OFFICE OF THE INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE

PRE-AUDIT SURVEY OF THE ALABAMA STATE COMMISSION ON NATIONAL AND COMMUNITY SERVICE

OIG Audit Report Number 01-20
September 15, 2000

Prepared by:

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This report was issued to Corporation management on February 9, 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 August 8, 2001, and complete its corrective actions by February 9, 2002. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

CORPORATION
FOR NATIONAL
SERVICE

Office of Inspector General
Corporation for National and Community Service

Pre-Audit Survey of the
Alabama State Commission on National and Community Service
OIG Audit Report Number 01-20

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.

We engaged KPMG LLP to perform the pre-audit survey of the Alabama State Commission on National and Community Service. The survey revealed a lack of records as well as serious deficiencies in the Commission's fiscal administration and monitoring functions. 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 at the Commission in all of the areas covered by the survey. KPMG also recommends that the Corporation follow-up with the Commission at least annually over the next three years, to determine that appropriate corrective actions are put into place.

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

Both the Alabama Commission and the Corporation responded to this report. Their responses are included as Appendices C and D, respectively. The Commission's response is limited, but reports certain improvements the Commission has implemented. The Corporation's response agrees with certain of the findings and recommendations, but disagrees, in whole or in part , with others. KPMG considered the responses and clarified certain of the recommendations.

CNS OIG has reviewed the report and work papers supporting its conclusions. We agree with the findings and recommendations presented herein. Moreover, considering the serious internal control weaknesses indicated by this survey and the lack of currently available records, we urge the Corporation to provide the necessary technical assistance to strengthen the Commission's operations and to aid it in preparing for a full-scope audit.

Pre-Audit Survey of the
Alabama State Commission on National and Community Service
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September 15, 2000

Inspector General
Corporation for National and Community Service:

At your request, KPMG performed a pre-audit survey of the Alabama State Commission on National and Community 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 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.

Results in Brief

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

- Substantially all current Commission employees have been with the Commission for less than a year. The Executive Director is appointed by the Governor of Alabama, and the Commission has experienced personnel turnover with each change in administration, as well as a change in location. During each change in administration, the records of the Commission were sent to archive storage and retrieved by new staff, potentially resulting in the missing records noted during our pre-audit survey.

- Certain information that is required to be on file to support the selection of subgtrantees for prior program years, such as potential subgrantees who applied for funding but were rejected, is not available. If compiled at this time from records available, there would be no assurance that the compilation was complete. In addition, the Commission cannot determine the policies and procedures used by the Commission staff to select subgrantees in program years prior to 1999-2000.

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- The Commission has not developed an adequate process to evaluate a grant applicant's financial systems. As a result, grant funds may be provided to an organization that does not have financial systems in place to properly account for those funds and ensure compliance with related grant requirements.

- An analytical review of financial data is not performed in conjunction with grant administration. For example, draw-down requests and expenditures to date are not compared to supporting documentation or to budgets.

- The Commission has not developed written policies and implemented procedures to require that all internal financial reports be reviewed by the Executive Director, and that the review be documented. Therefore, an acceptable level of segregation of duties related to reporting at the Commission does not exist.

- The Commission does not have a comprehensive file of Commission-level Financial Status Reports (FSRs) and related supporting documentation prior to fourth quarter 1999. As a result, Commission-level FSRs and related supporting documentation are not available to support Commission-level financial results.

- The Commission does not have adequate records to support the State of Alabama's required match for the Corporation's grant funding. Without adequate documentation for all match amounts, the Commission cannot accurately support or determine if it has met the federal matching requirements.

- No formal training is provided by the Commission to Members on prohibited activities. Therefore, Members may unknowingly engage in activities which are prohibited while accumulating service or training hours.

- The fiscal and programmatic monitoring performed prior to program year 2000-01 utilized a checklist which provided information in a "yes/no" format with little other supporting documentation; therefore, detailed information related to monitoring and site visits is not available.

- For subgrantees with multiple grants, site visit reports indicated that labor hour certifications were not maintained to support work charged to the Commission grant. As a result, policies and procedures at the subgrantee level are not sufficient to ensure that certifications are completed related to work performed on the Commission grant.

- The Commission lacks a formal process to ensure that progress reports, OMB Circular A-133 reports and other audit reports are received from subgrantees and reviewed on a timely basis. In addition, prior to program year 2000-01, there are no documented procedures for resolution of issues related to audit findings.

In July 1999, the Corporation for National and Community Service (the Corporation) noted in a site visit report that the Commission did not maintain a staff of the appropriate size and skill to carry out the Commission responsibilities and activities as required by Corporation guidelines. The review also noted instances of missing documents, including time and attendance certifications, Commission-level reports, and subgrantee responses to site visit reports. As further discussed in this report, we noted similar issues at the Commission.

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

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 program year 1999-2000 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 late 1999, which impacted and strengthened the controls for late 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.

Additionally, we recommend that the Corporation follow-up with the Commission to determine that appropriate corrective actions (including immediate training and technical assistance) 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 and provide continued technical assistance to aid in the correction of deficiencies noted below.

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 Alabama Commission

The Alabama State Commission on National and Community Service, located in Montgomery, Alabama, has received federal grant funds from the Corporation since program year 1994-95. The Commission consists of 15 Governor appointees. Commissioners are appointed for approximately three-year terms. From the Commission's inception, the State of Alabama's Department of Finance has served as the Commission's fiscal agent.

As of September 15, 2000, the Commission had a staff of 6 full-time and 2 intern personnel working under an Executive Director. The 6 full-time positions include a program officer, technical training assistance officer, fiscal officer, public information manager, executive assistant, and receptionist.

As part of the State of Alabama, the Commission is annually subject to statewide OMB Circular A-133 audits by the State Auditor. However, the State Auditor has not specifically performed any compliance tests of federal grants administered by the Commission since 1998. The procedures performed at that time were general in nature, and no material findings related to the Commission were noted. The Commission's AmeriCorps grants have never been selected as major programs.

