implement its policy of refusing to reimburse subgrantee invoices without timely and accurate FSRs.

Evaluating and Monitoring Subgrantees

As noted above, the Commission is responsible for monitoring subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. The Commission has established controls to evaluate and monitor subgrantees, which include reviewing program and financial reports and scheduling site visits for each subgrantee during the grant period. Commission personnel use a standard site visit report form to document results of each visit, and the Commission notifies the subgrantees of the results of these site visits, including strengths, weaknesses, concerns, recommendations, and any necessary follow-up requirements.

In addition, the Commission evaluates program accomplishments reported by the subgrantees. The Commission uses a standard form to compile program objectives which were originally stated in the grant application. By establishing the objectives in this format and sharing it with the subgrantees at the beginning of the program year, it is clear how the program will be evaluated and what types of documentation must be maintained. Three times per year, the Commission requires that the programs address their accomplishments towards meeting the stated objectives, citing both numerical and other informational data. (In program year 1994-95 these reports were required quarterly.) The Commission personnel then verify this information as part of their site visits.

However, we identified the following areas for improvement related to the evaluation and monitoring of subgrantees.

Review of OMB Circular A-133 Audit Reports

The Single Audit Act, as amended in 1996, requires nonfederal entities expending $300,000 or more in Federal awards in a year to have audits performed in accordance with OMB Circular A-133. OMB Circular A-133 requires a grantee, such as the Commission, to be responsible for ensuring that audits of subgrantees are performed where required, and that the subgrantees take prompt corrective action on any findings. OMB Circular A-133 Compliance Supplement, 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.

However, the Commission has not implemented an adequate process for obtaining and reviewing OMB Circular A-133 audit reports for its subgrantees and following up on corrective actions

taken by subgrantees on reported findings. For example, the Commission's report tracking spreadsheet identifies that an A-133 audit report was received for the LA Conservation Corps (a subgrantee of the Commission) for the fiscal year ending 1996. However, the report that was received contained only one of three required components that should have been received.

Follow-up procedures on corrective actions are not being conducted at all in certain instances, and in other instances, not in a consistent, timely manner. For example, documentation to support follow up procedures performed by the Commission on the corrective actions taken in response to the State Auditors' findings reported in fiscal years 1997, 1998 and 1999 on the California Conservation Corps (CCC), a subgrantee of the Commission, was not available. For audit findings identified related to non-state agency subgrantees, the Commission followed up by requesting corrective plans, but did not consistently verify that corrections had been made.

Adequacy of the Site Visit Form

The Commission's monitoring process prior to program year 1999-2000, included the use of a standard form (the site visit planning form) to provide guidance to the person performing the site visit. However, this form did not instruct the evaluator to perform such tasks as: (i) verifying matching amounts to supporting documents; (ii) agreeing grant expenditures to supporting documents to verify the existence and allowability of costs; (iii) verifying amounts reported by the subgrantee to the general ledger; and (iv) reviewing and assessing the adequacy of the subgrantee's financial policies and procedures. According to OMB Circular A-133, the Commission is required to monitor the activities of subgrantees as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws and regulations, and the provisions of grant agreements. The Commission's 1999-2000 revised standard site visit form (the site assessment survey) provides guidance with respect to these procedures. However, we noted that it did not include procedures to document the specific work done or to retain copies of the supporting documents.

Review of Member Timesheets

As part of the Commission's site monitoring process, the Commission documents certain aspects of its review of Member timesheets. However, prior to program year 1999-2000, the Commission did not consistently document which Member timesheets were reviewed during site visits and what was specifically reviewed during a site visit. In addition, the Commission did not document the sample size selected and the rationale behind the selection. We were also informed that other requirements, such as evidence of a Member's awareness of prohibited activities, is reviewed at the same time as the timesheets. However, no specific evidence of this review was provided.

According to OMB Circular A-133, the Commission is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws and regulations and the provisions of grant agreements.

The Commission's Member file checklist implemented in program year 1999-2000 includes requirements for performing these procedures. However, we noted that it did not include procedures to document the basis used to select Member files.

Recommendations

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

- Improve its evaluation and monitoring procedures by developing and implementing a process for obtaining OMB Circular A-133 audit reports from its subgrantees and following up to ensure that timely corrective actions were taken on audit findings that have been identified. This process should include documenting, for each of its subgrantees: (i) whether an OMB Circular A-133 audit was required to be conducted, (ii) whether or not the audit was actually conducted, (iii) collection and review of the report, and (iv) follow up procedures performed for missing reports and to resolve reported findings.

- Include instructions in the standard site visit form to more specifically instruct evaluators as to required documentation and record retention practices.

- Include instructions on the Member file checklist to document the basis used to select Member files for review, and identification of those actually reviewed during the site visit.

*****

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 California Commission on Improving Life Through Service, and the United States Congress and is not intended to be and should not be used by anyone other than these specified parties.

