OFFICE OF THE INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE

PRE-AUDIT SURVEY OF THE MASSACHUSETTS SERVICE ALLIANCE

OIG Audit Report Number 01-24
October 27, 2000

Prepared by:

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

This report was issued to Corporation management on 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 Massachusetts Service Alliance OIG Audit Report Number 01-24

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 Massachusetts Service Alliance. Based on the limited procedures performed, KPMG concluded that the Alliance administers an open, competitive process to select national service subgrantees. KPMG also concluded that the Alliance has established adequate control policies and procedures for its administration of grants funds. Nonetheless, their report includes recommendations for improvements in both areas.

With respect to subgrantee monitoring, KPMG reported that, prior to program year 1998-1999, the Massachusetts Department of Education served as the Alliance's fiscal agent and was responsible for subgrantee monitoring. For those years, evidence was not provided to KPMG to support the performance of fiscal monitoring site visits or review of subgrantee audit reports. Moreover, fiscal monitoring visits were not performed for program year 1998-99. KPMG found that, now that it has

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begun performing subgrantee monitoring, the Alliance has established controls to evaluate and monitor its subgrantees. However, KPMG recommends enhancements to the present site monitoring protocols including better documentation and verification of selected program accomplishments.

Finally, based on their preliminary assessments and the information obtained during the survey, KPMG recommends that the Corporation follow-up to ensure appropriate actions are taken to address the conditions reported herein, and recommends the OIG perform limited scope audit work for all program years, focusing on subgrantee expenses and the issues revealed by this pre-audit survey.

In their responses to the report, both the Alliance and the Corporation disagreed with KPMG's recommendation that OIG consider limited audit work at the Alliance in the future. The Alliance's response (Appendix C) also disagreed with the overall findings for each area, but indicated that the Alliance had implemented some of the recommended improvements. In its response (Appendix D), the Corporation agreed with recommendations for improvements in the Alliance's grant award and fiscal administration controls, but disagreed with KPMG's recommendations for improving the site visit monitoring tool. As described on page 5, KPMG reviewed the responses and revised certain portions of the report. However, other than to add clarifying language, KPMG did not change its audit scope recommendation or the findings and recommendations.

CNS OIG reviewed the report and the work papers supporting its conclusions. We agree with the findings and recommendations. As recommended by KPMG and in accordance with the guidance established by 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 Alliance and its subgrantees in determining the nature and scope of our future audit work.

Pre-Audit Survey of the
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October 27, 2000

Inspector General
Corporation for National and Community Service:

At your request, KPMG LLP (KPMG) performed a pre-audit survey of the Massachusetts Service Alliance (the Alliance). 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 Alliance; 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 Alliance.

Results in Brief

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

- The Alliance administers an open, competitive process to select national service subgrantees. However, we noted that all Commissioners are not required to sign conflict of interest forms annually, and documentation supporting funding rejections was not available for some selected applicants prior to program year 1999-2000.

- The Alliance has developed adequate control policies and procedures to administer the Corporation's grant funds. However, for program years prior to 1998-99, documentation was not provided to us by the Alliance's fiscal agent to support total expenses reported on selected Administrative and PDAT Financial Status Reports (FSRs). In addition, the Alliance does not document its review of subgrantee FSRs or its follow-up on untimely subgrantee FSRs.

- The Alliance has established controls to evaluate and monitor subgrantees. However, evidence was not provided to us by the Alliance's fiscal agent to support the performance of fiscal monitoring site visits or review of subgrantees' Office of Management and Budget (OMB) Circular A-133 audit reports prior to program year 1998-99. For years subsequent to

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this, the Alliance assumed the responsibility for fiscal monitoring. However, fiscal monitoring visits were not performed in program year 1998-99.

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

The Alliance has received annual OMB Circular A-133 audits since fiscal year 1994 with no significant internal control or compliance findings reported. Page 3 of this report contains detailed information about which Corporation-funded programs were tested as major programs each year. Although certain documentation for program years prior to 1998-99 was not provided by the Alliance's fiscal agent during our on-site work, sufficient documentation to support individual expenses was obtained, and the completion of annual OMB Circular A-133 audits that included the Administrative and/or PDAT grants mitigates the related risk. Based on this information and our preliminary assessments, we recommend the performance of a limited scope audit at the Alliance for program years 1994-95 through 1998-99 with a focus on subgrantee expenses and limited audit procedures to address the issues identified herein at the Alliance for program year 1999-2000. To the extent possible, the auditors should rely on the work performed during the OMB Circular A-133 audits of the Alliance and its subgrantees for applicable periods.