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*
1994-95	$1,365,708	8	1
1995-96	2,046,735	6	2
1996-97	2,052,930	5	1
1997-98	1,332,626	4	1
1998-99	1,899,753	7	0
1999-2000	1,854,849	7	0

* Determination is based solely on the dollar value of federal awards passed through the Commission for the 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 1994-95 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 Corporation-funded 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 document the Corporation 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 grants, including internal controls over service hour and program 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 September 27, 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 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 the Corporation's responses to our findings and recommendations are included as Appendix C and Appendix D, respectively. We considered their comments and clarified the wording related to the following recommendations: 1) procedures for disbursements to subgrantees and 2) providing formal training on prohibited activities to members. We continue to believe these, and other recommendations presented in the Findings and Recommendations section of this report, if implemented, will result in improvements to internal controls over Commission operations.

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, and evaluation and monitoring of subgrantees. As this project is completed, we recommend that the Commission consider the recommendations discussed below.

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." Prior to 1999-2000, no documentation exists to provide evidence that the Commission developed and implemented various procedures necessary to meet this responsibility, or that procedures were consistently applied to all program years.

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

Lack of a Comprehensive Applicant Listing

The Commission does not have a comprehensive listing of grant applicants prior to program year 2000-01. We tested two application files for program year 1999-2000 and noted that the reasons for rejection were documented and communicated to the applicant; however, due to the lack of a comprehensive listing of grant applicants, we were not able to determine a complete population for sampling purposes. As a result, the overall fairness of the selection process could not be tested.

Lack of Documented Subgrantee Selection Procedures

Current Commission management does not know what, if any, written subgrantee selection guidelines and procedures were employed prior to program year 1999-2000 because of a lack of documentation. An important part of a sound control environment should be the maintenance of written procedures to provide guidance for all key processes performed by an entity.

Financial Systems Not Evaluated as Part of Subgrantee Selection

The Commission has not developed an adequate process to evaluate a grant applicant's financial systems. As a result, grant funds may be provided to an organization that does not have financial systems in place to properly account for those funds and ensure compliance with related grant requirements. *AmeriCorps Provisions* Section C.21.a states, "The grantee must maintain financial management systems that include standard accounting practices, sufficient internal controls, a clear audit trail and written cost allocation procedures as necessary." In order to meet this responsibility, the Commission must be able to ensure that subgrantees have systems in place to accurately track expenditures, since this information forms the basis of a majority of Commission expenditure reporting.

Prior Subgrantee Evaluations Not Provided to Selection Officials

For program years prior to 1999-2000, communication of renewal applicants' prior evaluations was not addressed in guidance provided to selection officials. Therefore, there is increased risk

that Commission personnel may have provided certain information to the selection officials about one previously funded applicant, but omitted that information in their communications about other previously funded applicants. If similar information was not consistently communicated about each previously funded applicant, then the fairness of the selection process may have been impaired and Commission personnel may have unintentionally biased the selection officials. An important part of a sound control environment is the consistent communication of the results of previous interactions with applicants. Such information is crucial to making informed business decisions in the subgrantee selection process.

Lack of Mass Media Advertising

The Commission does not use mass media advertising for notice of funds availability. As a result, all interested parties may have not been informed of funding availability, thereby eliminating certain potential AmeriCorps programs from the selection process.

Missing or Unsigned Conflict of Interest Forms

Conflict of interest forms could not be located for 2 of 15 current Commissioners. In addition, signatures were missing on 4 of 13 current Commissioner conflict of interest forms reviewed. If Commissioners or selection officials have conflicts of interest but do not report them, the fairness of the selection process may be impaired. An important part of a sound control environment is the implementation of procedures to ensure objectivity within the selection process. One method to ensure this objectivity is to require selection officials to annually certify in writing that they have no conflicts of interest.

Recommendations

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

- Establish a file each year for denied applications. When applications are received, log the application on a sheet in the front of the file. File the applications along with the selection officials' reports documenting the reasons for denial and Commission's concurrence and all correspondence related to the application.

- Incorporate into its procedures for subgrantee selection, an evaluation of the adequacy of the applicants' financial systems to ensure applicants have systems in place to properly account for grant funds and comply with related grant requirements.

- Develop and implement an objective, standardized method of communicating the results of the Commission's evaluation of previously funded applicants. This method should ensure that the same type of information is communicated for each applicant. The Commission should also consider providing this information in writing to ensure consistency of content and availability of the information to the selection officials while they are making their funding determinations.

- Place notice of funds availability in major state-wide publications or utilize other forms of mass media.

- Develop and implement procedures that require Commissioners and selection officials to sign conflict of interest statements annually after discussion of related issues with Commission staff and review of guidance provided.

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)).

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

Lack of Proper Procedures over Disbursements to Subgrantees

An analytical review of financial data is not performed in conjunction with grant administration. For example, draw-down requests and expenditures to date are not compared to budgets provided by the subgrantees, and Commission personnel do not investigate if a subgrantee has requested draw-down of an excessive portion of grant funds early in the program year. In addition, Commission personnel do not review actual documentation (e.g., receipts) in connection with their review of draw-down requests or subgrantee FSRs. Without proper documented review of subgrantee FSRs, errors on the FSRs may not be detected. Also, if information reported on subgrantees' FSRs are not agreed to the subgrantees' accounting system and other supporting documentation, there is an increased risk that subgrantees are incorrectly reporting amounts on their FSRs. *AmeriCorps Provisions* Section C.20.a states, "The Grantee has full fiscal and programmatic responsibility for managing all aspects of grant and grant-sponsored activities, subject to the oversight of the Corporation. The Grantee is accountable to the Corporation for its operation of the AmeriCorps Program and the use of Corporation grant funds."

Inadequate Grant Administration Policies and Procedures over Timeliness of Subgrantee Report Submission and Audit Follow-Up

While the Commission has a relatively small number of subgrantees, it lacks a formal process to ensure that FSRs, progress reports, OMB Circular A-133 reports and other audit reports are received from subgrantees and reviewed on a timely basis. In addition, prior to program year 2000-01, there are no documented procedures for resolution of issues related to audit findings. OMB Circular A-133 Compliance Supplement, March 2000, Part 6 – Internal Control suggests that review of and follow-up on subgrantee audit reports is a key component of a program to monitor subgrantees compliance with federal requirements.

Lack of Prohibited Activities Training

The Commission does not provide formal training to Members on prohibited activities. *AmeriCorps Provisions* Section B.4 states, "While charging time to the AmeriCorps Program . . staff and members may not engage in the following activities . . ." Without specific training related to the types of activities prohibited by the AmeriCorps program, Members may

unknowingly engage in activities which are expressly prohibited while accumulating service or training hours.