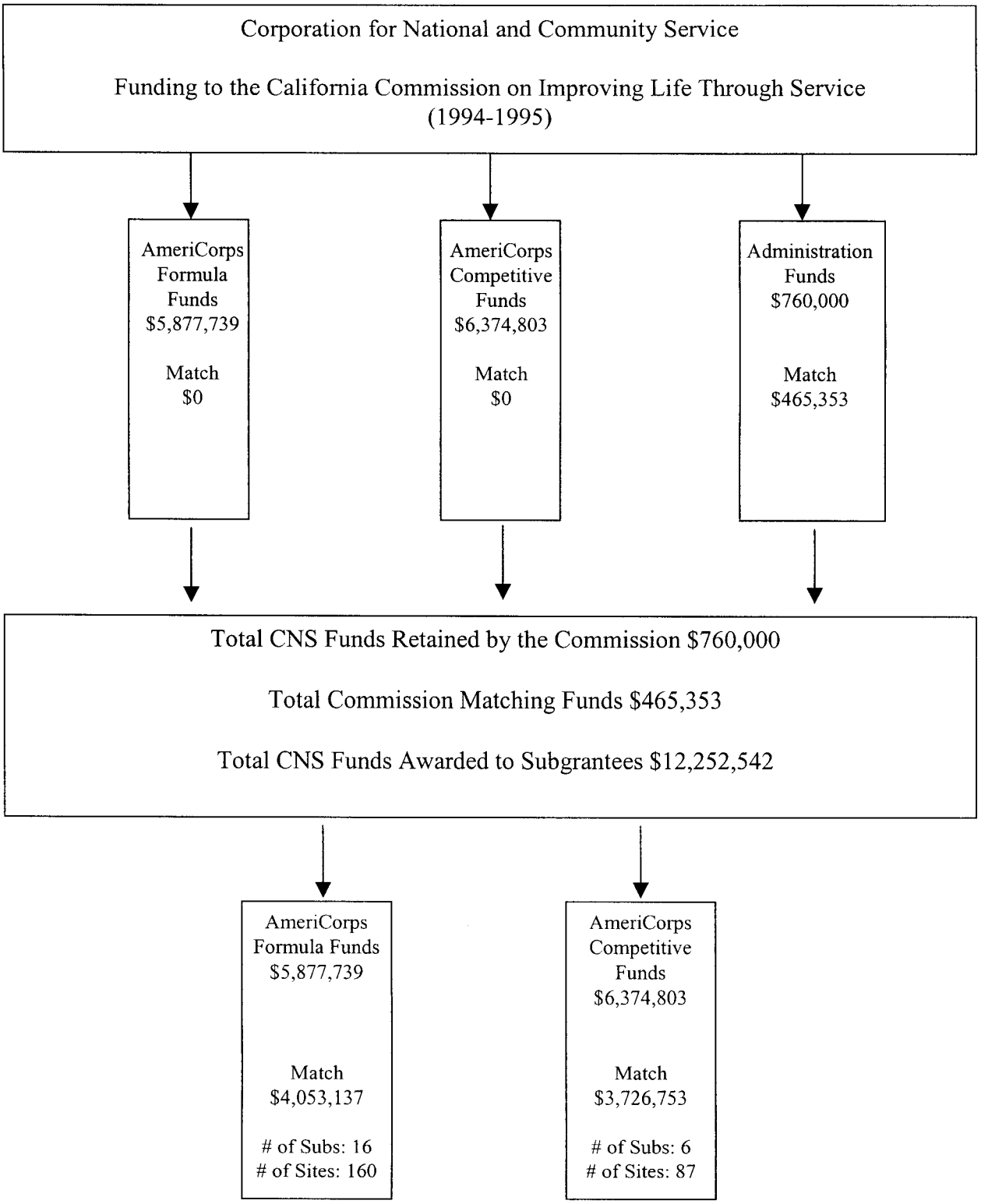
KPMG LLP

Commission Funding Appendix A

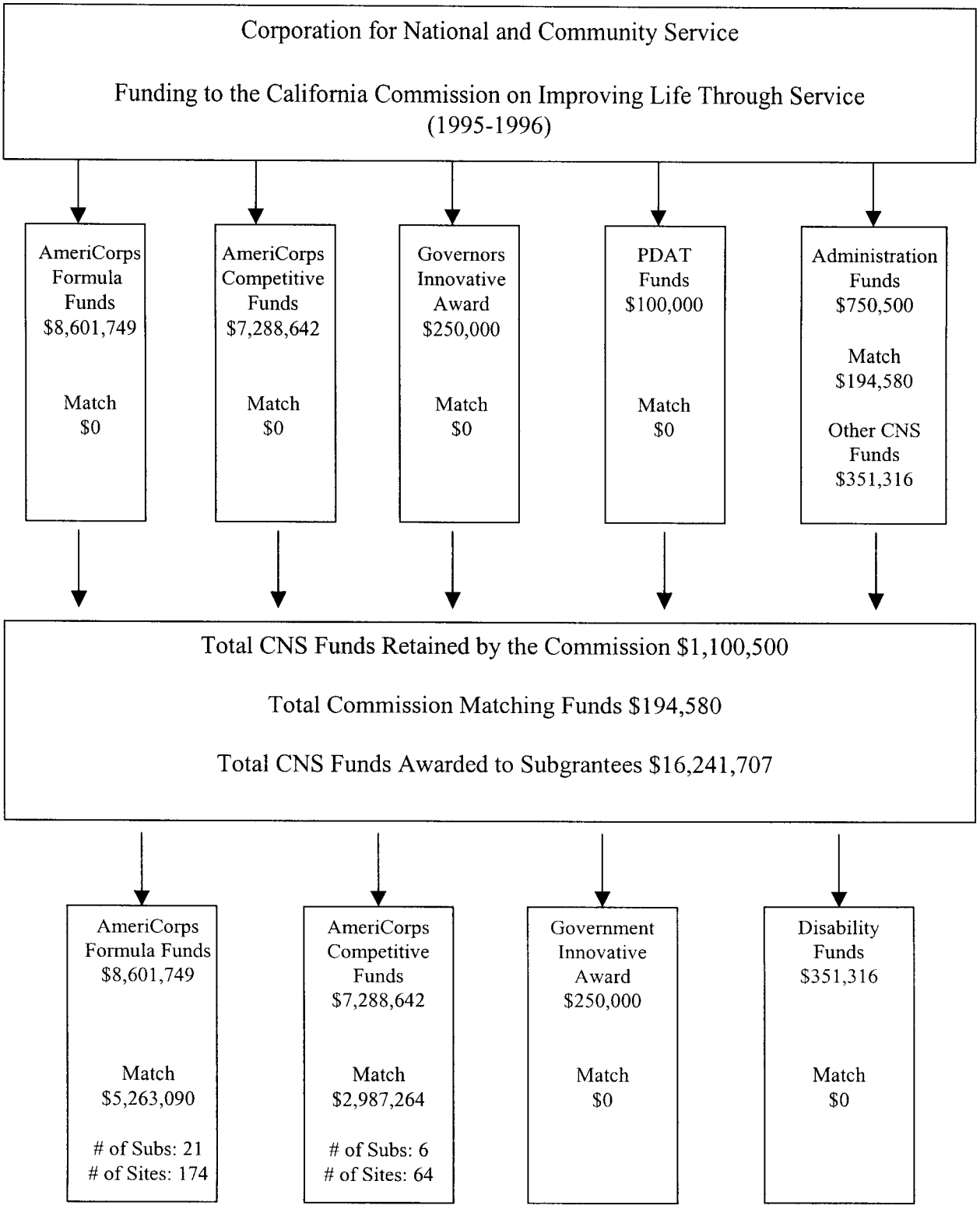
The table below and the flowcharts on the following pages depict the Commission's funding over the past six program years.

