OFFICE OF THE INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE

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

OIG Audit Report Number 01-21
October 26, 2000

Prepared by:

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2001 M Street N.W.
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This report was issued to Corporation management on April 4, 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 October 1, 2001, and complete its corrective actions by April 4, 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 Connecticut Commission on National and Community Service
OIG Audit Report Number 01-21

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). Recommendations for future audit work consider the pre-audit survey results, known audit coverage, the amount of funding, and other risks. 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 Connecticut Commission on National and Community Service. Based on the limited procedures performed, KPMG concluded that the Commission administers an open, competitive process to select national service subgrantees. However, KPMG described several areas of this process as well as the Commission's fiscal administration and monitoring processes that warrant improvement. Their report includes various recommendations for corrective actions in the latter areas. Also, based on their preliminary assessments and the nature of the survey findings, KPMG recommends Corporation follow-up actions to ensure that appropriate corrective actions are implemented and that OIG perform a full-scope audit of the Commission for all program years.

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

The Commission's and the Corporation's responses are included in this report as Appendices C and D, respectively. Although the Commission, for the most part, disagreed with the report, it's response indicates that it has implemented certain of the recommendations. The Corporation's response disagrees with recommendations to improve the Commission's monitoring procedures and documentation as well as the recommendation for a full scope audit. As described on pages 4 and 5, KPMG considered the Commission's comments and made certain revisions to the report.

CNS OIG reviewed the report, with which we concur, and the work papers supporting its conclusions. We also noted the Corporation's argument against further OIG audit work. We believe it is important to clarify that CNS OIG intends to perform audit work at most, if not all, of the state commissions over the next several years and that the purpose of the pre-audit surveys is to gather information to allow CNS OIG to determine the timing of and the extent of future audit work. In performing our audit work at the Commission, we will consider the Commission's corrective actions and the Corporation's oversight efforts. Further, in accordance with OIG policies and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," we will consider the results of independent financial and compliance audits performed at the Commission and its subgrantees in determining the nature and scope of our future audit work.

Pre-Audit Survey of the
Connecticut Commission on National and Community Service
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2001 M Street, N.W.
Washington, D.C. 20036

October 26, 2000

Inspector General
Corporation for National and Community Service:

At your request, KPMG LLP (KPMG) performed a pre-audit survey of the Connecticut 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; 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, the Commission could not provide signed conflict of interest statements for officials that participated in subgrantee selection processes for all program years reviewed. In addition, the Commission could not provide adequate documentation to support its evaluation of an applicant's financial management systems (for periods prior to program year 1999-2000), and past experience (for all program years reviewed).

- The Commission has developed control policies and procedures to administer the Corporation's grant funds. However, the Commission's control policies and procedures to ensure the timeliness, accuracy and validity of Commission and Subgrantee Financial Status Reports is inadequate.

- 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

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ensure the timely resolution of identified deficiencies. In addition, the Commission could not provide documentation to demonstrate the procedures performed during site visits for all program years reviewed.

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 forms part of the Department of Higher Education of the State of Connecticut, and as such, is annually subject to an OMB Circular A-133 audit performed by the Connecticut State Auditors' Office. However, the Commission's AmeriCorps grant was not identified as a major program in the audit for the fiscal year ended 1999.

Based on our preliminary assessments, 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 Connecticut Commission

The Connecticut Commission on National and Community Service, located in Hartford, Connecticut, 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 Connecticut's Department of Higher Education (the Department). The Commission has five employees directly involved with the Commission including an Executive Director, a Finance Manager, a Program Officer, and two support staff. The Commission's Executive Director reports directly to the Department's Interim Commissioner.

As part of the Department, the Commission is annually subject to an OMB Circular A-133 audit performed by the Connecticut State Auditors' Office.

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	$2,229,350	4	2
1995-96	3,875,650	6	6
1996-97	3,598,678	6	5
1997-98	3,645,650	7	4
1998-99	4,286,334	12	4
1999-2000	2,915,063	9	2

* 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. Because the Commission does not routinely obtain and review such audit reports as reported on page 8, we were unable to verify that applicable subgrantees complied with this audit requirement.

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 1994-1995 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 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 26, 2000. Subsequent to that date, we communicated with the commission to clarify and resolve certain matters related to our preliminary findings and to obtain additional information to finalize our report.

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. We have revised the language in the finding " Documentation of Financial and Grant Management Procedures and Controls" identified on page 8, and revised our recommendation to the finding "Review of OMB Circular A-133 Audit Reports and Follow Up

on Deficiencies Identified" provided on page 10 based on the Commission's response. We continue to believe all other Findings and Recommendations should remain as presented in our draft report. Accordingly, no additional changes were made to this report.

We would also like to respond to the Commission's concerns regarding the staff assigned to this engagement. The staff assigned were individuals with appropriate qualifications, who conducted the assignment in a professional manner, notwithstanding the lack of professional courtesy and cooperation that was expected from certain Commission staff. All staff work was subject to a detailed management review for compliance with firm and professional standards.

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.

Signed Conflict of Interest Statements

Due to a lack of documentation for all program years reviewed, we were unable to confirm whether the Commission's selection officials (i.e., Commission Members and Peer Reviewers) annually certified that they have no conflict of interest. 45 CFR Section 2550.80(b)(1), *Pre-selection of Subtitle C Programs and Preparation of Application to the Corporation,* requires state entities to administer a competitive process to select national service programs to be included in any application to the Corporation for funding. One way to help ensure a competitive process is to require selection officials to annually certify in writing that they have no conflicts of interest. No recommendation is considered necessary at this time because the Commission revised its procedures beginning with program year 2000-2001 to include retention of signed conflict of interest statements.

