OFFICE OF THE INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE

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

OIG Audit Report Number 01-22
October 20, 2000

Prepared by:

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This report was issued to Corporation management on February 7, 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 6, 2001, and complete its corrective actions by February 7, 2002. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of Inspector General
Corporation for National and Community Service

Pre-Audit Survey of the South Carolina Commission on National and Community Service OIG Audit Report Number 01-22

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 South Carolina 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. KPMG also concluded that, in recent years, the commission has developed adequate fiscal administration and monitoring procedures. However, KPMG's report points out the need for improvement in both areas.

In addition to recommendations for improvement in fiscal administration, KPMG recommends follow-up by the Corporation to ensure that effective corrective actions are put into place to address the conditions reported herein. KPMG also recommends that OIG perform a full-scope audit of CNS funding to the Commissions for program years 1994-95 through 1997-98 and limited audit procedures for program years thereafter.

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

The South Carolina Commission's response (Appendix C) describes its corrective actions. The Commission's letter also included copies of new policies, procedures and forms, and additional information on monitoring that is not included in this report. The Corporation's response (Appendix D) argues against the recommendation for an internal audit of subgrantee matching requirements characterizing such efforts as an "undue burden." Moreover, although the Commission as already begun to do so and KPMG made no recommendation, CNS argues against documenting which Member time sheets and expenses were reviewed during site visits charging that this report attempts to direct "arbitrary, exacting standards for the Commission's monitoring of its programs".

KPMG reviewed the responses and revised certain portions of the information in the report based on information provided by the Commission. However, as described on page 4 of their report, KPMG did not significantly revise the findings and recommendations because they believe that the recommendations, if implemented, will result in improvements to internal controls over Commission operations. OIG concurs.

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

October 20, 2000

Inspector General
Corporation for National and Community Service:

At your request, KPMG LLP (KPMG) performed a pre-audit survey of the South Carolina 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

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, we noted that communications with rejected applicants in program years prior to 2000-01 only contained a generic reason for rejection and did not specifically invite the applicants to contact the Commission for additional information.

- The Commission has developed adequate control policies and procedures to administer the Corporation's grant funds. However, prior to program year 1998-99, no documented evidence exists to support the review of subgrantee matching requirements and follow-up on matching deficiencies. In addition, the Commission should improve its policies and procedures related to the preparation of Financial Status Reports (FSRs).

- Prior to program year 1998-99, the Commission did not have sufficient procedures in place to evaluate and monitor subgrantees. However, since becoming part of the South Carolina Department of Education in late 1998, the Commission has implemented adequate subgrantee monitoring and evaluation procedures.

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

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

Based on our preliminary assessments, we recommend the performance of a full scope audit at the Commission for program years 1994-95 through 1997-98 and limited audit procedures to address the issues identified herein at the Commission for program years 1998-99 and 1999-2000.

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

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.

KPMG

Overview of the South Carolina Commission

The South Carolina Commission on National and Community Service, located in Columbia, South Carolina, has received AmeriCorps grant funds from the Corporation for National and Community Service since program year 1994-95. Since October 1998, the Commission has operated as part of the State of South Carolina's Department of Education (SCDE). Prior to that time, the Commission was a part of the South Carolina Governor's Office. The Commission currently has eight employees - six full time, one part time, and one temporary – including an Executive Director, Director of Policy/Evaluation, Fiscal/Grant Manager, PDAT Manager, and four program managers/coordinators. SCDE's Division of Finance and Operations provides financial management services for the Commission.

As part of SCDE, the Commission is subject to the annual statewide Office of Management and Budget (OMB) Circular A-133 audit. However, the Commission's AmeriCorps grants have not been tested as major programs since it became part of this state agency. Prior to October 1998, the Commission was subject to the annual OMB Circular A-133 audit of the South Carolina Governor's Office. For the year ended June 30, 1998, the Commission's AmeriCorps grant was tested as a major program. As a result of this testing, the auditors identified a reportable condition in internal control related to the lack of monitoring of the Commission's subgrantees.

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	$1,018,268	3	3
1995-96	1,388,319	4	4
1996-97	1,081,107	4	4
1997-98	866,965	2	2
1998-99	1,312,097	7	5
1999-2000	1,292,970	9	6

* Determination is based on information provided by the Commission.

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 AmeriCorps State subgrantees, including AmeriCorps Member activities and service hours and program accomplishment reporting.

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

Our survey included the following procedures:

- reviewing applicable laws, regulations, grant provisions, the Corporation's *State Administrative Standards Tool*, and other information to gain an understanding of legal, statutory and programmatic requirements;

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

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

- performing procedures to achieve the objectives detailed in Appendix B to assess the Commission's internal controls, selection of subgrantees, administration of grant funds, and monitoring of 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 November 1, 2000.

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

We provided a draft of this report to the Commission and the Corporation. The Commission's and Corporation's responses to our findings and recommendations are included as Appendix C and D respectively. We have incorporated the corrections in factual information referred to in the Commission's separate response in this report. We also clarified the wording related to our finding on subgrantee monitoring and evaluation prior to program year 1998-99. However, we continue to believe our recommendations presented in the Findings and Recommendations section of this report, if implemented, will result in improvements to internal controls over Commission operations. Accordingly, no additional changes were made to that section of this report.

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. As part of this process, the Commission advertises funding availability through newspapers, newsletters and flyers mailed to the education and non-profit organizations in the state. Peer reviewers sign conflict of interest statements annually, receive training on the selection process and conflicts of interest, and use a standard rating sheet to evaluate each applicant. In addition, a Commission task force performs a pre-award risk assessment for new not-for-profit applicants to assess financial management capabilities. However, we identified the following area for improvement within the selection process.

Communications with Rejected Applicants

In a sample of five rejected applicants, the Commission could not provide documentation indicating whether the reasons for the rejection of one grant application for program year 1994-95 were communicated to the applicant. This documentation may have been misfiled or lost in the process of transferring the Commission's activities from the South Carolina Governor's Office to SCDE.