Funding Source and Type	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
CNS Formula Grant Funds	$ 5,877,739	$ 8,601,749	$ 8,709,383	$ 8,314,433	$ 8,647,447	$ 8,414,948
CNS Competitive Grant Funds	6,374,803	7,288,642	9,367,021	11,358,635	13,460,337	15,274,295
America Reads	-	-	-	-	2,795,294	4,867,281
CNS Educational Only Awards	-	-	-	10,000	309,430	305,900
Government's Innovative Award Funds	-	250,000	-	-	-	-
Government's Initiative Award Funds	-	-	-	-	-	2,863,500
FEMA Funds	-	-	-	30,400	-	-
Promise Fellow Funds	-	-	-	-	195,833	241,600
PDAT Funds	-	100,000	140,000	168,000	384,000	320,000
Administrative Funds	760,000	750,500	750,000	756,000	750,000	750,000
State Disability Funds	-	351,316	338,476	-	485,000	-
State Matching Funds	465,353	194,580	194,580	696,324	1,521,878	436,115
	$13,477,895	$17,536,787	$19,499,460	$21,333,792	$28,549,219	$33,473,639

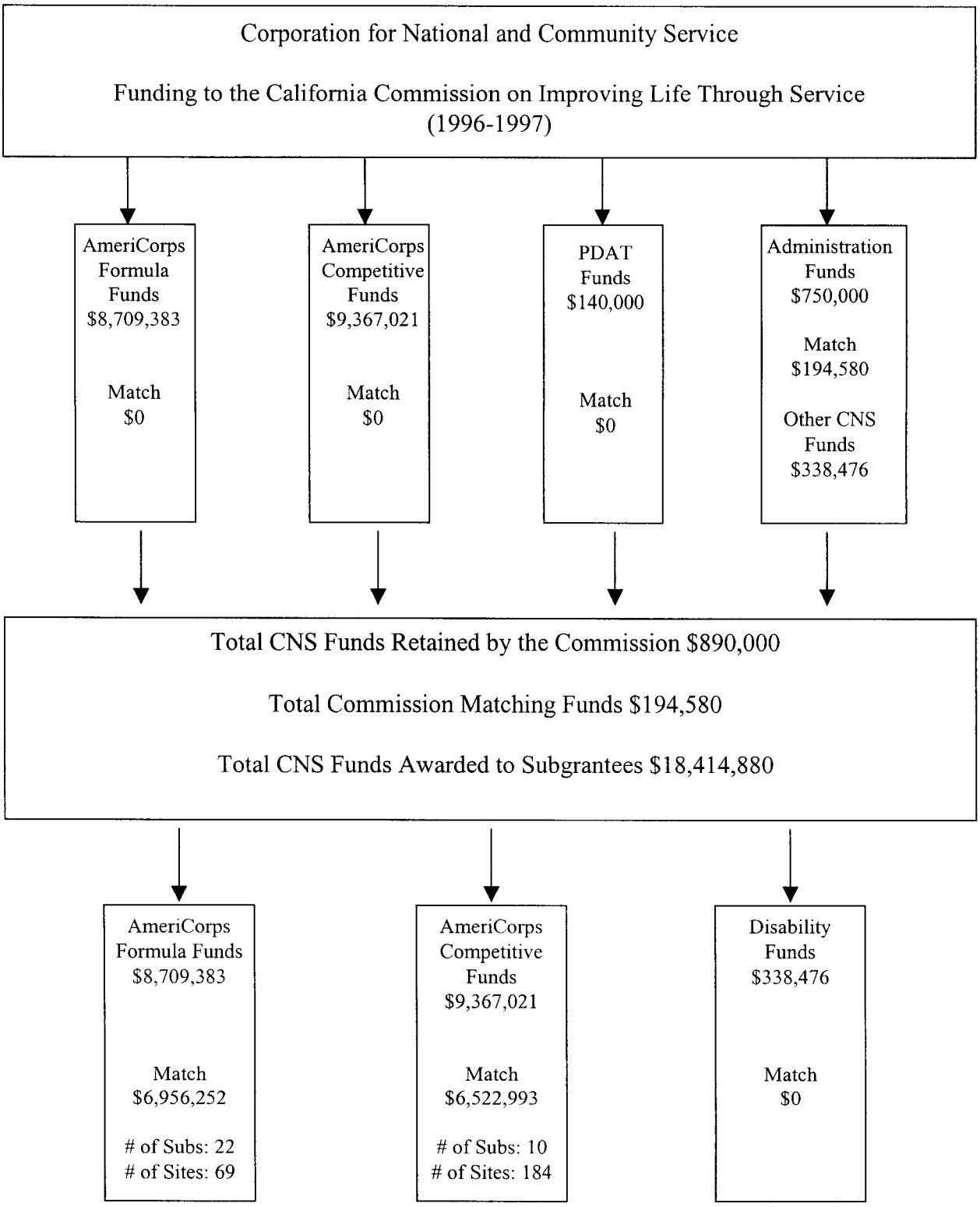
Commission Funding



Commission Funding

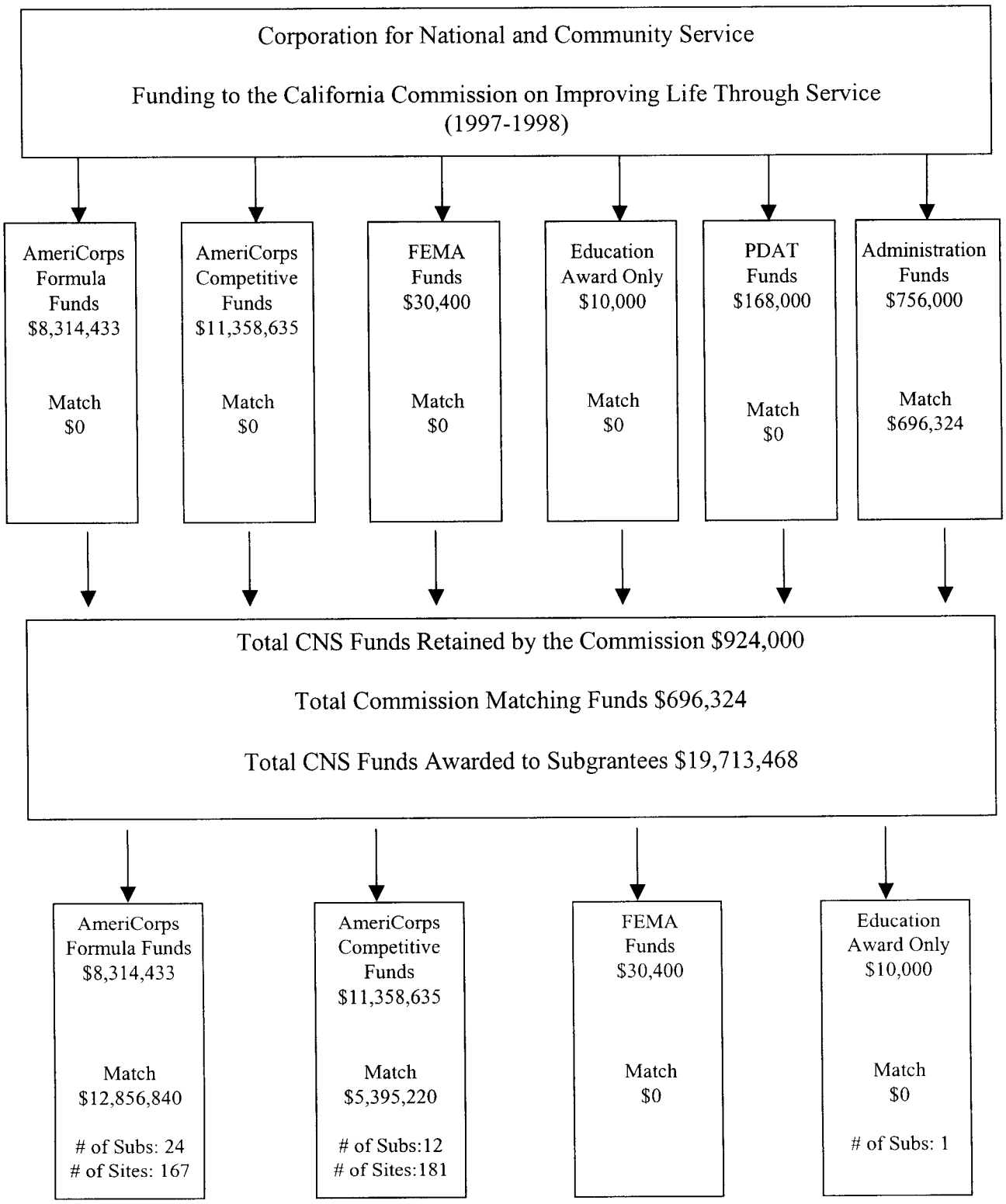


Commission Funding

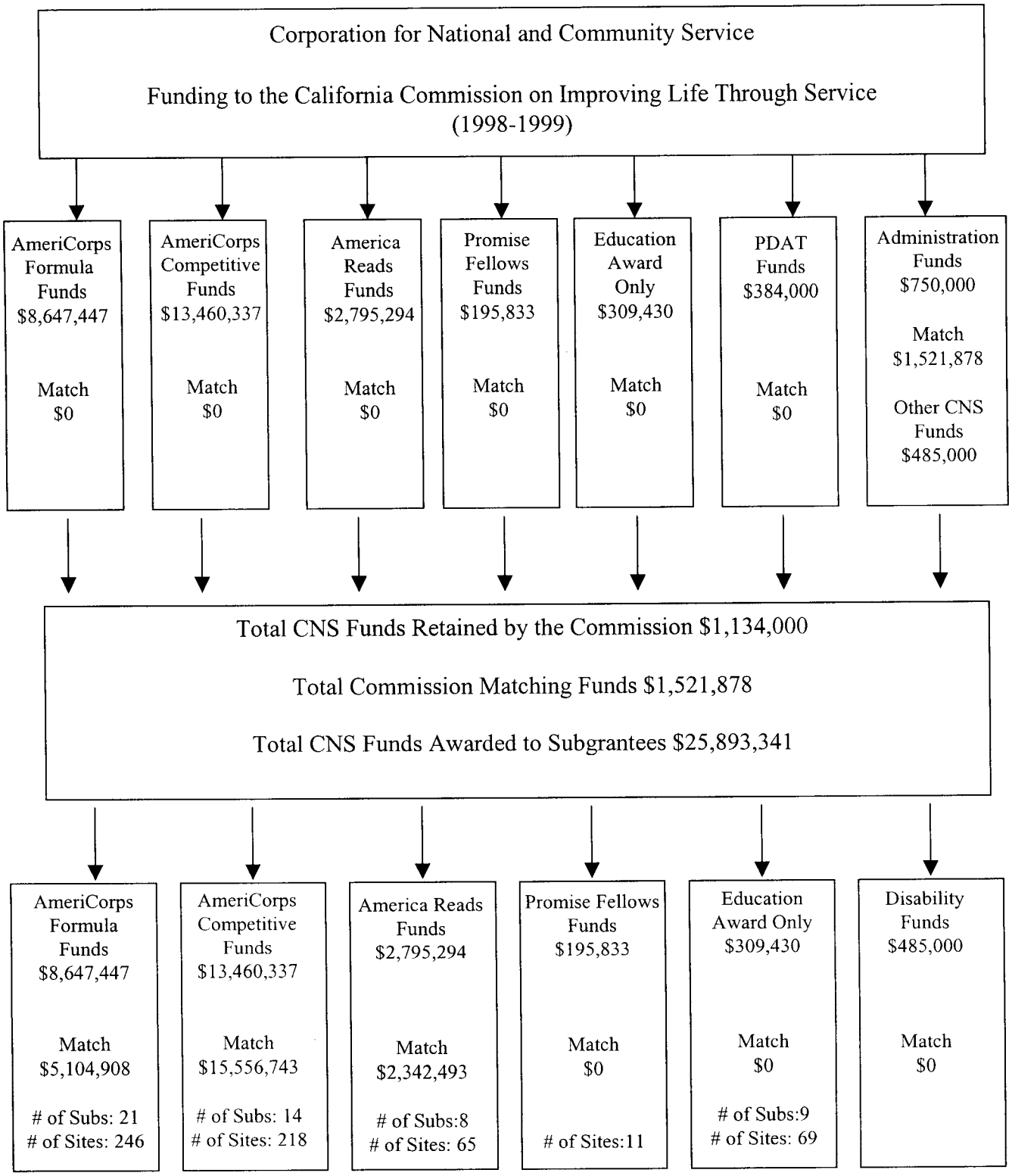


Note: The Governors Innovative Award of $250,000 was carried forward from last year and used as a hybrid fund and divided between formula and competitive funds.