Assessment of an Applicant's Financial Management System

Due to a lack of documentation for seven of the ten applicants reviewed, we were unable to determine whether the Commission consistently followed its procedures prior to program year 1999-2000 to assess whether a potential subgrantee had a financial management system which 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 and retention of its evaluation of applicants' 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 for all program years reviewed included a process to assess the potential subgrantee's past experience. The Commission documents its assessment on score sheets during the selection process; however, completed score sheets were not provided for eight of the ten applicants reviewed. 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 and retention of its assessment of applicants' past experience beginning with program year 2000-2001.

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 manage cash draw downs and disbursements to subgrantees, made by the Department of Higher Education since 1994 as the Commission's fiscal agent. 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 grant administration process.

Procedures and Controls over Timeliness, Accuracy and Validity of Financial Status Reports (FSRs)

Out of seven subgrantee FSRs and five Commission FSRs reviewed, six subgrantee FSRs and three Commission FSRs respectively were submitted late. Unexplained differences were noted in Program Years 1996-1997, 1997-1998, and 1998-1999, between amounts reported on the subgrantee FSRs and included on the Commission's aggregated FSRs for the same period. The differences ranged from $337 to $152,846. Additionally, no evidence exists to determine whether the Commission reviews documentation supporting the subgrantee FSRs, or whether matching amounts are reviewed as part of procedures performed during FSR review or during site visits. In 1999, the Commission contracted with an independent accounting firm to assist in determining the validity of information reported by the subgrantees. Four subgrantees have been reviewed to date and reviews of two subgrantees are in progress. However, these reviews do not encompass all of the years that Commission funds were received.

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 subgrantee FSRs are due 15 days after the quarter ends. OMB Circular A-133 Compliance Supplement, Part 6 – *Internal Control,* suggests that control activities should include supervisory

review of reports to assure accuracy and completeness of data and information included in the reports. In addition, it also recommends that monitoring activities should include periodic comparison of reports to supporting records.

Documentation of Financial and Grant Management Procedures and Controls

The Department of Higher Education's written polices and procedures for financial management, grant administration, evaluation, and monitoring processes do not include additional guidelines specific to the Commission, 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.

Use of Web Based Reporting System

We determined that the Commission has not utilized the Web Based Reporting System (WBRS) to produce FSRs. The Commission expects to automate the preparation of FSRs through WBRS during program year 2000-2001.

Recommendations

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

- Develop and implement procedures to withhold payments to subgrantees when they fail to submit required information and reports (e.g., matching funds information, FSRs, program progress reports) by the specified deadlines, and to perform a comprehensive review of FSRs submitted by subgrantees as well as those prepared by the Commission.

- Consider developing a checklist to be used by the reviewer to provide reasonable assurance that the respective match amounts have been met, all required information has been reported and agrees to supporting documentation, and is verified for compliance with grant agreements. The completed checklist could then be submitted to a second person for review and approval. Such a procedure would enhance the review and monitoring procedures associated with reporting, serve as a reminder for communicating instances of noncompliance to subgrantees as soon as they are identified, and for following up to ensure that corrective actions have been taken.

- Review the population of subgrantees subject to review by the independent accounting firm engaged to monitor the fiscal activities of subgrantees to ensure it is complete. Further, the Commission should ensure that these reviews are conducted at least once a year, and that the reports resulting from the reviews are immediately reviewed by the Commission for follow up on any deficiencies identified.

- Emphasize during training sessions and site visits, the importance of submitting the required information and reports timely.

- Develop written procedures for the specific financial and grant related activities to be performed by the Commission on a daily basis. These policies and procedures should include an identification of the following:

    - 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

  Once these procedures have been developed, they should be immediately implemented.

- Utilize WBRS to prepare FSRs, in order to minimize the manual processing that is currently necessary.

Evaluating and Monitoring Subgrantees

As noted above, the Commission is responsible for monitoring subgrantee 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. Two times per year, the Commission requires that the programs address their accomplishments towards meeting the stated objectives, citing both numerical and other informational data. However, we identified the following areas for improvement related to the evaluation and monitoring of subgrantees.

Review of OMB Circular A-133 Audit Reports and Follow Up on Deficiencies Identified

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 required audits are performed and to ensure that the subgrantees take prompt corrective actions 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. The Commission does not consistently require its subgrantees to submit OMB Circular A-133 or other audit reports, if applicable, and the Commission does not routinely review such reports to determine whether the auditors have identified control weaknesses or instances of noncompliance related to the AmeriCorps program. Additionally, the Commission does not consistently follow up on corrective actions to be taken. 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 may not be corrected.

Adequacy of Site Visit Procedures

Due to the lack of documentation supporting procedures conducted during site visits for all program years, we were unable to determine whether the Commission evaluated/reviewed subgrantee financial management systems, and, records to support grant expenditures. Additionally, we were unable to determine what procedures were conducted by the Commission during site visits to review AmeriCorps member timesheets, eligibility, living allowances, service hours, and member's awareness to prohibited activities. 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 2000-2001 standard site visit form (the AmeriCorps State Monitoring Tool) which has been developed and is due for implementation during the program year, provides guidance with respect to these procedures. However, we noted that it did not include procedures for evaluators to review and verify amounts reported by subgrantees, and to review and assess subgrantee financial management systems.

Recommendations

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

- Improve current procedures for obtaining OMB Circular A-133 audit reports from its subgrantees and for following up to ensure that timely corrective actions were taken on audit findings that have been identified.