Additionally, in years prior to program year 2000-01, the Commission's notification to rejected applicants only contained a generic reason for rejection and did not specifically invite the applicants to contact the Commission for additional information. The Commission did not include specific reasons for funding denial in its notifications to rejected applicants based on advice from legal counsel. As a result, the rejected grant applicants were not provided sufficient information that would enable them to improve their applications and become more competitive.

The exception noted in program year 1994-95 appears to be an isolated incident, and the Commission's current notification letter to rejected applicants invites them to contact the Commission for additional information. Therefore, no recommendation is required related to communications with rejected applicants.

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 currently in place to withhold funding payments if subgrantees do not submit FSRs timely; to manage cash draw downs and disbursements to subgrantees; and to ascertain

whether subgrantees have met their matching requirements. The Commission's personnel have adequate skills and experience to manage and administer Corporation grant funds. However, we identified the following areas for improvement related to the Commission's reporting requirements and the evaluation of subgrantee compliance with reporting and grant requirements.

Lack of Review of Subgrantee Matching Requirements and Follow-up on Noted Deficiencies

The Commission requested that SCDE's Office of Internal Auditing perform an audit of matching requirements for program year 1998-99. During that same program year, the Commission began reviewing matching information during site visits. However, prior to that time, no documented evidence exists to support the review of subgrantee matching requirements and follow-up on matching deficiencies. In addition, the Commission has not formalized procedures over what actions to take if subgrantees do not meet their match.

As a result, instances of material noncompliance related to the AmeriCorps program of which the Commission is not aware may exist and may not be corrected. In addition, without the benefit of formal procedures regarding what actions to take if subgrantees do not meet their match, subgrantees could be treated differently or personnel new to the Commission may not know what actions to take when deficiencies are identified.

Preparation and Review of FSRs

During our review of Commission and subgrantee FSRs, we noted the following:

- Administrative grant FSRs and consolidated FSRs for the AmeriCorps formula grant incorrectly reported the recipient share of outlays as total outlays and did not report the federal share of outlays.
- On the consolidated FSRs for the AmeriCorps formula grants, column I (previously reported amounts) did not always agree to cumulative totals in column III on prior consolidated FSRs.
- It appears that PDAT and Administrative expenditures were reported on the same FSRs during program years 1994-95 through 1997-98.
- Although Commission procedures require the review of subgrantee FSRs upon receipt, this review is not documented.

As a result, incomplete and/or incorrect financial information was provided to the Corporation, and compliance with required match amounts cannot be determined by reviewing the Commission's FSRs. Additionally, we could not determine if subgrantee FSRs were adequately reviewed by the Commission as part of its monitoring procedures.

No recommendation is required related to the separate reporting of PDAT and Administrative grant expenditures because the Commission has developed and implemented procedures to address this issue.

Timeliness of Subgrantee FSR and Progress Report Submissions

During our review of subgrantee FSRs and progress reports, we noted that the Commission did not date stamp FSRs and progress reports upon receipt prior to the implementation of the Web

Based Reporting System (WBRS). Additionally, based on the date the subgrantee's representative signed the reports, we noted that four of eight subgrantees tested submitted FSRs and progress reports late, and we did not find evidence supporting follow-up on these untimely submissions.

By not date stamping or tracking the receipt of subgrantee reports in some other manner, the Commission could not routinely verify if these documents were submitted timely in compliance with the grant agreement. As a result, subgrantee FSRs and progress reports may have been submitted late without appropriate follow-up action.

The AmeriCorps Provision Section 16, Reporting Requirements, states "Each grantee must set its own subgrantee reporting requirements consistent with its need for timely and accurate reports." In addition, OMB Circular A-133 Compliance Supplement, March 2000, Part 6 – Internal Control suggests that establishing a tracking system to ensure timely submission of required reporting is a key component of a program to monitor subgrantees' compliance with federal grant requirements.

In conjunction with the implementation of WBRS during program year 1999-2000, the Commission has developed improved procedures to track the timely submission of FSRs and progress reports and to follow-up on untimely report submissions. Therefore, no recommendation is required related to the timeliness of subgrantee report submissions.

Recommendations:

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

- Develop and implement procedures to (a) correctly complete all required areas of the FSR, including "total outlays," "recipient share of outlays," and "federal share of outlays;" (b) agree the amount in column I of each consolidated FSR to column III of the previous consolidated FSR and document and maintain a reconciliation if adjustments are necessary; and (c) document the review of subgrantee FSRs using an FSR review worksheet.
- Formalize procedures over what actions to take if subgrantees do not meet their required match.
- Formally incorporate an annual internal audit of matching requirements into its procedures.

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. Beginning in October 1998, the Commission has established controls to evaluate and monitor subgrantees, which include reviewing program and financial reports and scheduling at least two site visits for each subgrantee during the grant period. Each site visit team is composed of certain Commissioners, Commission staff, a peer program director and a financial auditor. The team uses 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 the validity of program accomplishments reported by the

subgrantees in their progress reports based on daily communications, information obtained during site visits, and approved grant objectives.

The Single Audit Program Section of SCDE's Division of Finance and Operations obtains and reviews subgrantee OMB Circular A-133 audit reports. The Commission is notified of the results of each review related to its subgrantees. The Single Audit Program Section and the Commission monitor identified findings until corrective action has been completed.

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

Lack of Sufficient Subgrantee Monitoring and Evaluation Prior to Program Year 1998-99

The Commission could not provide adequate documentation to support the extent of its monitoring and evaluation activities for program years 1994-95 through 1997-98, although limited evidence exists to support the performance of some site visits during that timeframe. The insufficiency of the Commission's monitoring and evaluation procedures during that time was identified in the fiscal year 1998 OMB Circular A-133 audit of the South Carolina Governor's Office and during various Corporation site visits.