Additionally, we recommend that the Corporation follow up with the Alliance 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 Alliance.

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 Massachusetts Service Alliance

The Massachusetts Service Alliance, located in Boston, Massachusetts, has received AmeriCorps grant funds from the Corporation for National and Community Service since program year 1994-95. Since inception in January 1991, its staffing has been provided by a non-profit organization, the Massachusetts Youth Service Alliance (MYSA), with oversight for policy and program direction provided by Governor-appointed Commissioners. The Alliance was known as the Massachusetts National and Community Service Commission through October 1997, at which time the Governor issued an executive order changing the name to the Massachusetts Service Alliance Commission. In August 1998, MYSA filed a "doing business as" (DBA) request with the city of Boston to also be known as the Massachusetts Service Alliance, allowing both the non-profit organization and the Commission to operate under the common name of the Massachusetts Service Alliance.

The Alliance currently has 14 employees, including an Executive Director and a Chief Financial Officer; however, staff size has varied over the years. Prior to program year 1998-99, the Massachusetts Department of Education (MDOE) served as the Alliance's fiscal agent and was responsible for fiscal monitoring of the Alliance's subgrantees. The Alliance assumed all fiscal responsibilities in program year 1998-99.

Annually, the Alliance receives an audit by an independent accounting firm as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. From the fiscal year ended June 30, 1995, through the fiscal year ended June 30, 1999, at least one of the Alliance's Corporation-funded programs was audited as a major program each year. As a result of these audits, no material internal control or compliance findings or questioned costs were reported. However, grants passed through to AmeriCorps subgrantees (CFDA No. 94.006) were not included in the Alliance's Schedule of Expenditures of Federal Awards until fiscal year 1999 because this funding flowed directly from MDOE to the subgrantees prior to that time.

The following chart summarizes the Corporation-funded programs that were audited as major programs from fiscal year 1994 through fiscal year 1999:

Fiscal Year	Corporation-funded Program(s) Audited
1994	None – all programs considered non-major
1995	Administrative grant
1996	Administrative, PDAT and Learn and Serve grants
1997	Administrative, PDAT and Learn and Serve grants
1998	PDAT and Learn and Serve grants
1999	PDAT, AmeriCorps, and Disability grants

The Alliance 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	$6,445,747	28	23
1995-96	6,707,074	27	24
1996-97	6,148,799	30	28
1997-98	6,636,308	26	25
1998-99	6,266,479	27	25
1999-2000	6,783,123	30	25

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 Alliance 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 Alliance; 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 Alliance.

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 Alliance;

- obtaining information from Alliance 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 Alliance'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 Alliance 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 Alliance management during an exit conference on October 27, 2000 or prior to the issuance of the draft report. Subsequent to that date, we communicated with the Alliance 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 Alliance, 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 Alliance'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 Alliance and the Corporation. The Alliance's and Corporation's responses to our findings and recommendations are included as Appendix C and D, respectively. We have updated the chart on page 4 of this report based on the information provided in an appendix to the Alliance's response and have added clarifying language to the recommended audit scope paragraph on page 2. However, we continue to believe the results of our pre-audit survey presented in the Findings and Recommendations section of this report support the audit scope recommended for the Alliance. Accordingly, no additional changes were made to 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 Alliance administers an open, competitive process to select national service subgrantees. As part of this process, the Alliance advertises funding availability through mailings to a database of approximately 8,000 non-profit organizations, school districts, and state and local community leaders in the Commonwealth of Massachusetts; in newsletters; and via a website link on the Massachusetts Grant Makers website, a non-profit organization that announces the availability of grant funds in a central location. 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, the Alliance performs a pre-award risk assessment for applicants to assess financial management capabilities, including the review of OMB Circular A-133 or other audit reports. However, we identified the following areas for improvement within the selection process.

Completion of Conflict of Interest Forms for All Commissioners

Although the Alliance staff discusses conflict of interest issues with peer reviewers and requires completed conflict of interest forms from those Commissioners participating on the peer review panel, Alliance policies and procedures do not require completed conflict of interest forms from Commissioners who do not participate in the initial review process. However, if no conflicts of interest are identified, all Commissioners vote on the final decision to approve or deny funding. Therefore, certain Commissioners who are actively involved in funding decisions do not complete conflict of interest forms. If Commissioners have conflicts of interest but do not report them, the fairness of the selection process may be impaired.

In addition, the Alliance was unable to locate any completed conflict of interest forms for the members of the peer review panels for program years 1994-95 through 1997-98. However, because no file retention issues were noted in program year 1998-99 and beyond, and procedures are currently in place to maintain these forms, no recommendation is required related to the maintenance of conflict of interest forms.