- Add procedures to the 2000-2001 AmeriCorps State Monitoring Tool to instruct the evaluator to perform such tasks as: (i) verifying match amounts reported on FSRs to supporting documents; (ii) agreeing grant expenditures reported on FSRs to supporting documents to verify the existence and allowability of costs; (iii) agreeing amounts reported on FSRs to the general ledger; and (iv) reviewing and assessing the adequacy of the subgrantee's financial policies and procedures. Additionally, instructions should clearly require evaluators to document the specific work done, and the basis used to select items tested.

*****

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 Connecticut 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

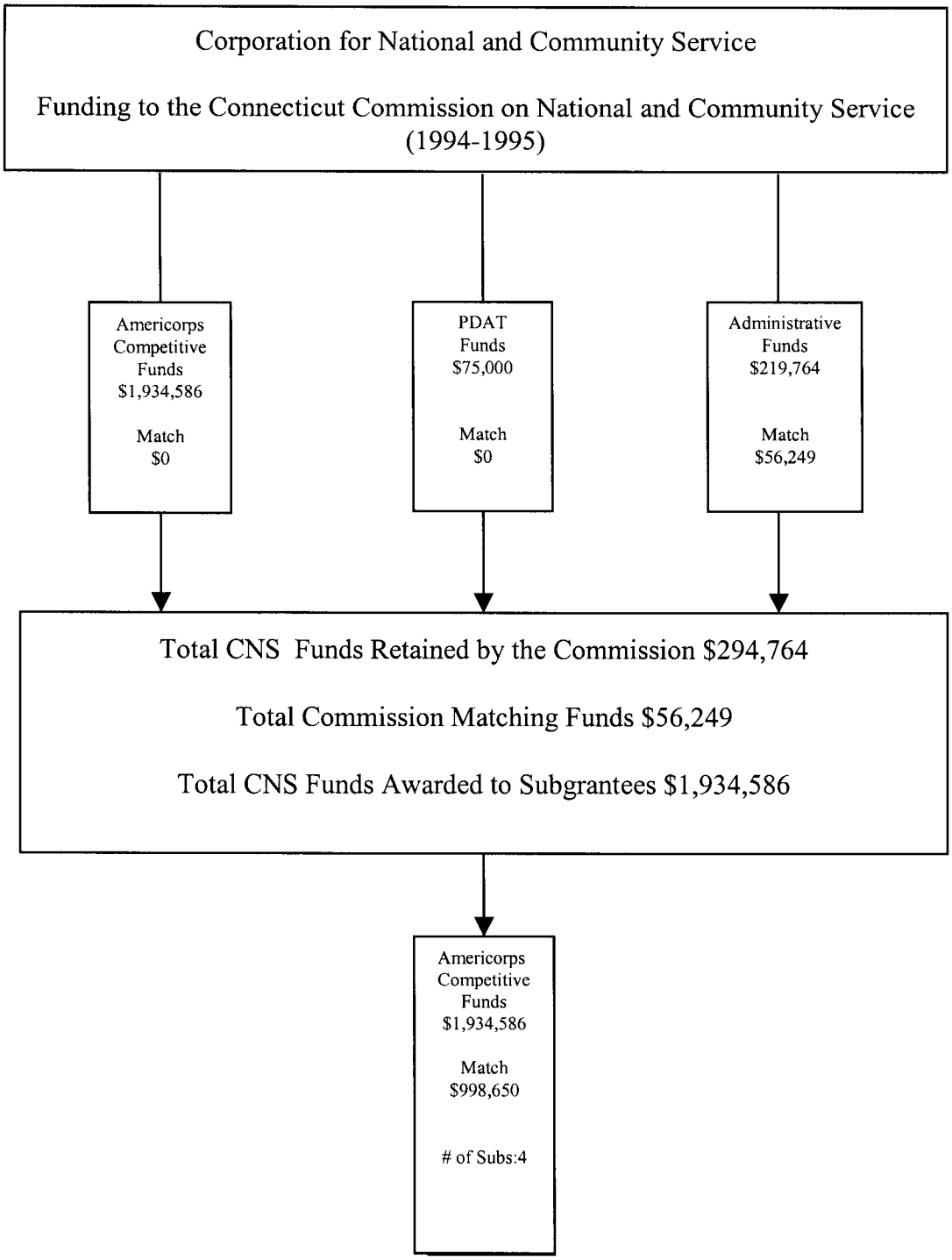
Commission Funding Appendix A

The table below and the flowcharts on the following pages depict the Commission's funding 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	$ -	$827,244	$755,445	$910,599	$1,181,063	$973,087
CNS Competitive Grant Funds	1,934,586	2,660,590	2,460,604	2,421,123	2,316,702	1,468,118
America Reads	-	-	-	-	275,220	-
Community Based Learn and Serve	-	-	-	-	113,995	110,105
Promise Fellow Funds	-	-	-	-	76,800	58,018
Make A Difference Day	-	-	-	-	-	2,000
PDAT Funds	75,000	87,550	120,650	151,200	118,649	107,796
Administration Funds	219,764	300,266	261,979	162,728	203,905	195,939
State Matching Funds	56,249	61,411	199,789	173,996	138,581	65,534
	$2,285,599	$3,937,061	$3,798,467	$3,819,646	$4,424,915	$2,980,597