As a result of insufficient monitoring and evaluation of subgrantees, instances of material noncompliance related to the AmeriCorps program of which the Commission was not aware may have existed and may not have been corrected.

In addition to the guidance provided in 45 CFR Section 2541.400(a), OMB Circular A-133 Compliance Supplement, March 2000, Part 6 – Internal Control suggests that performing site visits to subgrantees to review financial and programmatic records and observe operations is a key component of a program to monitor subgrantees' compliance with federal grant requirements.

Since becoming part of SCDE in late 1998, the Commission has implemented subgrantee monitoring and evaluation procedures that require site visits, review of audit reports, and consistent documentation of the monitoring and evaluation results. Therefore, no recommendation is required related to subgrantee monitoring and evaluation.

Documentation of Subgrantees' AmeriCorps Member Timesheets and Expense Items Examined during Site Visits

Beginning with site visits performed in program year 1998-99, the Commission reviews Member timesheets and expense (federal and match) documentation for proper support and approval. However, prior to July 2000, the Commission did not document which Member timesheets and expense (federal and match) documents were reviewed during site visits. In addition, the Commission did not document the sample size selected and the rationale behind the selection. As a result, a reviewer of the *Program Review Instrument* and other site visit supporting documentation is not able to assess if the sample size selected was adequate and review the same documentation if a question arose about the results of the test.

The Commission implemented procedures to address this issue in July 2000. Therefore, no recommendation is required related to the documentation of items examined during site visits.

Other Observation – Annual Accomplishment Review Form

The Commission's current process to obtain reports on program results and to verify the accuracy of the reported program accomplishments appears adequate. However, prior to program year 1999-2000, the Commission did not adequately review and verify the information provided by subgrantees to the Corporation in their *Annual Accomplishment Review* forms because the Corporation did not instruct the Commission to verify this information. As a result, the information used by the Corporation to report its program accomplishments in accordance with the Government Performance Results Act (GPRA) may not be accurate.

Submission of the *Annual Accomplishment Review* form is no longer required for Commissions and subgrantees that use the new Automated Progress Report (APR) system in WBRS. When using the APR, the necessary information is extracted from the subgrantees' semi-annual progress reports, the accuracy of which the Commission adequately verifies. Therefore, no recommendation for the Commission is required related to the *Annual Accomplishment Review* form.

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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 South Carolina 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