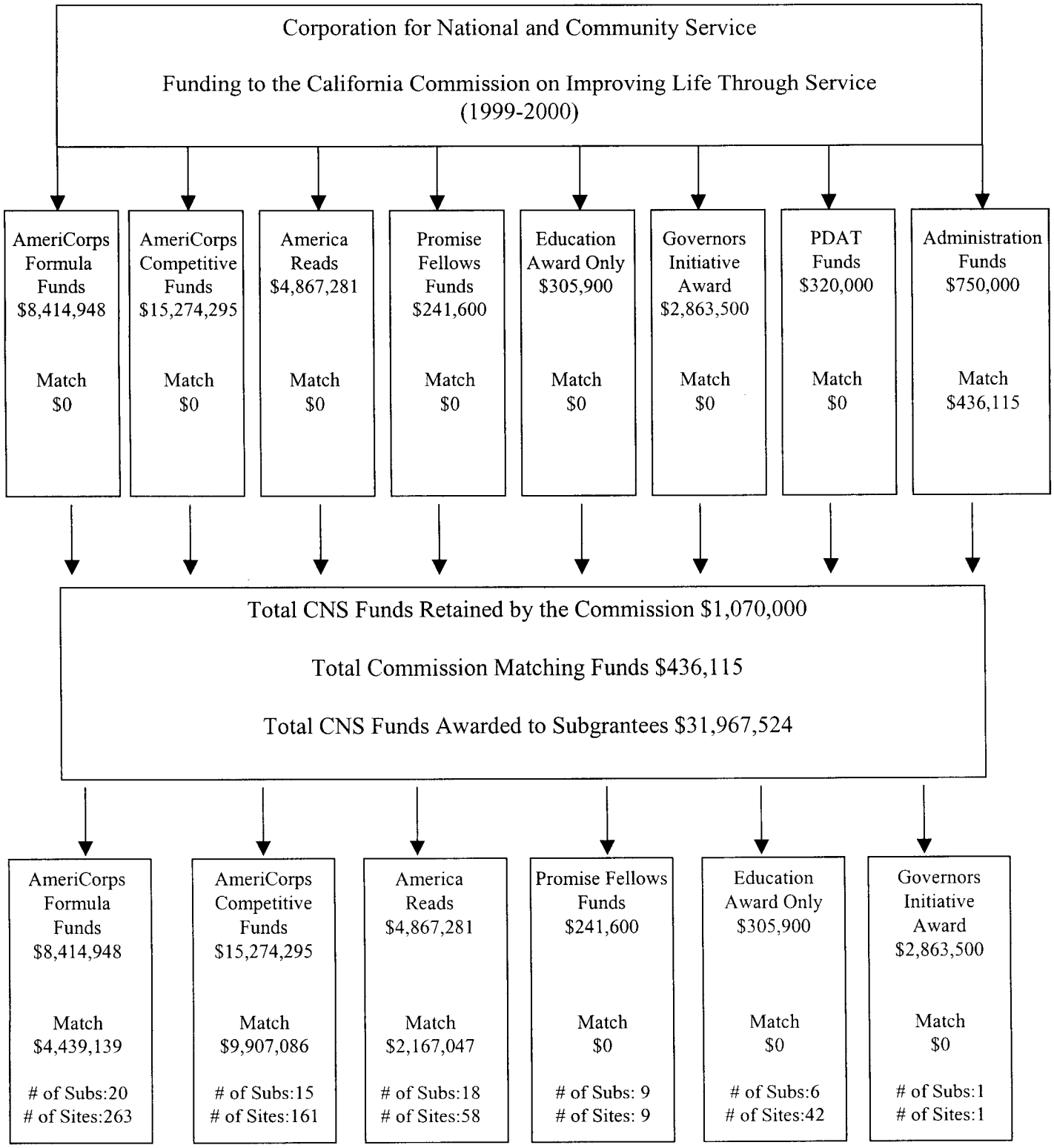
Commission Funding



Commission Funding



Commission Funding



Detailed Engagement Objectives and Methodology — Appendix B

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; eligibility; matching; period of availability of Corporation funds; 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 personnel 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 for each subgrantee applicant tested 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;

- 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, progress reports, enrollment and exit forms, and change of status 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 and progress 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 and progress reports. We also preliminarily assessed whether the Commission's implementation of the Web Based Reporting System (WBRS) had enhanced the grant administration process.

Evaluating and Monitoring Subgrantees

Our objectives were to:

- make a preliminary assessment of the adequacy of the systems and controls utilized by the Commission, in conjunction with the Corporation, 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.

Appendix C

January 25, 2001

Luise S. Jordan
Inspector General
Office of Inspector General
Corporation for National Service
1201 New York Avenue, NW
Washington, D.C. 20525

Dear Ms. Jordan:

Thank you for the opportunity to respond to the draft audit report dated December 28, 2000. While we appreciate the recommendations you made to improve our operations, we must disagree with your report conclusion that the extent of problems you found could be considered sufficient to justify a comprehensive audit of the commission covering a five-year period. For example, the audit disclosed no conditions that would result in the return of funds to the federal government because they had been misspent.

In support of your conclusion, you asserted ten adverse conditions, but made only seven recommendations because you noted the adequacy of our corrective action for three items. Since it would not be reasonable to justify a five-year audit based on conditions where you were satisfied with our corrective action, we will only respond to your seven recommendations in our response. While each of the recommendations has some minimal degree of merit, the adverse conditions you cite as a basis for the recommendation are isolated, the bad effects of the condition are non-existent, and/or the specific criteria you apply is generic and does not address the specifics of the condition.

I. Selecting Sub Grantees

No Recommendations by the Inspector General

II. Administering Grant Funds

Administering Grant Funds: Recommendation One
Documentation of Financial Management Process at the Commission Level

Prepare a comprehensive manual that is reflective of its financial responsibilities. This manual should include:

Subject matter
Source (identification of key documentation)
Identification of responsible official (s)
Process
Related internal controls in place
Timeliness (for review and reporting)
Sample documents
Requirements for retention of documents
Filing requirements

This comprehensive manual should seek to incorporate documented procedures already developed for certain areas.

This recommendation is based on the selective extraction of a sentence from Part 6 of Circular A-133's Compliance Supplement (attached). This selective extraction, without the accompanying context, misrepresents the passage. This passage reads:

> This Part 6 is intended to assist non-Federal entities and their auditors in complying with these requirements by describing for each type of compliance requirement, the objectives of internal control, and certain characteristics of internal control that when present and operating effectively may ensure compliance with program requirements. However, the characterizations reflected in this Part 6 may not necessarily reflect how an entity considers and implements internal control. Also, this part is not a checklist of required internal control characteristics. Non-federal entities could have adequate internal control even though some or all of the characteristics included in Part 6 are not present. Further, non-Federal entities could have other appropriate internal controls operating effectively that have not been included in Part 6. Non-federal entities and their auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with federal program requirements.

Thus, we believe Part 6 clearly provides for management to determine the extent of a comprehensive manual that is required in our circumstance. Also, that the lack of any items not in our manual could not be construed to be noncompliance with federal regulations. Further, that the content of our comprehensive manual could not reasonably be used as a basis to warrant a five year audit of our operations unless the lack of adequate policies and procedures was established as the cause of significant misuse of federal funds, which the auditors did not establish.

Administering Grant Funds: Recommendation Two
Document Retention

Improve its record retention by the use of a file checklist that identifies the nature and type of document that should be retained. This Checklist should also identify the

requirements for record retention. A periodic review should be conducted by someone other than the individual who is responsible for filing to ensure that appropriate procedures are being followed. Additionally, information should be stored in a manner that will facilitate review.

This recommendation is based on our inability to produce five site visit reports, progress reports or year-end FSRs for fiscal years 1996-97 and 1998-99 when requested in the fall of 2000. We believe that the documents we could not locate should be put in context of these same documents that we had already provided to the State Auditor. Based on the State Auditor's work papers that were provided to the auditor to review, we were able to provide the State Auditor with 177 of 181 site visit reports, progress reports and FSR 269s for fiscal year 1997-98 and 1998-99. While we agree that we should be able to find copies of all documents, this condition does not appear to justify the cost of a five-year audit of the program at the Commission.

Administering Grant Funds: Recommendation Three
Timeliness of Sub grantees FSRs

Document and implement procedures regarding follow-up on timely FSR submissions by sub grantees. These procedures must emphasize the need for consistent follow up action on all sub grantees who are late at any time. The Commission should continue to implement its policy of refusing to reimburse sub grantee invoices without timely and accurate FSRs.