Appendix A

Commission Funding



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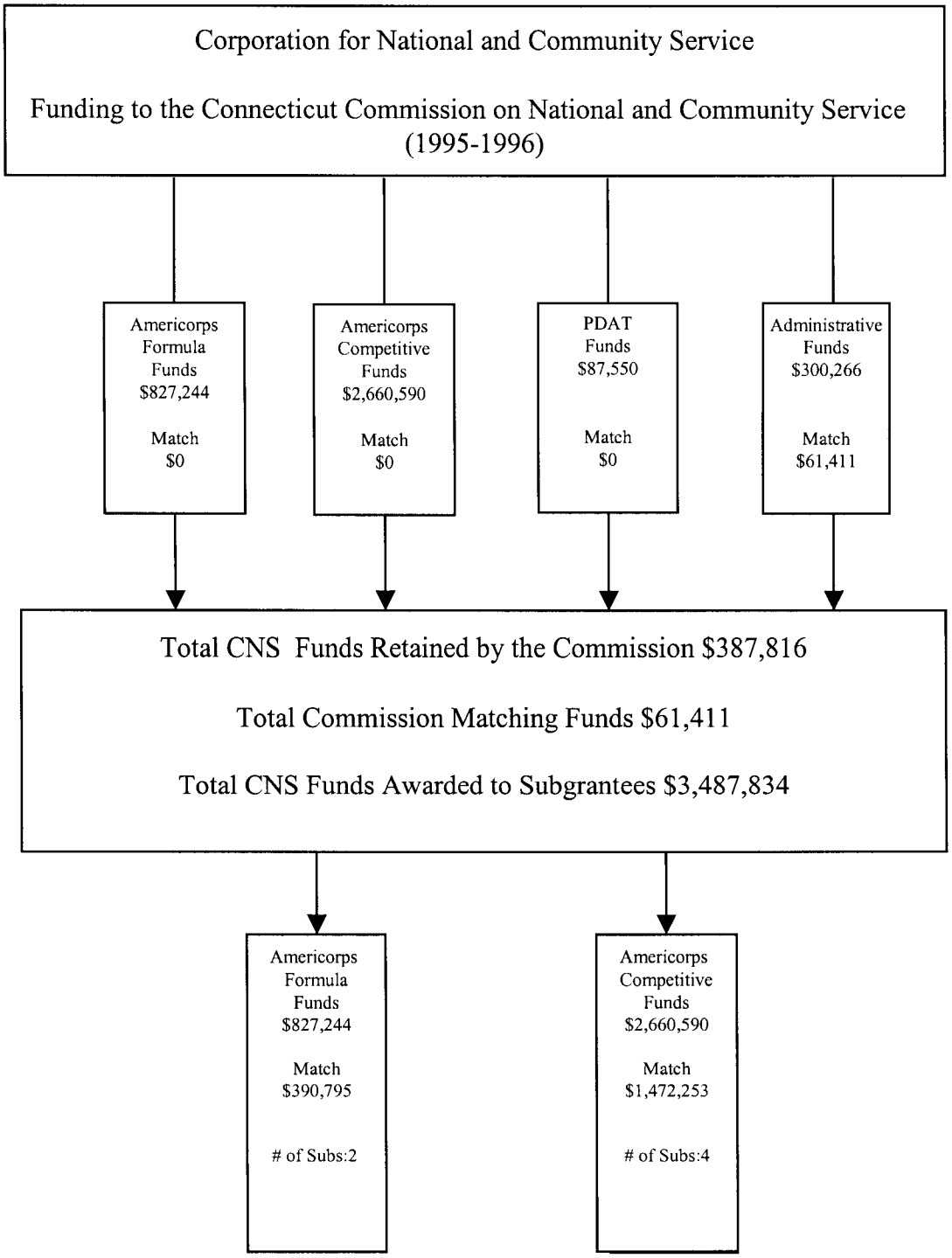

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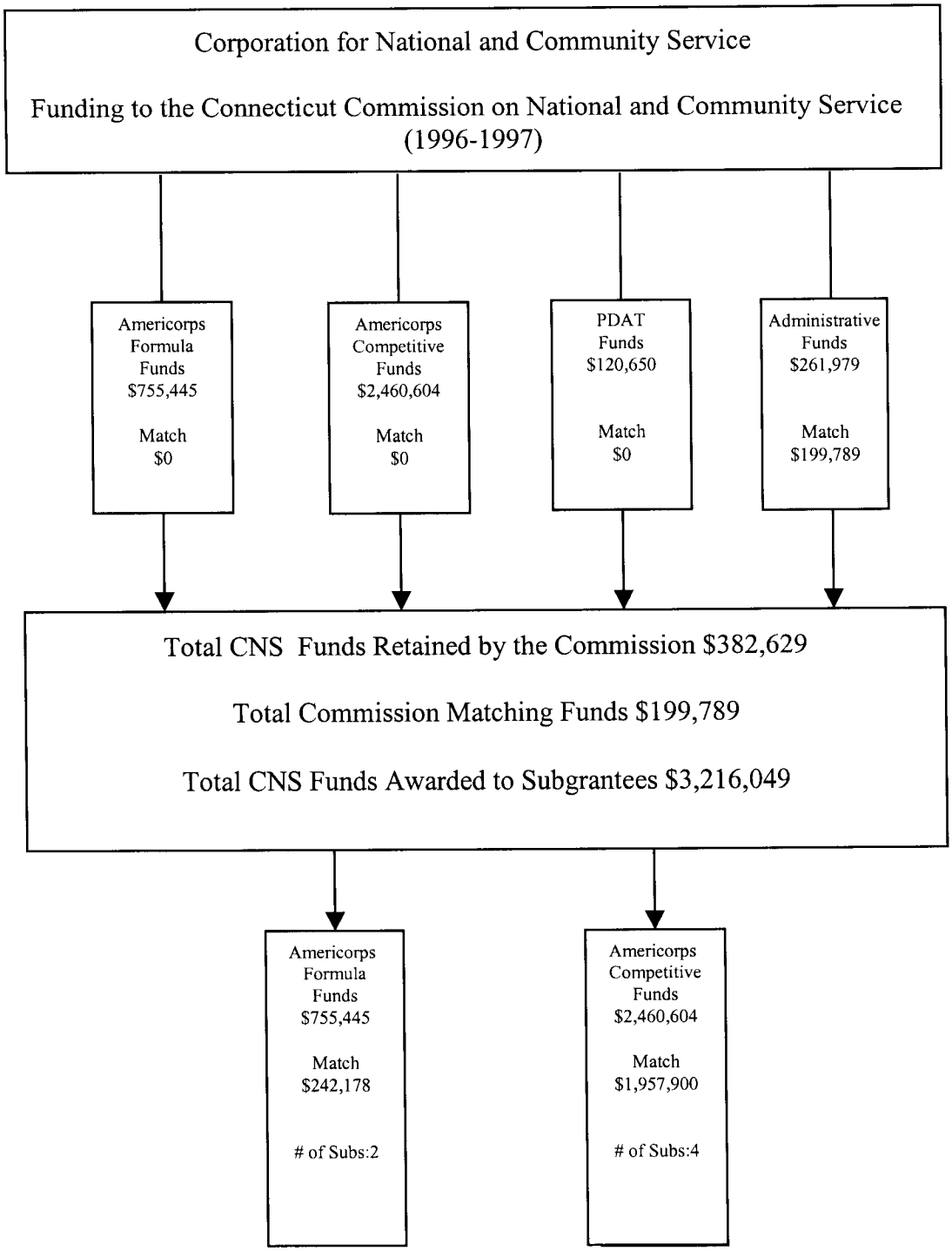