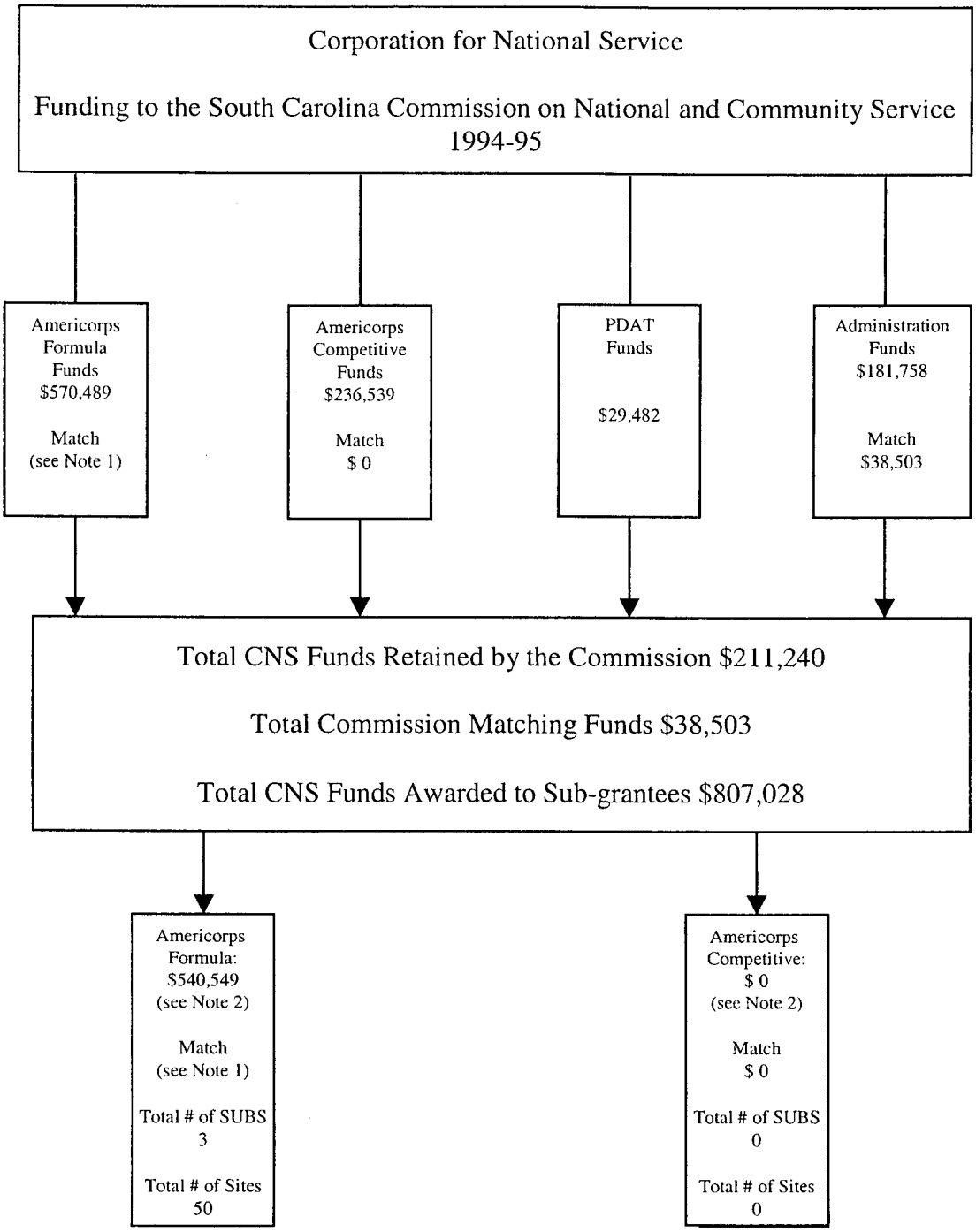
Commission Funding

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	$ 570,489	$1,014,188	$ 933,456	$ 696,441	$1,188,657	$1,013,212
CNS Competitive Grant Funds	236,539	-	-	-	-	-
CNS PDAT Funds	29,482	86,923	71,447	59,427	113,000	22,325
CNS Administrative Funds	181,758	287,208	76,204	91,885	-	217,091
Disability	-	-	-	19,212	10,440	40,342
Carryover	-	82,513	207,147	90,573	216,000	311,793
State Matching Funds	38,503	45,160	45,463	47,794	200,252	200,433
	$1,056,771	$1,515,992	$1,333,717	$1,005,332	$1,728,349	$1,805,196

Commission Funding

Appendix A

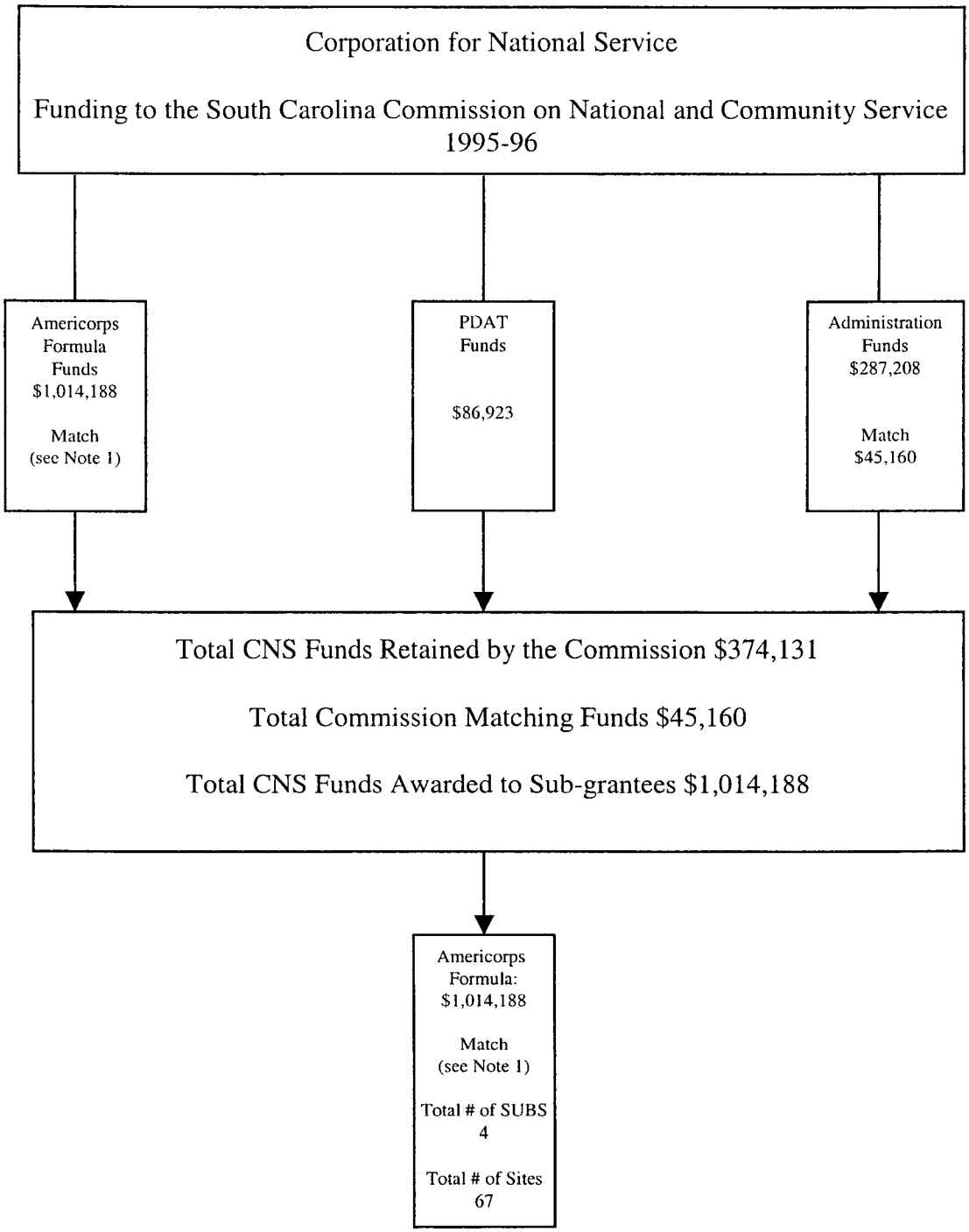


Note 1: The Commission was unable to provide matching information for its subgrantees. See related finding under Administering Grant Funds.

Note 2: Two approved applicants withdrew their requests for funding prior to grant disbursement. Therefore, amounts awarded by CNS exceeded the amounts passed through to subgrantees. Both unused amounts were considered in CNS' funding process for the Commission's 1995-96 AmeriCorps Formula grant application.