This recommendation is based on the identification of two FSRs that were identified as being late (one based on our request that a sub grantee revise its FSR). This condition has no bad effect stated in the audit report and we believe none exists. In addition, it is important to note that the State Auditors working papers that were provided to the auditor for review disclose that for fiscal years 1997-98 and 1998-99, the State Auditor asked to review 76 FSR 269s and we were able to provide each of them upon request. Since there is no bad effect to an individual FSR being "late", this condition does not appear to justify the expenditure of taxpayer dollars for a five-year audit of the Commission.

Administering Grant Funds: Recommendation Four
Use of Web Based Reporting System

Continue to work with the Corporation to identify and resolve the programmatic issues arising from the use of WBRS. Alternatively, the Commission should consider other means of reporting, such as a manually compiled version.

This recommendation is based on the observation that while we have fully implemented WBRS, the federal Corporation has programmatic problems with the system. The only bad effect stated is that a report was not electronically transmitted to the Corporation for National Service. It does not demonstrate that a five-year audit at the state Commission would result in findings justifying the cost of the audit.

WBRS is a nationwide reporting system. The Commission has been proactive in addressing system start-up problems including volunteering to be one of the two states nationwide to pilot the system. It is inappropriate that start-up system problems be identified as an adverse condition to the Commission.

III. Evaluating and Monitoring Sub Grantees

Evaluating and Monitoring Sub Grantees: Recommendation One Review of OMB Circular A-133 Audit Reports

Improve its evaluation and monitoring procedures by developing and implanting a process for obtaining OMB Circular A-133 audit reports from its sub grantees and following up to ensure that timely corrective actions were taken on audit findings that have been identified. This process should include documenting, for each of its sub grantees: (i) whether an OMB Circular A-133 audit was required to be conducted, (ii) whether or not the audit was actually conducted, (iii) collection and review of the report, and (iv) follow up procedures for missing reports and to resolve reported findings.

The basis for this recommendation was (1) the identification that a single audit report for fiscal year 1995-96 contained only one of the three required components that should have been received and (2) that follow-up procedures on corrective actions are not being conducted at all in certain instances, and in other instances, not in a consistent, timely manner. The latter observation is based on our knowledge of the State Auditors findings at a state level sub recipient, the California Conservation Corps and our follow-up on audit findings. We believe the Inspector General's audit report lacks the necessary context contained in the State Auditor's working papers that were provided to the auditor to review. The State Auditor's working papers show that we had a system to track A-133 reports during both 1997-98 and 1998-99, that we received 50 of 50 non-state sub grantee audit reports applicable to those two years and that none of the 50 non-state sub grantee audit reports contained any AmeriCorps findings. In addition, for those years, the State Auditor's staff discussed any findings and corrective action related to our state sub grantee, the California Conservation Corps, with our staff at the exit conference. Also, the status of the follow-up by the state auditor in subsequent years is included in a schedule in the State Auditor's report. Our understanding is that copies of those schedules were provided by the State Auditor's representative to the auditor who conducted this audit.

Evaluating and Monitoring Sub Grantees: Recommendation Two Adequacy of the Site Visit Form

Include procedures in the standard site visit form to more specifically instruct evaluators as to required documentation and record retention policies.

This recommendation is based on the observation that our 1999-2000 standard site visit form (the assessment survey) does not include procedures

to document the specific work done or to retain copies of the supporting documents.

The criterion cited by the auditor is silent to any requirement that we retain copies of supporting documents. The work we perform is site monitoring and is not purported to be an audit conducted in accordance with audit standards. It is interesting to note that even the American Institute of Certified Public Accountants audit standards does not require auditors to retain copies of supporting documents (attached). While significant sub recipients do obtain audits conducted in accordance with Government Audit Standards that have supplemental audit standards related to work papers, even these standards do not require that copies of supporting documents be retained. As a result, this recommendation does not seem to provide that an audit of the commission covering a five-year period would be cost justified.

Evaluating and Monitoring Sub Grantees: Recommendation Three
Review of Member Timesheets

Include procedures on the Member file checklist to document the basis used to select Member files.

This recommendation is based on the observation that the Member file checklist does not include procedures to document the basis used to select Member files. The audit is silent as to any criteria that would require this practice for a monitoring instrument. Apparently, the auditors are inferring that one of the supplemental work paper standards applicable to Government Audit Standards that exceed AICPA audit standards is applicable to program monitoring. This explanatory language states "documentation of the work performed to support significant conclusions and judgments, including descriptions of transactions and records examined that would enable an experienced auditor to examine the same transactions and record". While this standard is applicable to Circular A-133 audits, it is not applicable to program monitoring since program monitors are not required to follow these standards and do not purport to follow these standards. Thus, this condition appears to provide no basis to support a conclusion that a five-year audit of the Commission is warranted.

Conclusion

In closing, we fully support the federal government's authority to carry out additional audits as described in OMB Circular A-133. The circular states that "Any additional audits shall be planned and performed in such a way as to build upon work performed by other auditors." As referenced numerous times in this response, the Inspector General failed to build upon the work and extensive body of knowledge produced by previous State Audits. The narrative supporting the audit report conclusion that a five-year audit is warranted does not put the findings in context of what was documented in the previous Circular A-133 audits of our organization. In conclusion, the cited adverse conditions are isolated, the bad effects of the conditions are

non-existent and provide no basis to support a conclusion that a full five year audit of the Commission is warranted.

If you have any questions or need any additional information on this response, please do not hesitate to contact Maria Vail or Claudia Anderson of my staff at (916) 323-7646.

Sincerely,

CHUCK J. SUPPLE
Executive Director

Enclosures

PART 6 — INTERNAL CONTROL

INTRODUCTION

The A-102 Common Rule and OMB Circular A-110 require that non-Federal entities receiving Federal awards (e.g., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. OMB Circular A-133 requires auditors to obtain an understanding of the non-Federal entity's internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs, plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program, and, unless internal control is likely to be ineffective, perform testing of internal control as planned.

This Part 6 is intended to assist non-Federal entities and their auditors in complying with these requirements by describing for each type of compliance requirement, the objectives of internal control, and certain characteristics of internal control that when present and operating effectively may ensure compliance with program requirements. However, the categorizations reflected in this Part 6 may not necessarily reflect how an entity considers and implements internal control. Also, this part is not a checklist of required internal control characteristics. Non-Federal entities could have adequate internal control even though some or all of the characteristics included in Part 6 are not present. Further, non-Federal entities could have other appropriate internal controls operating effectively that have not been included in this Part 6. Non-Federal entities and their auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements.