Lack of Commission-Level Records and Supervisory Review

The Commission does not have a comprehensive file of Commission-level FSRs and related supporting documentation prior to the fourth quarter 1999. In addition, review of internal Commission-level financial reports is not documented in writing. As a result, Commission-level FSRs and related supporting documentation are not available to support Commission-level financial results. *AmeriCorps Provisions* Section C.20.a states, "The Grantee has full fiscal and programmatic responsibility for managing all aspects of grant and grant-sponsored activities, subject to the oversight of the Corporation. The Grantee is accountable to the Corporation for its operation of the AmeriCorps Program and the use of Corporation grant funds." In addition, the *AmeriCorps Provisions* Section C.26 states that the Commission must maintain records for three years from the date of submission of the final FSR.

Lack of Documentation of Required State Match

The Commission does not have records which support that the State of Alabama has in fact advanced funds or provided in-kind matching contributions, as required. In accordance with the OMB Circular A-133 Compliance Supplement, one of the basic criteria for an acceptable match is that amounts are verifiable from the entity's records. Without adequate documentation for all match amounts, the Commission cannot accurately support or determine if it has met the federal matching requirements. Further, accurate valuation of contributions from the State of Alabama can aid in the budget planning process through identifying exact additional amounts needed to complete the match.

Recommendations

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

- Consider developing written policies and procedures which require that an analysis of expenditures to date versus budget amounts be prepared prior to authorizing draw-downs. We recommend that the Commission review subgrantee draw-down requests and FSRs and formally document what review procedures were performed. We also recommend that the Commission include examples of the FSRs reviewed and document procedures performed in agreeing subgrantees' FSRs to their accounting systems or other supporting documentation as part of site visits.

- Develop and implement formal procedures to ensure that OMB Circular A-133 reports or other audit reports are received from applicable subgrantees on a timely basis and that review of the report is documented. The Commission should implement a "received stamp/date" process to document when reports are received. In addition, formal procedures for resolving audit issues should be developed and documented.

- Develop a formal training module on prohibited activities to be presented during new Member orientation.

- Develop and implement policies and procedures to ensure that Commission-level FSRs and related supporting documentation are maintained. In addition, the Executive Director should review all financial reports monthly and initial them to indicate his review. The Commission should also maintain documentation to support all cash and in-kind matching contributions.

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. OMB Circular A-133 (Subpart d, Section 400 d) sets forth pass-through entity responsibilities which include communicating specific award information to subgrantees, advising subgrantees of specific grant award requirements, monitoring the activities of subgrantees to ensure compliance with grant provisions, ensuring subgrantees that expend $300,000 or more of pass-through dollars have met the OMB Circular A-133 audit requirements, issuing management decisions on any findings contained in any required OMB Circular A-133 audit reports, considering the effect of any noted compliance findings on the grantee's own records, and requiring subgrantees to provide access to records, as necessary to ensure compliance. We identified the following areas for improvement related to the evaluation and monitoring of subgrantees.

Lack of Proper Site Visit Policies and Procedures

The Commission does not maintain a listing of site visits performed, and there is a lack of control over ensuring that site visits are performed timely. In addition, the Commission does not have written policies and procedures to follow up on subgrantees responses to site visit comments and determine that corrective action has been taken.

Inadequate Subgrantee Monitoring Documentation

The monitoring tool used prior to program year 2000 was in a "yes/no" answer format. Therefore, little detail is available related to monitoring activities. For example, Commission personnel stated that they reviewed the financial system (a "yes" answer), but there is no explanation of the system or details supporting their conclusion. Commission personnel do not document the sample items tested or their rationale for sample selection. Such information should be documented to support site visit testing of Member timesheets, personal expenses, matching expenses, and programmatic accomplishment statistics. In addition, the monitoring tool lacks specific sections related to review for prohibited activities and review of Member allowances and hours accumulation. As a result, control weaknesses or instances of material noncompliance related to the AmeriCorps program of which the Commission is not aware may exist and not be detected or corrected. *AmeriCorps Provisions* Section C.20.a mandates fiscal and programmatic responsibility for managing all aspects of grant and grant-sponsored activities.

Missing Labor Hour Certifications

AmeriCorps Provisions Section C.21.a states, "The grantee must maintain financial management systems that include standard accounting practices, sufficient internal controls, a clear audit trail and written cost allocation procedures as necessary. Financial management systems must be capable of distinguishing expenditures attributable to this grant from expenditures not attributable to this grant." Further, OMB Circulars A-87 for state and local governments and A-

122 for nonprofit organizations, require that effort reporting systems be in place to support labor hours charged to grant awards. Adequate labor certifications can suffice for the required effort reporting system. However, for subgrantees with multiple grants, the site visit reports we reviewed indicated that labor hour certifications were not maintained to support work charged to the Commission grant for the period under review. As a result, policies and procedures at the subgrantee level are not sufficient to ensure that that the work of subgrantee personnel is specifically related to the Commission grant and that the required effort reporting systems are in place.

Recommendations

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

- Establish and follow an annual site visit plan. In addition, we recommend that the Commission clearly document the results of all site visits and related resolution of all identified issues.

- Develop a site visit tool which provides for:

  - Review of documentation supporting Member eligibility.

  - Review of Member timesheets to:

    - Ensure that a supervisor approved the hours recorded and that the supervisor had appropriate knowledge of the Member's activities.

    - Determine whether hours were spent on allowable activities and in accordance with the intent of the grant and the program, and that prohibited activities were not performed.

    - Agree hours into the tracking system used by the subgrantee to determine completion of educational service award requirements.

  - Review of Member contracts.

  - Review of change of status forms and forms used to document waivers for compelling personal circumstances, and eligibility for day care.

  - Interview of Members about timesheets, Member contracts, prohibited activities, and day care eligibility.

  - Review of living allowance to determine if it was paid according to established guidelines.

  - Agreement of total hours in the tracking system to hours reported on the end-of-term form for Members who have earned awards. Ensure hours met minimum requirements for award certified as earned (full time, part time or reduced part time).

  - Documentation of items selected for review and rationale for sample size.