Commission Funding

Appendix A

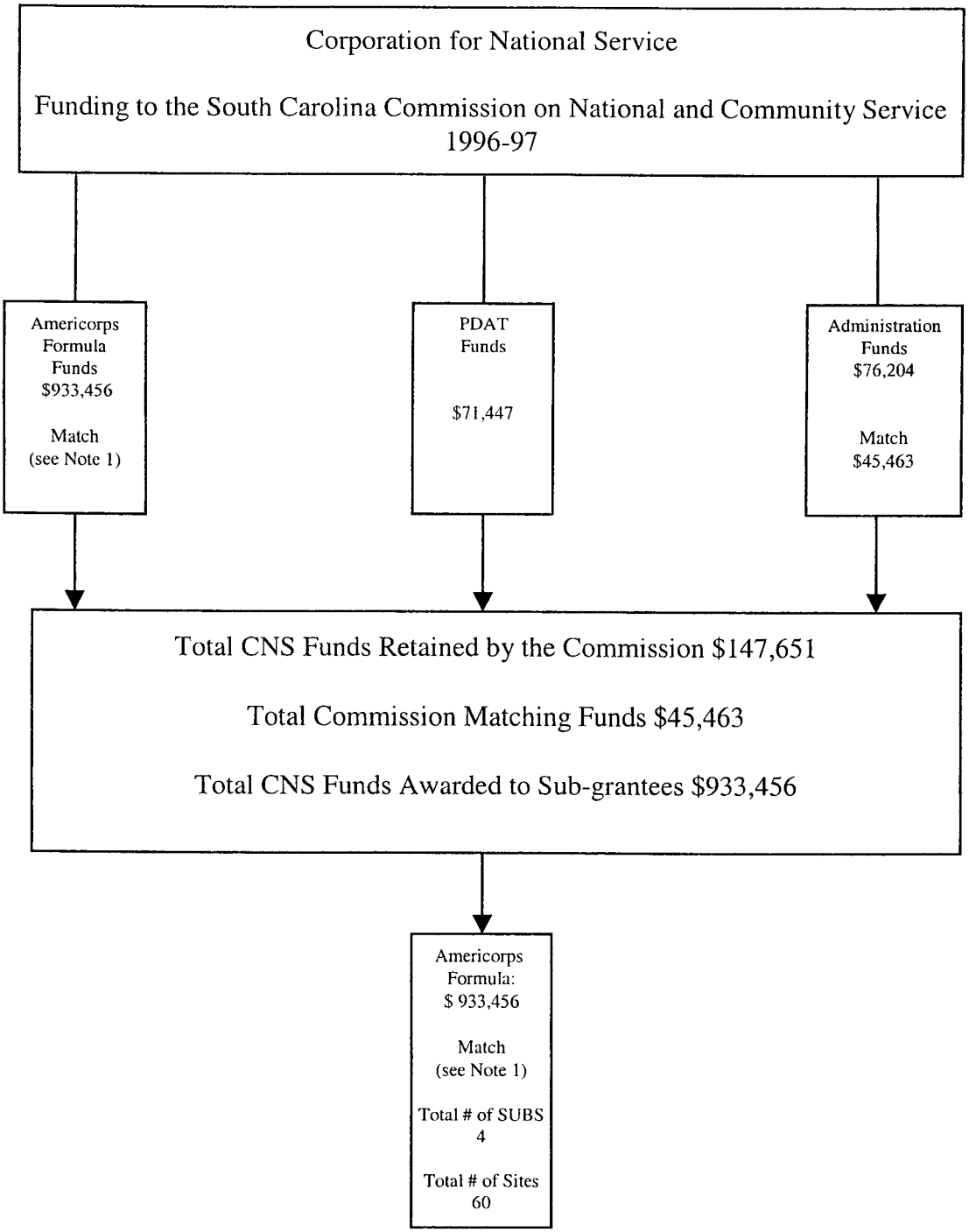


Note 1: The Commission was unable to provide matching information for its subgrantees. See related finding under Administering Grant Funds.

Note 2: CNS approved $82,513 of carryover from 1994-95 for use in 1995-96 for the AmeriCorps Formula grant. This amount is not reflected above.