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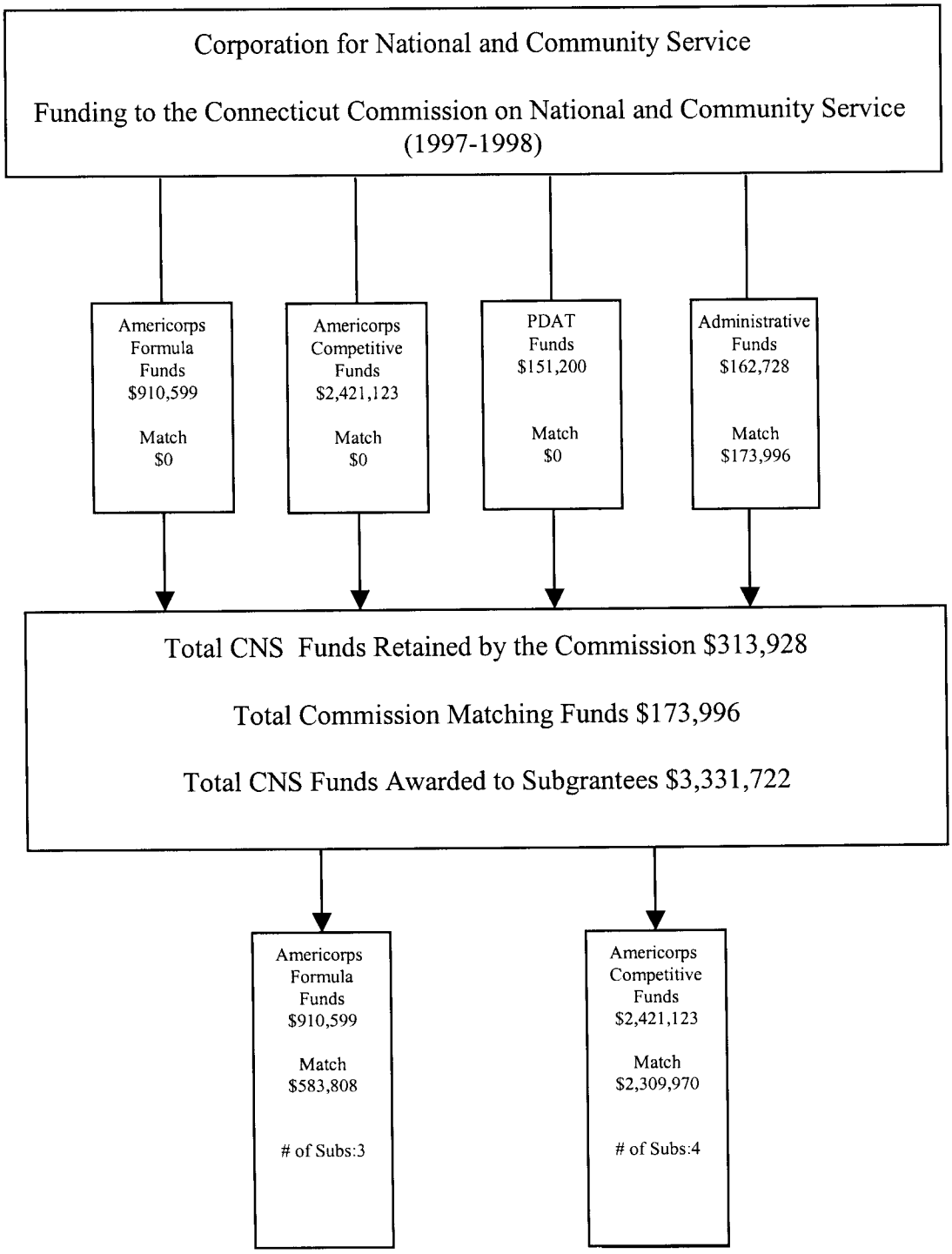