- Develop and implement written policies and procedures to ensure appropriate corrective actions are taken and issues are resolved and documented when deficiencies have been noted.

- Emphasize the importance of completion of labor hour certifications to support time charged to Corporation grants.

*****

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 Alabama State Commission on National and Community Service, and the United States Congress and is not intended to be and should not be used by anyone other than these specified parties.

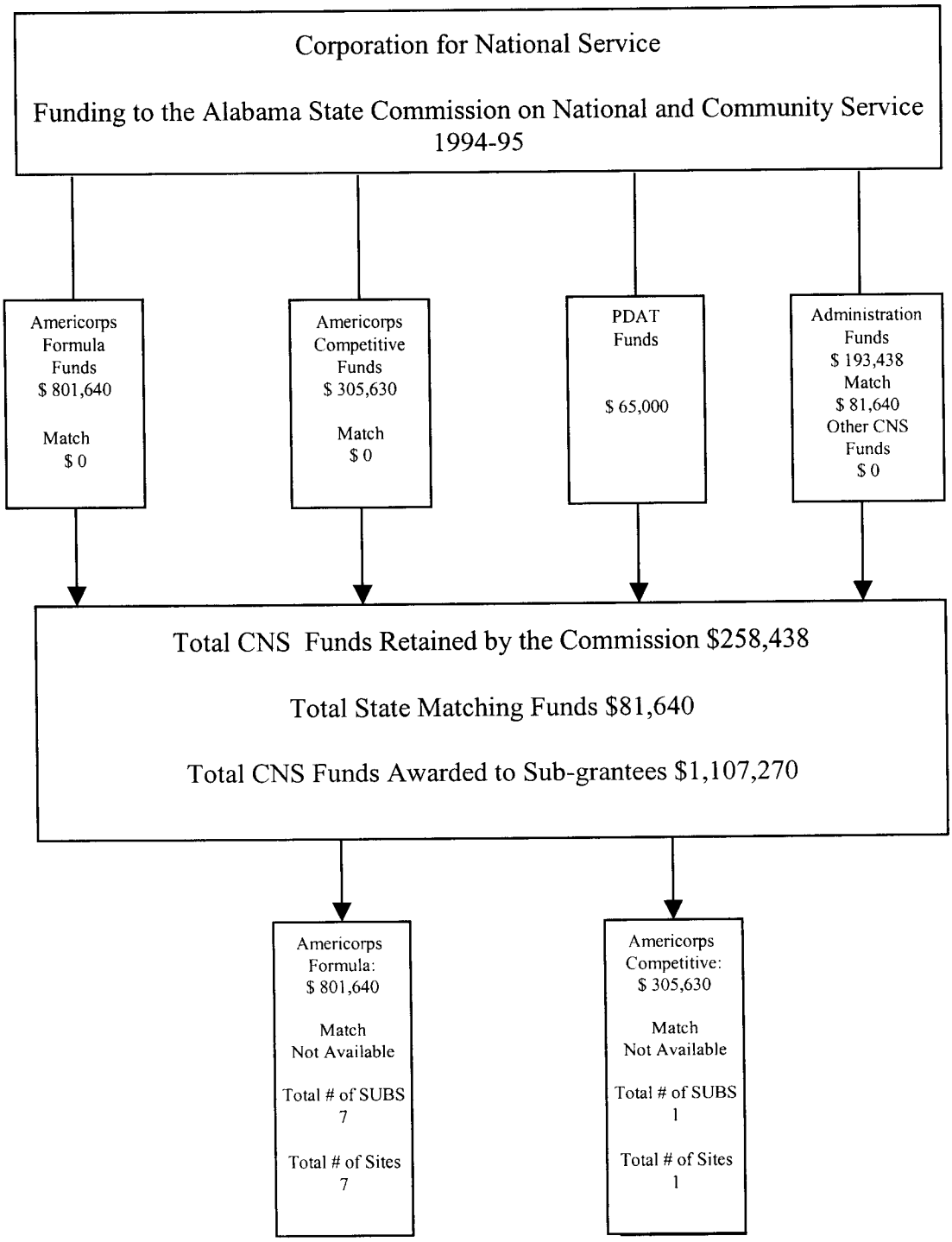
KPMG LLP

Commission Funding Appendix A

The table below and the flowcharts on the following pages depict the Commission's funding since 1994-95. 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.