Commission Funding

Appendix A

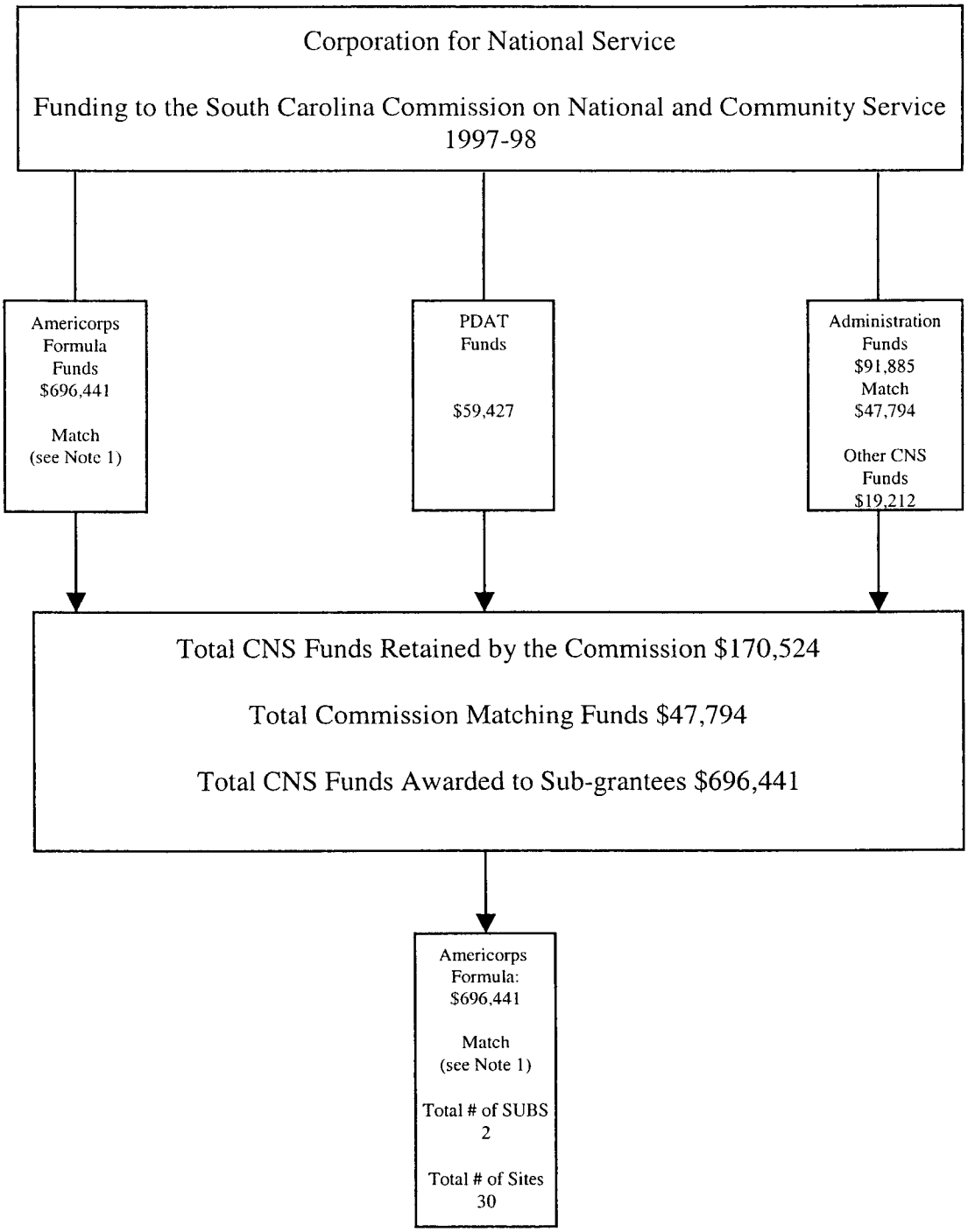


Note 1: The Commission was unable to provide matching information for its subgrantees. See related finding under Administering Grant Funds.

Note 2: CNS approved $116,000, $40,000, and $51,147 of carryover from 1995-96 for use in 1996-97 for the AmeriCorps Formula, Administration, and PDAT grants, respectively. These amounts are not reflected above.

Commission Funding

Appendix A

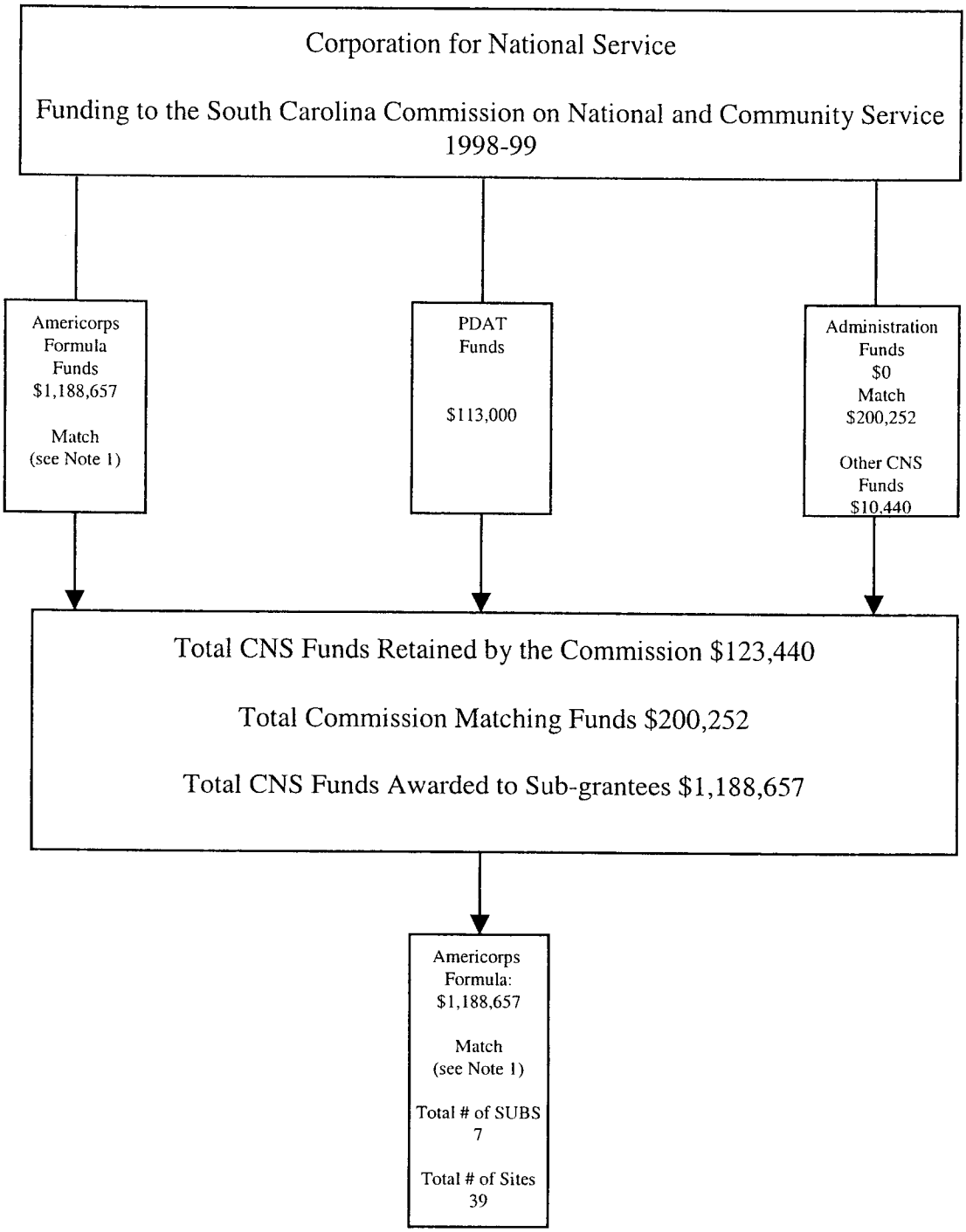


Note 1: The Commission was unable to provide matching information for its subgrantees. See related finding under Administering Grant Funds.

Note 2: CNS approved $10,000 and $80,573 of carryover from 1996-97 for use in 1997-98 for the Administration and PDAT grants, respectively. These amounts are not reflected above.