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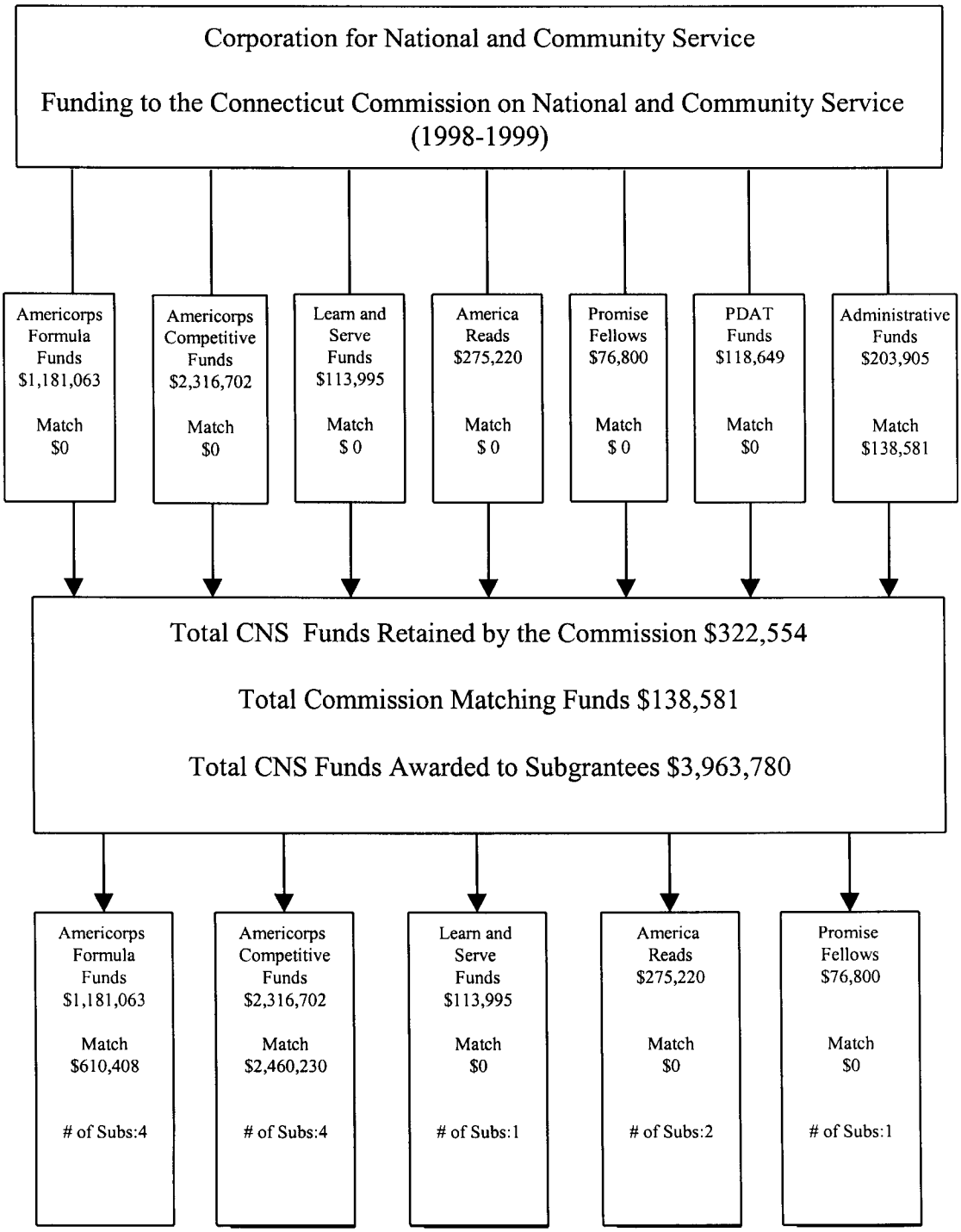
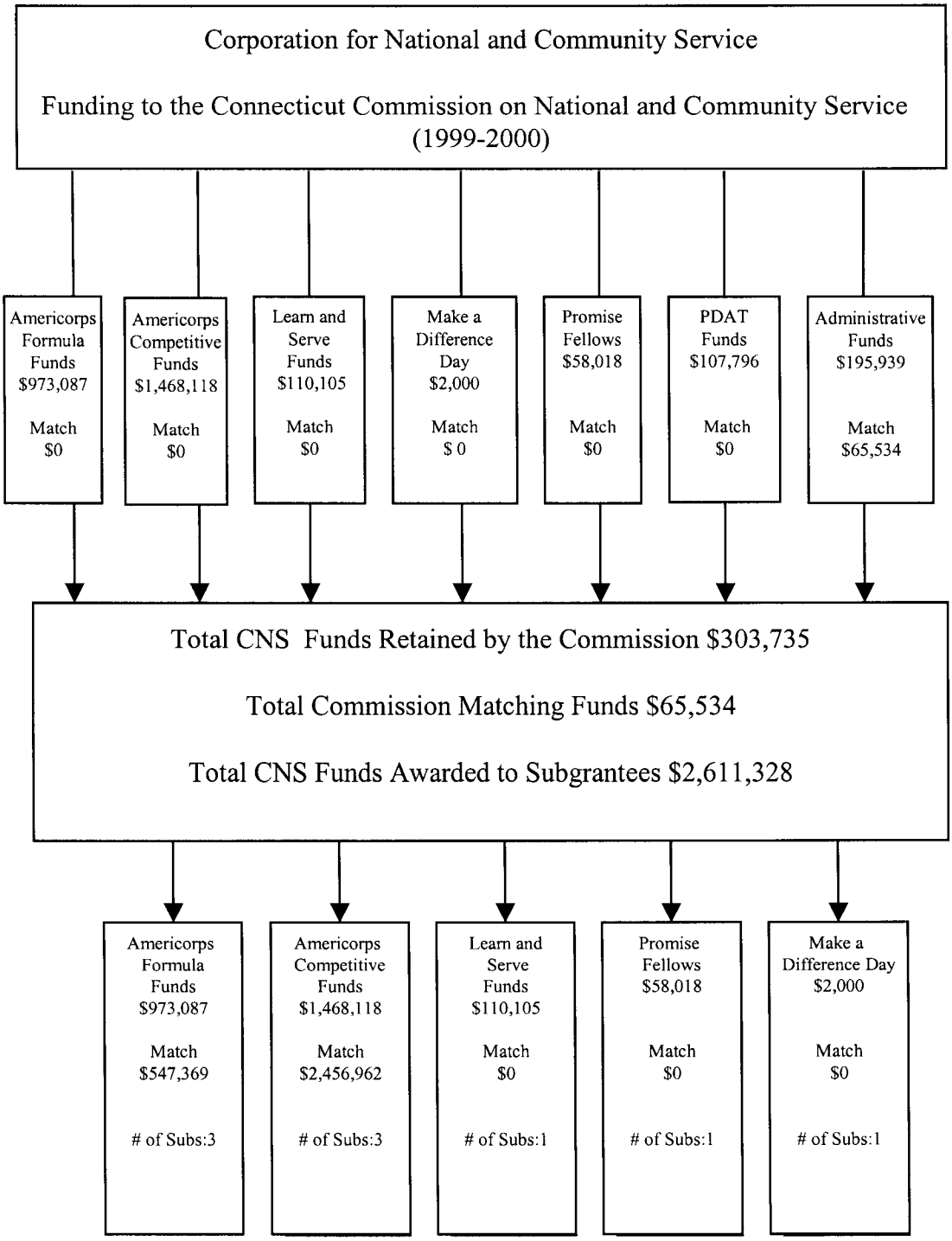