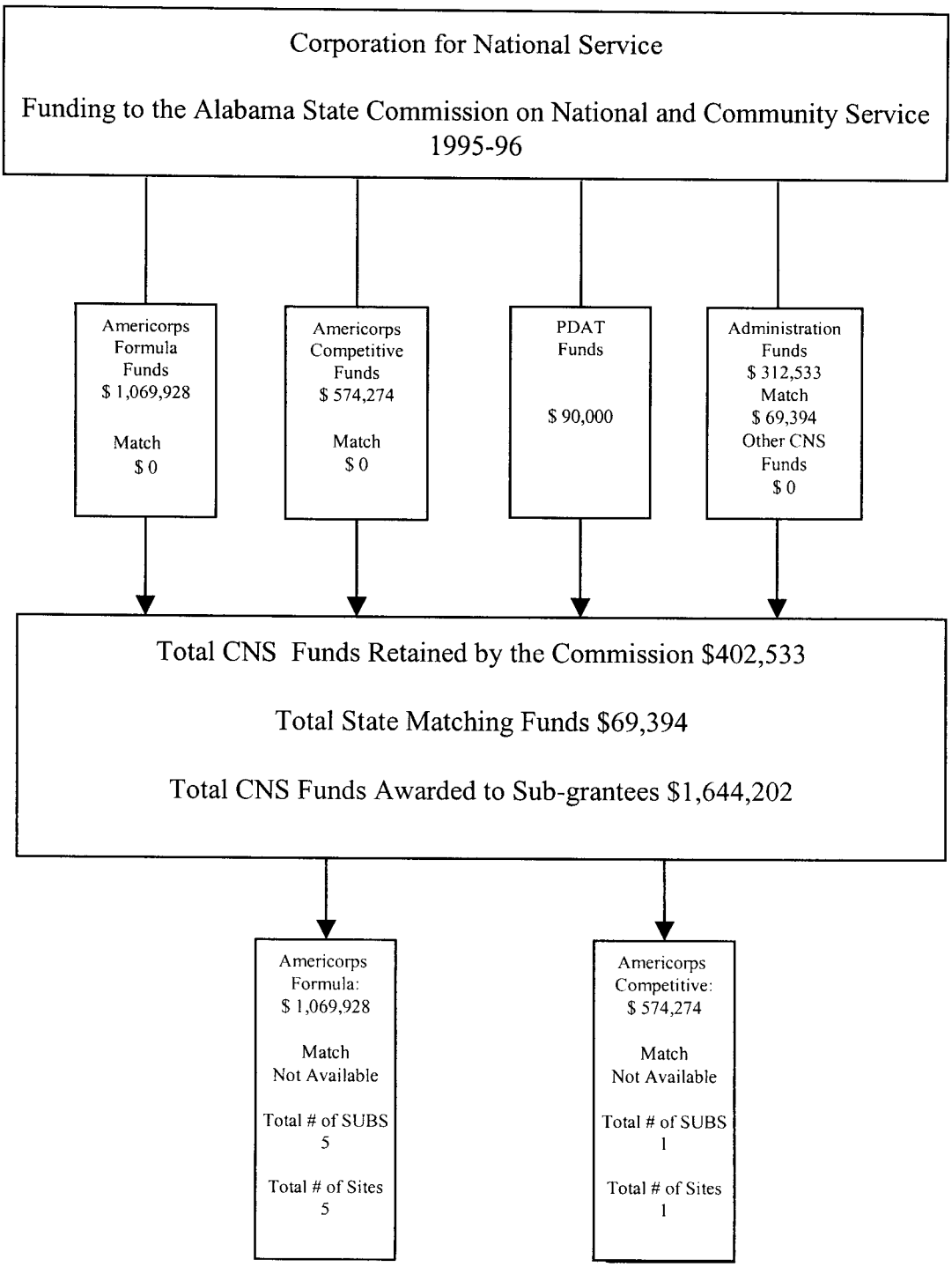
Funding Source and Type	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
CNS Formula Grant Funds	$ 801,640	$ 1,069,928	$ 1,055,835	$ 803,318	$ 1,382,642	$ 1,343,228
CNS Competitive Grant Funds	305,630	574,274	472,944	363,144	280,544	224,996
CNS PDAT Funds	65,000	90,000	96,000	100,893	97,374	55,680
CNS Administrative Funds	193,438	312,533	428,151	65,271	139,193	230,945
State Matching Funds	81,640	69,394	69,394	93,747	101,655	116,655
	$ 1,447,348	$ 2,116,129	$ 2,122,324	$ 1,426,373	$ 2,001,408	$ 1,971,504