Commission Funding

Appendix A

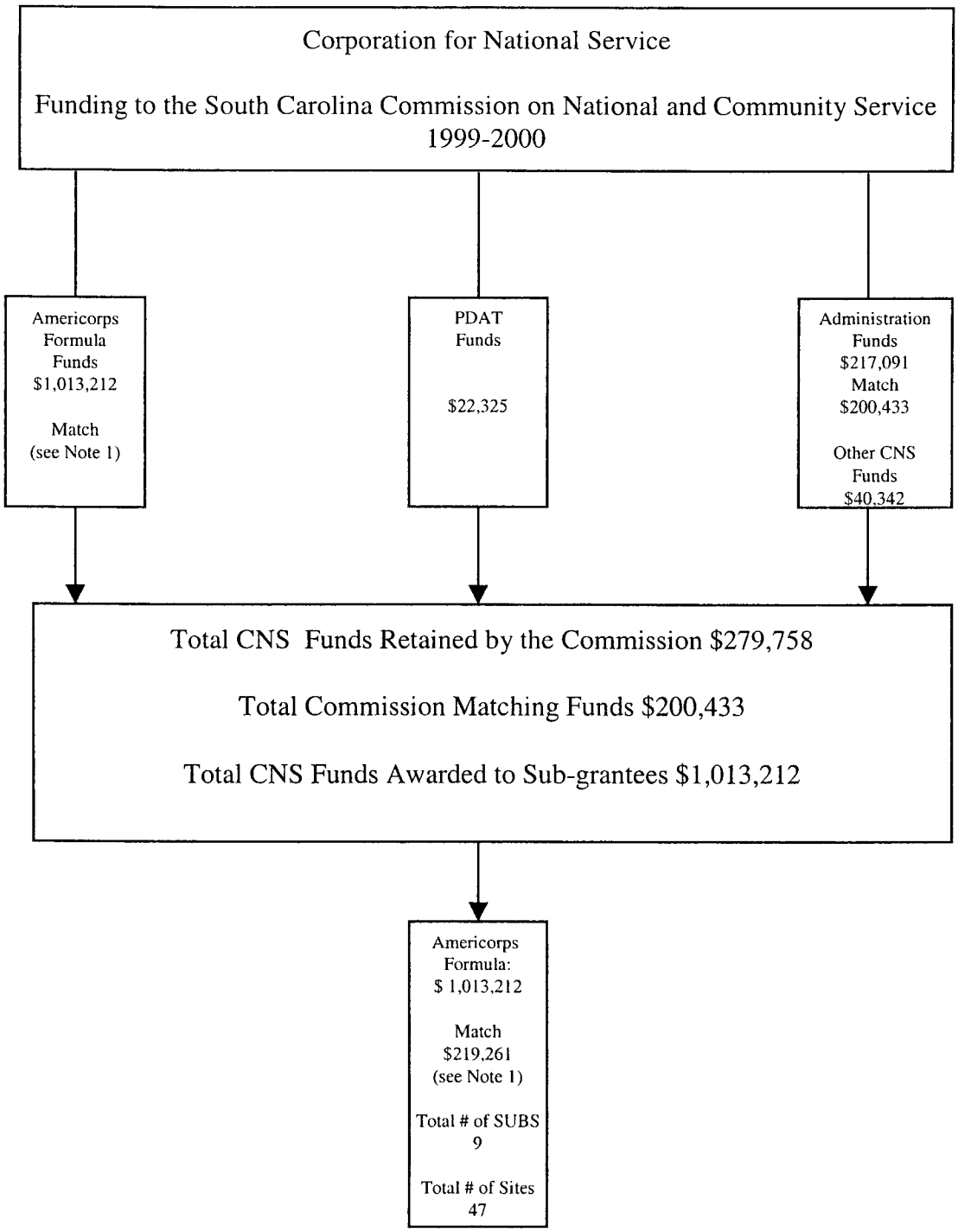


Note 1: The Commission was unable to provide matching information for its subgrantees. See related finding under Administering Grant Funds.

Note 2: CNS approved $216,000 of carryover from previous years for use in 1998-99 for the Administration grant. This amount is not reflected above.

Commission Funding

Appendix A



Note 1: Matching total is as of March 31, 2000.
Note 2: CNS approved $237,675, $73,675, and $443 of carryover from 1998-99 for use in 1999-2000 for the AmeriCorps Formula, PDAT and Disability grants, respectively. These amounts are not reflected above.

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 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;

- 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.

Appendix C

STATE OF SOUTH CAROLINA
DEPARTMENT OF EDUCATION

INEZ MOORE TENENBAUM
STATE SUPERINTENDENT OF EDUCATION

January 19, 2001

Ms. Cathy Presnell
Assistant Inspector General for Audits
Office of Inspector General
1201 New York Avenue, N.W.
Washington, D.C. 20525

Dear Ms. Presnell:

The Department of Education received the draft report of your pre-audit survey for the South Carolina Commission on National and Community Service on December 27, 2000. Our response is included in this mailing along with a separate letter to clarify information in the finding regarding the *Timeliness of Subgrantee FSR and Progress Report Submissions*.

Our agency has put many procedures and policies in place to ensure that all federal programs are in compliance. The Commission on National and Community Service has the support of the entire Department of Education. If you need any additional information for the final report, please feel free to contact Kathy Carter, Executive Director, at 803-253-7634.