Commission Funding



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.

Connecticut Commission
on National and Community Service
William R. Dyson, Chair

Appendix C

March 19, 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:

Enclosed please find the response to the draft report of the Connecticut Commission for National & Community Service issued by your office dated February 22, 2001.

While I feel it necessary to respond to the draft report as issued, I also feel it necessary to convey my concern with your office over the lack of familiarity with AmeriCorps and National Service which was painfully obvious by those personnel chosen to conduct this assessment. Of the two auditors assigned to this office in the first of the two weeks of the engagement, one was celebrating her first audit assignment. The more senior admitted to our staff she was not familiar with the FSR269A form and would like to see what a sample looked like before starting. Our staff had also spent considerable time and effort compiling requested documentation and supplying it to them, only to be told that they had not had time to review it before coming to the audit site and would need to begin there. Given the level of expertise involved by the audit personnel and the two week's time budgeted to complete the review, I would feel safe in saying it was not adequate.

Another area of concern is the negative tone of the Pre-audit Draft Report. The content has been judgmentally modified from the final Issues Fact Sheet that was provided to Department of Higher Education personnel by KPMG in good faith. Two examples follow:

Preliminary Finding #1

Issues Fact Sheet
"The Department of Higher Education's written policies and procedures for financial management, grant administration, evaluation, and monitoring processes do not include additional guidelines specific to the Commission."

Pre-audit Draft Report
"Written policies and procedures do not exist for tasks conducted by Commission personnel who are responsible for the administration and accounting of grant funds"

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The following comments are in response to the draft pre-audit report provided to the Connecticut Department of Higher Education as the administrative house for the Connecticut Commission for National & Community Service.

Draft Page 5

Signed Conflict of Interest Statements

Since the inception of the Connecticut Commission for National & Community Service, all Commission members have been required to sign a conflict of interest statement. For the last two years, not only members of the Commission have signed these forms but also any peer reviewers utilized by the Commission in selecting sub-grantees. Commission members now sign the form twice to satisfy Corporation for National Service directives.

Assessment of an Applicant's Financial Management System

As stated in the report, procedures have been in place since 1999-2000 for assessing applicants' financial management systems prior to awards being made. This procedure involves reviewing an applicant's prior year audit(s), reviewing any audit findings with the applicant, and insuring through interviews whether the applicant has qualified personnel in place to manage federal grant funds.

Assessment of an Applicant's Past Experience

The score sheets referred to in this assessment have actually been in place beginning the year 1999-2000, not 2000-2001.

Draft Page 6

Procedures and Controls over Timeliness, Accuracy, and Validity of Financial Status Reports (FSRs)

Beginning in the year 1997, the Commission required sub-grantees to submit their individual FSRs to the Commission by the 15th of the month following the end of the preceding quarter. Some FSRs from grantees were submitted after this arbitrary date, *but did not result in FSRs being submitted late to the Corporation for National Service.* This was a point of contention throughout the pre-audit period. Prior to 1997, no requirement existed other than the federal grant requirement of FSRs being submitted to the Corporation for National Service 30 days following the quarter. To our knowledge, at no

time did the examiners check with the Corporation to see if in fact FSRs were submitted late.

Each month sub-grantees are required to submit to the Commission an expense report and cash request which details the expenses incurred by sub-grantees as well as cash received and a monthly reconciliation of how that cash was spent. This has been a requirement of the Connecticut Commission since 1995. The amounts reported on these forms are matched to the amounts reported by the sub-grantees on individual FSRs. In many instances there is documentation to show adjustments being made, correspondence between the Commission staff and sub-grantee, and revised FSRs to show this indeed happened and was and is an on-going process. In addition to these reports being reviewed each month, the Connecticut Commission, *utilizing state funding not federal funding,* engages a private accounting firm to review and actually document the expenses reported by all sub-grantees. This is for all sub-grantees, not a sampling. This is well beyond what is necessary to satisfy grant requirements, and in our mind, would show the level of commitment to grant stewardship exercised by the Connecticut Commission.