Commission Funding

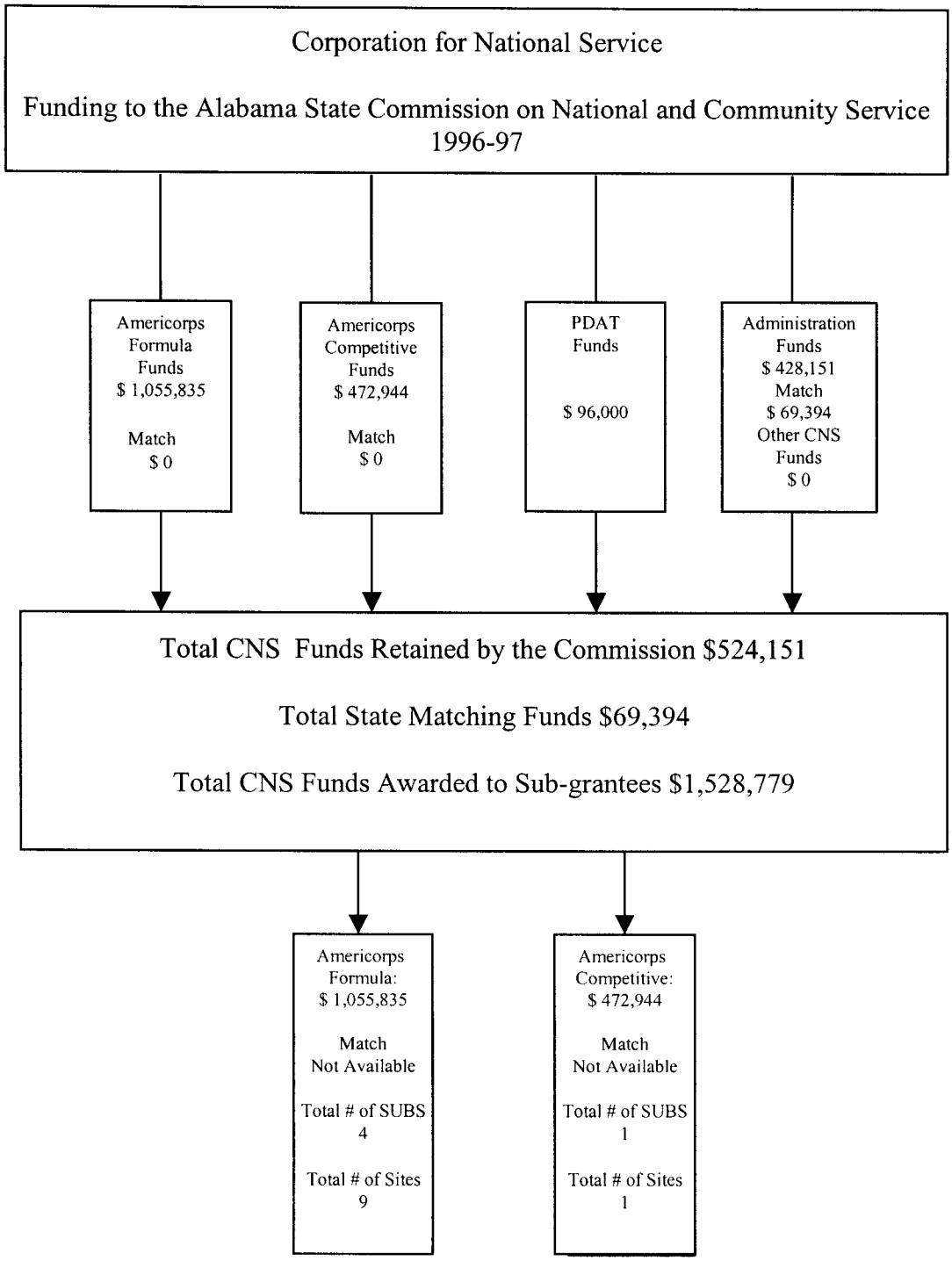


Commission Funding

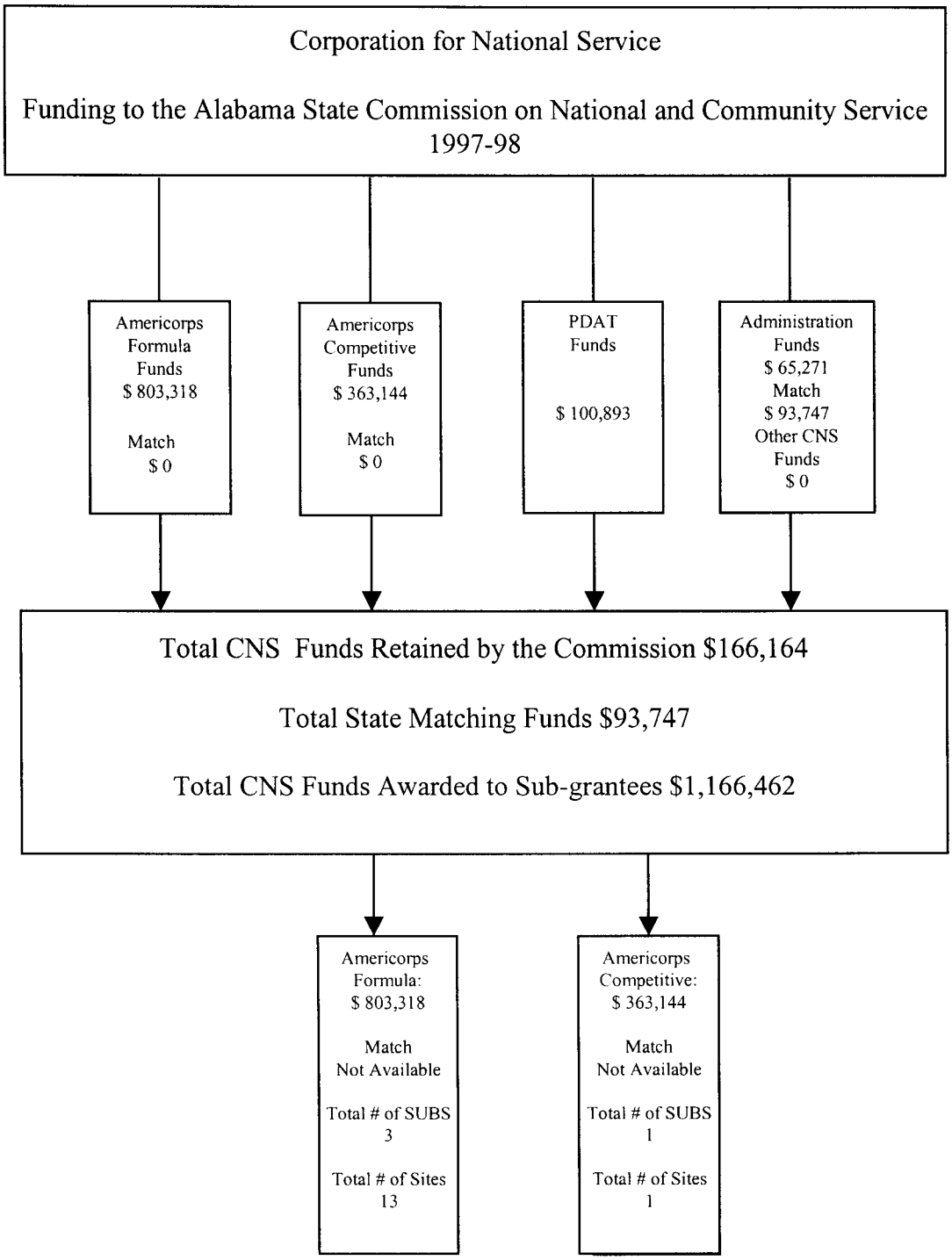
Appendix A



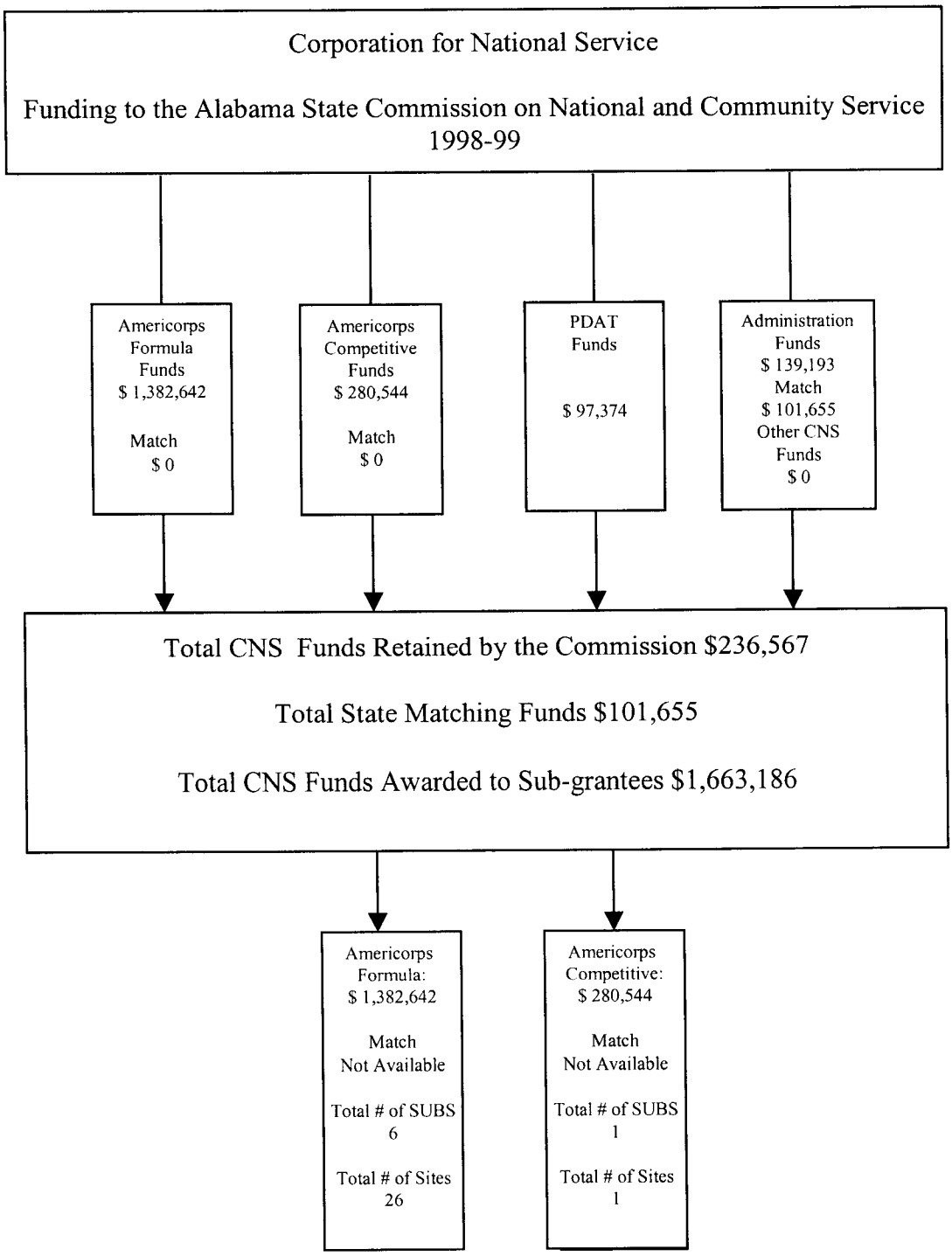
Commission Funding



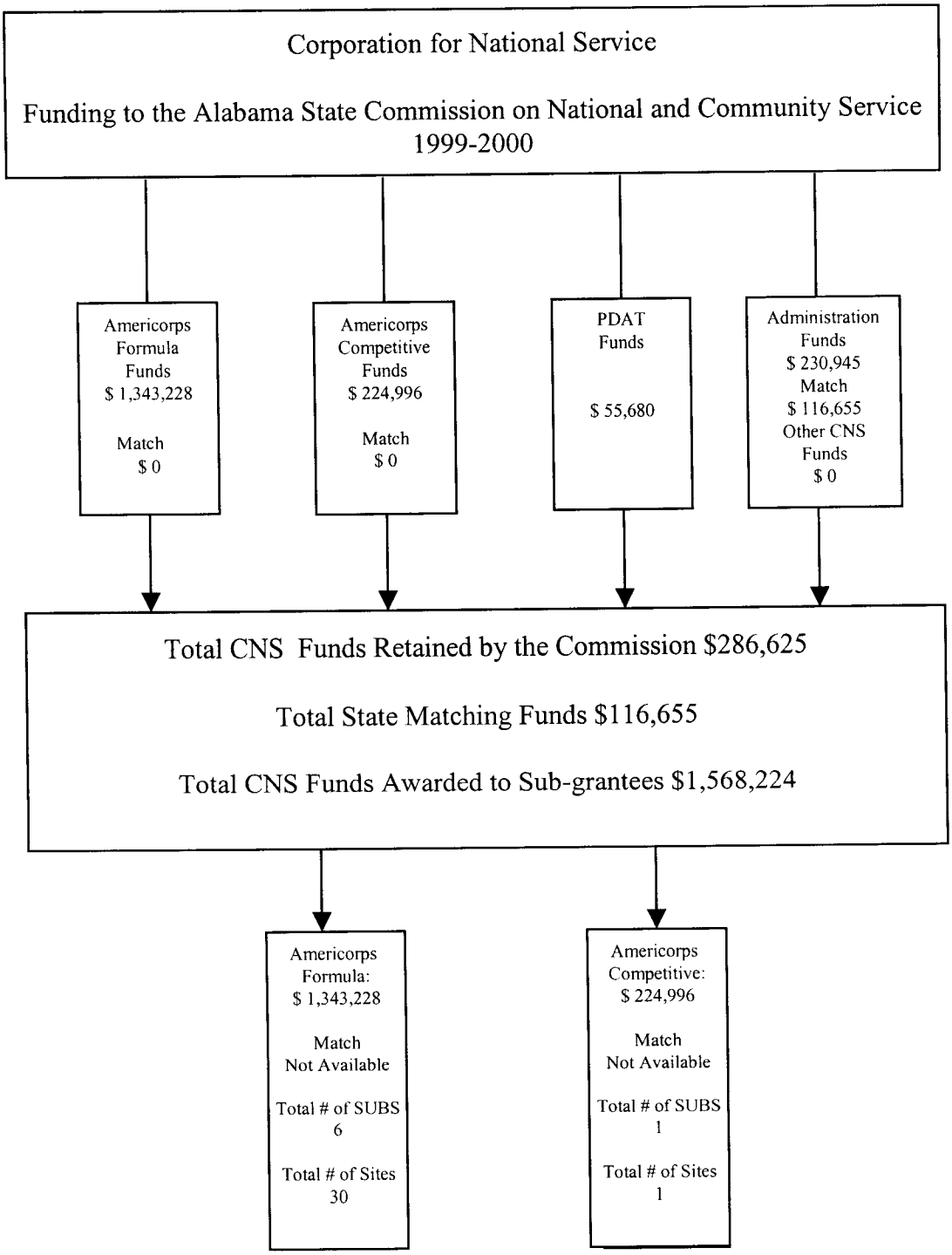
Commission Funding



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; cash management; eligibility; matching; period of availability of Corporation funds; procurement, suspension and debarment; subgrantee 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;

- 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 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;

- make a preliminary assessment of internal controls over service hour and program accomplishment reporting; 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.

DON SIEGELMAN
GOVERNOR

GINA BAILEY MCKELL
EXECUTIVE DIRECTOR

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STATE OF ALABAMA

GOVERNOR'S OFFICE ON NATIONAL AND COMMUNITY SERVICE

January 22, 2001

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

Dear Ms. Jordan:

The Alabama Commission on National and Community Service has received the draft report of the pre-audit survey conducted by KPMG in September 2000. Thank you for the opportunity to comment on the report.