Very truly yours,

Inez Tenenbaum

Inez M. Tenenbaum
State Superintendent of Education

IMT/gh
Enclosures

Received OIG
1/22/01

1429 SENATE STREET COLUMBIA, SOUTH CAROLINA 29201 (803) 734-8492 FAX (803) 734-3389 www.state.sc.us/sde

South Carolina Commission on National and Community Service
Response to Inspector General Pre-Audit Survey

January 19, 2001

Introduction

At the request of the Corporation for National Service in Washington, D.C., the South Carolina Commission on National and Community Service was transferred from the Governor's Office to the South Carolina Department of Education on September 30, 1998. Executive Order Number 98-30 states the following:

> South Carolina has supported an impressive network of service organizations and individuals involved in service through our Learn and Serve programs, our national service programs, our school volunteer programs in every school district, our State Board of Education Volunteer Awards program and our emphasis on Service Learning linkages with colleges and universities, United Way organizations, intergenerational programs, alternative programs, character education, school-to-work, and curriculum standards; and
>
> The South Carolina Department of Education shall provide in-kind office space and other appropriate assistance to the commission within existing resources.

Under the leadership of the Department of Education, the Commission reorganized with an emphasis on ensuring both program quality and compliance with all federal and state mandates. To maximize federal dollars, programs have formed linkages with other programs administered by the Department of Education. Additionally, all policies and procedures were reviewed and formalized by the Commission's Board. During this time the Commission has received considerable support from the State Superintendent of Education, senior staff, and the Offices of Finance, District and Field Auditing, and Internal Auditing. A comprehensive manual of policies and procedures has been developed for every function administered by the Commission.

Results in Brief

The South Carolina Commission on National and Community Service appreciates the recognition from the Office of Inspector General that the Commission (1) has developed adequate control policies and procedures to administer Corporation's grant funds and (2) has implemented adequate subgrantee monitoring and evaluation procedures. These areas also receive priority for Commission resources.

Findings and Recommendations

Below is a list of all findings cited by the OIG with Commission responses.

Finding: *Communication with Rejected Applicants*
Response: Agree. Rejected applicants are afforded an opportunity to meet with the Executive Director to discuss strengths and weaknesses for further submissions.

Finding: *Lack of Review of Subgrantee Matching Requirements and Follow-up on Noted Deficiencies*
Response: Agree. The Commission formalized policy regarding subgrantee match during the November 15, 2000, Commission meeting. The Department of Education will incorporate an annual internal audit of matching requirements for the Commission. (See appendix A.)

Finding: *Preparation and Review of FSRs*
Response: Agree. The Commission recognizes that problems existed with FSRs for prior grant periods. Personnel who completed prior FSRs had limited experience with completing these documents and did not always follow the instructions that are part of the document itself. Changes in staffing in the Office of Finance occurred in October 2000, and we do not anticipate similar problems with future FSRs. The Grants Manager who will be completing these documents in the future has extensive experience both in grants management and FSR completion. Written procedures are in place for the completion of FSRS for the Commission and will be followed. Additionally, an FSR worksheet was developed to use with subgrantees. (See appendices B and C.)

Finding: *Timesheets of Subgrantee FSR and Progress Report Submission*
Response: See correction under separate cover.

Finding: *Lack of Sufficient Subgrantee Monitoring and Evaluation Prior to Program Year 1998-99*
Response: According to the fiscal year 1998 A-133 Audit of the South Carolina Governor's Office, insufficiencies were identified in the Commission monitoring and evaluation procedures. The audit finding was not addressed due to the transfer of the Commission to the South Carolina Department of Education and the transfer of power in the Governor's administration. The audit finding was not shared with the new fiscal agent, the Department of Education, until 1999. Subsequent research conducted by Commission staff has since identified clear evidence of monitoring and evaluation of Commission subgrantees prior to 1998. Evidence in the form of official meeting minutes, state administrative plans, correspondences, site visit reports and schedules, and program responses to site visits have been documented and filed in the office of the Director of Policy and Evaluation. In summary, evidence of monitoring, by year, should be included in the response to the finding. (See appendix D.)

Finding: *Documentation of Subgrantee' AmeriCorps Member Timesheets and Expense Items Examined during Site Visits.*
Response: Agree. Commission does have a system in place to review time sheets and expenses.

Appendix D

AmeriCorps National Service

CORPORATION FOR NATIONAL SERVICE

MEMORANDUM

To: Luise Jordan, Inspector General

Through: William Anderson, Deputy Chief Financial Officer

From: Peter Heinaru, Director, AmeriCorps State/National

Subject: Comments on the OIG Draft Report 01-22, Pre-Audit Survey of the South Carolina Commission on National and Community Service

Date: January 22, 2001

We have reviewed the draft report of the pre-audit survey of the South Carolina Commission on National and Community Service and 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
- currently has in place sufficient procedures for evaluating and monitoring subgrantees.

The report contains several findings and three recommendations which we address briefly.

In the area of **Administering Grant Funds**, we concur with the recommendations to implement procedures to ensure review and accuracy of all areas of the Financial Status Reports (FSRs) and to address actions to be taken if required matches are not met. We are aware that the Commission has new procedures, and we will follow up with the Commission to ensure that the procedures are appropriate and are being implemented.

However, the third recommendation, that the Commission conduct an internal audit of subgrantee matching requirements each year, places an unnecessary burden on the grantee. Inasmuch as the Commission is carefully reviewing FSRs during each reporting period to ensure, among other things, appropriate match has been provided, and given that the Commission is, when necessary, reviewing match documentation on site during monitoring visits, the internal audit requirement is redundant. The procedures employed by the Commission to ensure

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subgrantees meet their match should primarily rely on OMB A-133 audits with additional risk-based procedures to be used in appropriate circumstances.

In the area of **Evaluating and Monitoring of Subgrantees**, the report notes that "...prior to July 2000, the Commission did not document which Member timesheets and expense (federal and match) documents were reviewed during site visits. In addition, the Commission did not document the sample size selected and the rationale behind the selection."

Although no recommendation is made related to this finding, the Corporation is concerned that the statement attempts to direct the establishment of arbitrary, exacting standards for the Commission's monitoring of its programs. The report 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.

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 high-risk grantees and consideration for additional monitoring by the Commission.

The Corporation will work with the South Carolina Commission to ensure that its monitoring strategy for subgrantees is risk-based and adequate.

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