All of this information was available to the audit team, and was explained to them, but is not reflected in the draft report.

Draft Page 7

Documentation of Financial and Grant Management Procedures and Controls

The Department of Higher Education (DHE) maintains detailed written Financial and Grant Management procedures that are based on state and federal regulations and controls. The Commission, which is under DHE oversight, operates under these policies and procedures for appropriate administrative and financial oversight of its direct expenditures and those of its sub-grantees. However, DHE's current procedures do not define specific financial and grant related activities to be performed by Commission personnel on a daily basis. A complementary series of detailed Commission personnel procedures will be developed and brought to the Commission for approval and adoption.

Use of Web Based Reporting System

WBRS system is fully operational and in use.

Recommendations

- Since 1999, the Personal Services Agreements (PSAs) between the Department of Higher Education and AmeriCorps sub-grantees have included language which expressly allows the withholding of all payments, other than member stipend and

benefits, for non-compliance with deadlines. It should be noted a PSA is a contract between the State of Connecticut and the Department of Higher Education and the sub-grantee. As we have stated and re-stated numerous times, a comprehensive review of FSRs is done and has been done in the past.

- We will consider adopting a checklist such as described in this recommendation.
- All sub-grantees are subject to review by the independent accounting firm for all years. This is in place and reflected in the PSA between the accounting firm and the Department of Higher Education. Again, this information was available to the reviewers but was not considered.
- Each new program year, the Commission staff conducts required trainings with all sub-grantees, new or continuing, which comprehensively demonstrates to the sub-grantee the requirements of both the AmeriCorps grant, A-133, and the State of Connecticut.
- As stated previously, these procedures are being developed *specifically for Commission staff*, and will be presented to the Commission for adoption.
- WBRS is being utilized.

Draft Page 9

Recommendations

- Under DHE's structure this task has been the responsibility of the Department's Business Office staff. We believe that our written procedures for obtaining, monitoring, and follow-up of sub-grantee audit reports meet the requirements of OMB Circular A-133. We acknowledge that the process has not been consistently monitored, in part due to extensive workloads. DHE is in the process of assessing its fiscal and grant management as a component of an agency organizational review. Based on the outcome of the review, we anticipate reassignment of duties. Management of the audit monitoring process will be among the priorities of staff assignments.

Preliminary Finding #7

Issues Fact Sheet
The Commission should improve its current procedures for obtaining and following up on sub-grantee OMB Circular A-133 audit reports."

Pre-audit Draft Report
Recommendation:
"Develop and implement a process for obtaining OMB Circular A-133 audit reports."

We wish to emphasize that a process, including written detailed procedures, is in place.

I feel strongly that these facts should be considered when viewing this report.

Sincerely yours,

Jane Ciarleglio
Interim Executive Director
Connecticut Commission on National & Community Service

Cc: Honorable William R. Dyson, CCNCS Chair
Valerie F. Lewis, Commissioner, DHE
Cheryl Blankenship, Senior Program Officer, CNS

Appendix D

MEMORANDUM

AmeriCorps National Service

CORPORATION FOR NATIONAL SERVICE

Date: March 22, 2001

To: Luise Jordan, Inspector General

Thru: Bill Anderson, Deputy Chief Financial Officer

From: Peter Heinaru, Director, AmeriCorps State and National

Subject: Comments on the OIG Draft Report 01-21, *Pre-Audit Survey of the Connecticut Commission on National and Community Service*

We have reviewed the draft pre-audit survey of the Connecticut Commission on National and Community Service (the Commission). Based on the results presented in the draft report we are pleased to note that the Commission:

- administers an open, competitive process to select national service subgrantees;
- has developed adequate control policies and procedures to administer the Corporation's grant funds; and
- has developed adequate control policies and procedures to evaluate and monitor subgrantees.

The report contains 8 findings and recommendations. The Corporation believes that the matters identified in the draft report are administrative in nature and primarily relate to the Commission's start up. Since its inception the Commission has worked hard to improve its operations. In fact, in 1999 the Commission engaged an independent accounting firm to document the expenses reported by its subgrantees and to monitor their fiscal activities. All Commission subgrantees are covered by this review process, regardless of whether they are audited under OMB Circular A-133. In addition, the Commission has now fully implemented WBRS.

The Corporation agrees the Commission must review and follow up on OMB Circular A-133 audits that report findings related to its subgrants. The Commission is currently placed under the oversight of the Connecticut Department on Higher Education (DHE). DHE is in the process of assessing its fiscal and grant management system. This review will enhance the Commission's management of the audit monitoring process. However, the Corporation disagrees with the need to add procedures to the Commission's State Monitoring Tool. The Corporation advocates a risk-based approach to grantee oversight.

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under which the specific procedures performed are tailored to the risks a particular grantee poses based on the Commission's understanding of its subgrantees and other local factors.

Finally, the section titled ***Results in Brief*** includes a recommendation for a full scope audit of the Commission covering program years 1994 through 2000. The Corporation does not believe such an audit is necessary. Given the nature of the conditions cited in the report, the improvements made in the Commission's operations, and the absence of other indicators of risk at the Commission, the Corporation believes that it would be more effective for the Commission to address these matters through the State Administrative Standards Review which are scheduled for the 2002 program year.

cc: Peg Rosenberry
Monica Holman
Mike Kenefick