In November 2000, Governor Don Siegelman asked me to serve as the Executive Director of the Alabama Commission. Upon accepting this appointment, I began a thorough review of Commission operations. While we have not yet completed an in-depth analysis of Commission operations back to 1994, we are currently examining our policies and procedures to ensure adequacy and compliance in all areas. We are also reorganizing files to ensure that appropriate records exist to document the Commission's activities in managing the AmeriCorps grants.

Without the completed internal review, I am unable to respond to all findings contained in the report. However, I am pleased to provide the responses to the following issues:

Selecting Subgrantees:

- Conflict of Interest Forms are currently available on all commissioners. Forms are signed yearly.
- This office has established a file of denied applications.

- A notice of AmeriCorps fund availability is sent to a statewide database of about 500 addresses. Also, it is advertised in select local newspapers, radio stations and other publications.

Administering Grant Funds:

- Prohibited Activities are discussed with new AmeriCorps Members at the member launch and are printed on a bookmark that is given to each new member.
- While we know of no requirements for an analysis of expenditures to date versus budget amounts, we feel that the use of WBRS by all our programs fills this need.

Evaluating and Monitoring Subgrantees:

- Currently certification forms are signed yearly for all employees whose work hours are dedicated 100% to AmeriCorps. Those employees whose time is divided, will also complete certification forms stating the number of hours dedicated to AmeriCorps.

Again, we are reviewing our policies and procedures for adequacy and compliance in all areas, and are working closely with the Corporation for National Service to achieve this. This office has been in almost constant transition with regards to leadership, personnel and location. It is our plan to create new and adequate procedures for operation as a result of this audit.

Sincerely,

Gina Bailey McKell

Gina Bailey McKell

CORPORATION
FOR NATIONAL
SERVICE

MEMORANDUM

To: Luise Jordan, Inspector General

Through: William Anderson, Acting Chief Financial Officer

From: Peter Heinaru, Director, AmeriCorps State/National

Subject: Comments on the OIG Draft Report 01-20, Pre-Audit Survey of the Alabama Commission on National and Community Service

Date: January 23, 2001

We have reviewed the draft report of the pre-audit survey of the Alabama Commission on National and Community Serve and have the following comments on the report's findings and recommendations.

In the area of **Selecting National Service Programs**, the report makes five recommendations for improving the effectiveness of the process. The Corporation concurs with four of the recommendations and notes that the corresponding findings pertain primarily to years prior to current Commission operations. We will work with the Alabama Commission to develop and/or improve protocols for the grant selection process.

Concerning the finding under *Lack of mass media advertising* that the Commission "does not use mass media advertising for notice of funds availability," we note that there is no Corporation requirement for mass media advertising; therefore, we disagree with this recommendation. State commissions must follow their state requirements for informing eligible applicants of funds availability. The Commission currently uses several mechanisms for broadly advertising grant funds.

In the area of **Administering Grant Funds**, the report recommends that "the Commission focus on measures for improving the effectiveness of its grant administration process..."

The Corporation concurs with the second and fourth recommendations and is working with the Alabama Commission to develop appropriate policies and procedures for *ensuring proper tracking, review and resolution of A-133 audits; for the preparation and review of Financial Status Reports; and for documenting match for state-level grants*. We also note that within the past month, the Commission's accounting and financial management function has been moved

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into the Alabama Department of Economic and Community Affairs, a state agency with staff experienced in managing federal grants.

The Corporation strongly disagrees with the first recommendation that *analysis of expenditures is required before Commissions may authorize draw-downs by subgrantees*. Commissions may advance funds or pay on cycles not directly connected with a fiscal report. We recommend that Commissions be aware of totals advanced and amounts expended to date of last fiscal report to generally assure reasonableness of draw-downs but do not need to do expense analysis for each draw-down.

Also in the first recommendation, the auditors recommend that the Commission *agree FSRs to supporting documentation on site visits*. In doing so, the auditors attempt to direct the establishment of arbitrary, exacting standards for the Commission's monitoring of its programs. The Corporation advocates a risk-based strategy for monitoring programs that considers the experience, organizational history and past performance, including programmatic and financial elements. The Corporation, like other Federal agencies, requires its grantees and subgrantees to use the OMB A-133 audit as the primary basis for oversight of its awards. These audits cover the entire operations of the subgrantee including internal controls and compliance with laws, regulations and award provisions. For organizations not required to have an A-133 audit, the Commission must consider what, if any, additional procedures are needed to ensure adequate oversight. OMB Circular A-110, addressing Administrative Standards and adopted by the Corporation in regulation, also addresses higher-risk grantees and consideration for additional monitoring by the Commission.

The Corporation is working with the Alabama Commission to ensure that its monitoring strategy for subgrantees, including review of FSRs, is risk-based and adequate.

The Corporation disagrees with the report's finding and recommendation that it is the responsibility of the *Commission* to train members on prohibited activities. Through a review of member contracts and by reviewing individual program's member training agendas, Commissions can ensure that *programs* are appropriately training their members about prohibited activities. It appears that currently the Commission is ensuring that its programs are adequately training members and members are aware of prohibited activities.

In the area of **Evaluating and Monitoring of Subgrantees**, the report makes four recommendations for improving the effectiveness of the Commission's monitoring practices.

Regarding the first recommendation, we support the concept of a risk-based *annual site visit plan* and documenting results and resolutions.

While we agree that the Commission should have adequate *site visit tools* available, the risk-based strategy should determine when and what tools should be used on site visits. Thus, we do not agree with the part of this recommendation that the Commission *develop a rationale for sample size in reviewing member timesheets and financial records* and in documenting items selected for review. This recommendation suggests that program managers use audit techniques including sampling and the performance of specific programmatic and fiscal reviews for every

award, concepts not normally associated with or required by Federal management standards as articulated in OMB Circulars A-102, A-110, and A-133.

As noted above, the Corporation advocates a risk-based strategy for monitoring programs, and we are working with the Alabama Commission to ensure that its monitoring strategy for subgrantees is risk-based and adequate.

We note that the report indicates the Commission identified in site visits that *labor hour certifications* were missing. The report does not note that as a result of the Commission review, the issue was addressed and corrected.