The objectives of internal control pertaining to the compliance requirements for Federal programs (Internal control over Federal Programs), as found in §____.105 of OMB Circular A-133, are as follows:

(1) Transactions are properly recorded and accounted for to:

(i) Permit the preparation of reliable financial statements and Federal reports;

(ii) Maintain accountability over assets; and

(iii) Demonstrate compliance with laws, regulations, and other compliance requirements;

(2) Transactions are executed in compliance with:

(i) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and

(ii) Any other laws and regulations that are identified in the compliance supplements; and

(3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control-Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements. Statement on Auditing Standards No. 78 (SAS 78), *Consideration of Internal Control in a Financial Statement Audit*, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) and a related AICPA audit guide, *Consideration of Internal Control in a Financial Statement Audit*, incorporate the components of internal control presented in the COSO Report.

This Part 6 describes characteristics of internal control relating to each of the five components of internal control that should reasonably assure compliance with the requirements of Federal laws, regulations, and program compliance requirements. A description of the components of internal control and examples of characteristics common to the 14 types of compliance requirements are listed below. Objectives of internal control and examples of characteristics specific to each of 13 of the 14 types of compliance requirements follow this introduction. (Because Special Tests and Provisions are unique for each program, we could not provide specific control objectives and characteristics for this type of compliance requirement.)

Control Environment sets the tone of an organization influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

- Sense of conducting operations ethically, as evidenced by a code of conduct or other verbal or written directive.
- If there is a governing board, the Board has established an Audit Committee or equivalent that is responsible for engaging the auditor, receiving all reports and communications from the auditor, and ensuring that audit findings and recommendations are adequately addressed.
- Management's positive responsiveness to prior questioned costs and control recommendation.
- Management's respect for and adherence to program compliance requirements.
- Key managers' responsibilities clearly defined.
- Key managers' have adequate knowledge and experience to discharge their responsibilities.
- Staff knowledgeable about compliance requirements and being given responsibility to communicate all instances of noncompliance to management.
- Management's commitment to competence ensures that staff receive adequate training to perform their duties.
- Management's support of adequate information and reporting system.

Risk Assessment is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.

- Program managers and staff understand and have identified key compliance objectives.
- Organizational structure provides identification of risks of noncompliance:
  - Key managers have been given responsibility to identify and communicate changes.
  - Employees who require close supervision (e.g. inexperienced) are identified.
  - Management has identified and assessed complex operations, programs, or projects.
  - Management is aware of results of monitoring, audits, and reviews and considers related risk of noncompliance.
- Process established to implement changes in program objectives and procedures.

ıg Papers

4.34 AICPA standards and GAGAS require the following:

A record of the auditors' work should be retained in the form of working papers.

4.35 The additional working paper standard for financial statement audits is:

Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments.

4.36 Audits done in accordance with GAGAS are subject to review by other auditors and by oversight officials more frequently than audits done in accordance with AICPA standards. Thus, whereas AICPA standards cite two main purposes of working papers—providing the principal support for the audit report and aiding auditors in the conduct and supervision of the audit—working papers serve an additional purpose in audits performed in accordance with GAGAS. Working papers allow for the review of audit quality by providing the reviewer written documentation of the evidence supporting the auditors' significant conclusions and judgments.

4.37 Working papers should contain

a. the objectives, scope, and methodology, including any sampling criteria used;

b. documentation of the work performed to support significant conclusions and judgments, including descriptions of transactions and records examined

that would enable an experienced auditor to exam the same transactions and records;[6] and

c. evidence of supervisory reviews of the work performed.

4.38 One factor underlying GAGAS audits is that federal, state, and local governments and other organizations cooperate in auditing programs of common interest so that auditors may use others' work and avoid duplicate audit efforts. Arrangem should be made so that working papers will be m available, upon request, to other auditors. To faci reviews of audit quality and reliance by other aud on the auditors' work, contractual arrangements f GAGAS audits should provide for access to workin papers.

Financial Related Audits

4.39 Certain AICPA standards address specific typ financial related audits, and GAGAS incorporate th standards, as discussed below:[7]

a. SAS no. 35, Special Reports - Applying Agreed U Procedures to Specified Elements, Accounts, or I of a Financial Statement;

b. SAS no. 62, Special Reports, for auditing specif elements, accounts, or items of a financial statem

c. SAS no. 68, Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance, for testing

[6]Auditors may meet this requirement by listing voucher numb check numbers, or other means of identifying specific docum they examined. They are not required to include in the workp papers copies of documents they examined nor are they req list detailed information from those documents.

[7]GAGAS incorporate any new AICPA standards relevant to fi related audits unless GAO excludes them by formal announc

Appendix D

Memorandum

AmeriCorps National Service

CORPORATI
FOR NATION
SERVIC

TO: Luise Jordan, Inspector General

THRU: William Anderson, Acting Chief Financial Officer

FROM: Peter Heinaru, Director, AmeriCorps State and National

DATE: January 29, 2001

SUBJECT: Comments on the OIG Draft 01-19: *Pre-Audit Survey of the California Commission on Improving Life Through Service*

We have reviewed the draft pre-audit survey of the California Commission on Improving Life Through Service and are pleased to note that the California Commission:

- conducts an open competitive process for its subgrant selections;
- has adequate controls, policies and procedures to administer the Corporation's grant funds; and
- has established controls to evaluate and monitor subgrantees.

The report contains ten findings and seven recommendations. This letter comments on several of the key issues identified.

In the area of **Administering Grant Funds**, five findings were noted and four recommendations were made. Concerning the finding that the Commission has not developed a *comprehensive policies and procedures document* that addresses its financial responsibilities, the Commission states that it adequately maintains its financial management processes through the State of California financial policies and procedures manual which cover all federal grant programs. This manual includes information pertinent to Corporation funded subgrantees. Thus, the Corporation disagrees with the recommendation to prepare a comprehensive manual that is reflective of its financial responsibilities, because a comprehensive manual currently exists. The Corporation will follow-up with California to ascertain if any supplemental policies and procedures are needed.

The finding, *Document Retention*, states that certain documentation required to be maintained by the Commission could not be located. The California Commission has provided 177 site visit reports out of 181 site visits conducted for fiscal years 1997 and 1998 to the State Auditor. This information was included in the State Auditor's work papers that were presented to the audit team. The number of missing reports is immaterial.

1201 New York Avenu
Washington, DC 20525
Telephone 202-606-50

Getting Things Done.
AmeriCorps, National
Learn and Serve Amer
National Senior Servic

The Corporation disagrees with the extent of the recommended actions in the report which call for the use of a file checklist that identifies the nature and type of documents retained, the requirements for record retention, and a periodic review conducted by someone other than the individual responsible for filing. The Corporation will follow-up with the California Commission to ensure that they have an adequate system for document retention in conformance with state requirements.

Regarding the recommendation on *Timeliness of Subgrantee FSR's*, to document and implement procedures regarding follow-up on untimely FSR submissions by subgrantees. The California Commission states that it has policies and procedures in place for follow-up on untimely FSR submissions by subgrantees and implements them. The Corporation will work with the California Commission to ensure that these policies and procedures continue to be utilized.

The recommendation, from the finding *Use of Web Based Reporting System*, states that the California Commission continue to work with the Corporation to resolve the programmatic issues arising from the use of WBRS. Therefore, there is no follow-up or corrective action required because the report is recommending something that is already happening.

In the section, **Evaluating and Monitoring Subgrantees**, three areas of improvement were identified. The first finding states that the Commission has not implemented an adequate process for obtaining and reviewing, and when necessary, ensuring that prompt corrective action is taken on OMB Circular A-133 audit reports for its subgrantees. The California Commission asserts that it has a system in place to 1) ensure that A-133 audits are conducted on subgrantees that require it 2) that the audit was conducted 3) that the Commission collects and reviews these audits, and 4) has procedures to follow-up with missing reports and reports that contain corrective action. The Corporation will follow-up with the California Commission to assure that the system is in place.

The second and third findings and recommendations under **Evaluation and Monitoring** addresses the *Adequacy of the Site Visit Form* and *Review of the Member Timesheets*. The Corporation disagrees with these findings and recommendations. The Corporation is concerned that the auditor's recommendation is attempting to direct the establishment of arbitrary, exacting standards for the Commission's monitoring of its programs. The report recommends that program managers use audit techniques including sampling and the performance of specific programmatic and fiscal reviews for every award on an annual basis, concepts not normally associated with or required by Federal management standards as articulated in OMB Circulars A-102, A-110 and A-133.

However, the Corporation advocates a risk-based strategy for monitoring of programs that considers experience, organizational history and past performance, including both programmatic and financial elements. OMB A-110, addressing Administrative Standards and adopted by the Corporation in regulation, also addresses high-risk grantees and consideration for additional monitoring by the Commission.

Thus, we do not agree with the recommended standard of site visit reviews and performance of supplemental audit techniques as recommended in the report. The Corporation will coordinate and work with the California Commission to assure that their monitoring strategy for subgrantees is risk-based and adequate during the their Administrative Standards review

KPMG's Comments on Commission Response

Appendix E

The following paragraphs present KPMG's comments on the information presented in the Commission's response to the findings and recommendations included in this report. We continue to believe our findings are valid, based on the results of the limited procedures performed. Further, our recommendations, if implemented, should result in improvements to internal controls over Commission operations.

I. Administering Grant Funds

Recommendation One: Documentation of Financial Management Processes at the Commission Level

Part 6 of OMB Circular A –133's Compliance Supplement is intended to provide guidance as to "best practices". Documentation of policies and procedures continues to be one of the most important management tools, and is necessary to ensure continuity and consistency in the procedures that are followed by Commission personnel in performing their tasks. We agree that ultimately it is management's decision as to how comprehensive the documentation should be for the Commission. However, certain basic financial and grant management processes such as the procedures followed by the Commission for obtaining OMB Circular A –133 Audit Reports from subgrantees, and the Commission's follow up procedures for deficiencies identified should be considered for documentation in light of the volume of Corporation grants managed by the Commission. As noted in the report we have acknowledged that the Commission has various policies and procedures already in place, however, it is evident that these procedures do not encompass some of the Commission's basic financial and grant management tasks.

Recommendation Two: Document Retention

The pre audit survey involved a review of various areas which were tested through a sample. The results of these tests provided the basis for the preliminary findings that have been identified in the Report. The missing documents referred to in the report represent an example of missing documents. Additional examples of documents requested but not provided include the following:

- The Commission's completed evaluation and scoresheets pertaining to the following applicants:

    1. California CASA Programs (Application Year 1994)
    2. Building Community (Application Year 1994)
    3. Safe Zones for Learning AmeriCorps (Application Year 1994)
    4. Safe Zones for Learning AmeriCorps (Application Year 1997)

5. Inglewood Student Academic Partnership Program (Application Year 1998)

- Interview questions to assess past experience for the following applicants (Application Year 1997):

    1. BAYAC AmeriCorps
    2. AmeriCorps Watershed Project
    3. Linking San Francisco
    4. YMCA/CSU Pryde AmeriCorps Consortium
    5. Central Valley Communities for Children

- Site visit reports for the following subgrantees:

    1. Project AEGIS (Program Year 1999-2000)
    2. Family Support Collaborative Placer (Program Year 1999-2000)

As noted in the report, the Commission is responsible for adhering to document retention requirements. Without documentation, the Commission may be unable to demonstrate its compliance with financial and programmatic requirements.

Recommendation Three: Timeliness of Subgrantee FSRs

The pre audit survey involved a review of various areas which were tested through a sample. The results of these tests provided the basis for the preliminary findings that have been identified in the report. The information provided in the report represent examples of FSRs that were noted as late submissions, for which follow-up procedures could not be verified. Our sample included 6 other subgrantee FSRs that were also submitted late.

The number of instances that were identified within our sample indicates the need for improvement in the Commission's control procedures in this area. We have reworded our finding and recommendation to clarify the nature and extent of exceptions found in our sample.

Recommendation Four: Use of Web Based Reporting System

This finding has been deleted from the report based on the nature and basis of this finding as well as the Commission's response.

KPMG's Comments on Commission Response

II. Evaluating and Monitoring Subgrantees

Recommendation One: Review of OMB Circular A-133 Audit Reports

The pre audit survey involved a review of various areas which were tested through a sample. The results of these tests provided the basis for the preliminary findings that have been identified in the report. Accordingly, any exceptions in the sample selected, such as that referred to of a single audit report containing only one of the three reports that should have been received support the fact that the Commission has not implemented an adequate process for consistently obtaining and reviewing subgrantee's audit reports. Further, we do not believe the Commission's staff participation in a discussion with the State Auditors fulfills the Commission's responsibility for monitoring or follow up on corrective actions. Corrective actions presented by subgrantees in response to an audit finding does not imply that such corrective actions have been implemented. Additionally, auditors generally review the status of corrective actions taken during the following audit cycle, i.e., after a year has passed. The Commission's procedures for follow up actions should include a formal written request to the subgrantee for a corrective action plan as soon as the Commission is aware of a problem area. The corrective actions to be taken, including the time line for implementation, should be monitored by the Commission and verified during subsequent site visits.

Recommendation Two and Three: Adequacy of the Site Visit Form, Review of Member Timesheets

Our recommendation was not intended to infer that program monitoring should be subject to AICPA auditing standards. However, including requirements for documentation and retention of documents in the Commission's site visit monitoring tool, although not specifically required by law or regulation, enhances it's ability to consistently evaluate key compliance and programmatic requirements, validate the results of its reviews, and ensure the completion of all monitoring steps at each subgrantee visited. Additionally, without proper documentation, a reviewer (e.g. Supervisor) of the Commission's site visit monitoring tool is not able to: (1) assess if the sample selected was adequate; and (2) review the same documentation if a question arose about the results of the test.