Lack of Documentation to Support Funding Rejections and Communications to Rejected Applicants Prior to Program Year 1999-2000

During our procedures over a sample of eight rejected applicants, we noted the following:

- Documentation supporting the funding decisions was no longer available for four applicants (program years 1998-99 and prior).

- The Alliance was unable to locate the denial of funding letter for two applicants (program years 1997-98 and 1998-99).

Previous Alliance policy required the destruction of documentation supporting funding decisions one year after the information was communicated to the applicant. As a result, we were unable to assess for adequacy the rationale supporting the selected funding decisions and communications to the rejected applicants.

In program year 1999-2000, the Alliance revised its policy to require the maintenance of denial of funding letters and documentation supporting all funding decisions. Therefore, no recommendation is required related to documentation of funding rejections.

Recommendation:

We recommend that the Alliance develop and implement procedures that require all Commissioners to annually complete conflict of interest statements for each of the Alliance's three grant funding streams.

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 Alliance 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 Alliance'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.

Lack of Documentation to Support Alliance FSRs Prior to Program Year 1998-99

During our procedures over Alliance FSRs, we noted the following:

- For 1 of 20 Administrative and PDAT FSRs selected, neither the FSR or documentation supporting the reported expense amounts was provided to us (program year 1995-96).

- For 9 of the remaining 19 Administrative and PDAT FSRs selected, documentation supporting the reported expense amounts was not provided to us (program years prior to 1998-99).

As the Alliance's fiscal agent prior to program year 1998-99, MDOE was responsible for the preparation of FSRs for the Administrative and PDAT grants. Pursuant to the records retention policy of the Commonwealth of Massachusetts, the records related to this period have been archived and were not readily available during our on-site work. In addition, at the time of the pre-audit survey, the grants management office of MDOE was preparing to relocate, and documentation for many of the items requested was not made available. As a result, we could

not determine (a) if the missing FSR was submitted timely, was properly approved, or was supported by adequate documentation or (b) if the 9 FSRs were supported by adequate documentation.

According to OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, section 53(b), "Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report."

In program year 1998-99, the Alliance began preparing and submitting its Administrative and PDAT FSRs. We noted no exceptions in our procedures over FSRs prepared in program years 1998-99 or 1999-2000. Therefore, no recommendation is required related to supporting documentation for Administrative and PDAT FSRs.

Review and Timeliness of Subgrantee FSR Submissions

Prior to program year 1998-99, documentation from MDOE was not available to support the review of FSRs for compliance with subgrantees' budgets and grant requirements and for consistency with the subgrantees' Request for Funds. In addition, for program years 1998-99 and 1999-2000, the Alliance did not document its review of subgrantee FSRs. Although Alliance procedures require personnel to review FSRs, this review is not required to be documented. As a result, we could not determine if subgrantee FSRs were adequately reviewed. Without proper documented review of subgrantee FSRs, errors on the FSRs may be undetected.

The Alliance does not have documentation to support its follow-up efforts related to the late submission of subgrantee reports to the Alliance. (However, for the reporting period related to the late subgrantee FSR noted in our sample of 20, the Alliance did submit its consolidated FSR to the Corporation on time.) Although Alliance procedures require personnel to follow-up with subgrantees about untimely reports, this follow-up is not required to be documented. As a result, we could not determine if adequate follow-up was performed related to late submission of subgrantee reports.

Prior to the implementation of the Web Based Reporting System (WBRS), the Alliance did not date stamp FSRs upon receipt. As a result, the Alliance could not routinely verify if these documents were submitted timely in compliance with the grant agreement, and subgrantee FSRs may have been submitted late without appropriate follow-up action. However, in program year 1999-2000, the Alliance began using WBRS, which electronically records the date subgrantees submit their FSRs and progress reports. Therefore, no recommendation is required related to date stamping subgrantee reports upon receipt.

Tagging of Property and Equipment

The Alliance has sufficient internal control procedures in place to ensure that property and equipment are adequately safeguarded. For the fiscal year ended June 30, 2000, the Alliance had property and equipment with acquisition costs of approximately $120,000. To secure these assets, the Alliance has implemented procedures such as an internal sign-out log, locked storage facility, and the performance of annual inventories. However, because much of this property and equipment includes easily-negotiable items such as notebook computers and other electronics,

the Alliance could further enhance its procedures by affixing property tags to all property and equipment items upon receipt.

OMB Circular A-133 Compliance Supplement, March 2000, Part 6- Internal Control suggests that placing property tags on equipment is a key control to ensure the adequate safeguarding of equipment.

Computer System Back-up Procedures

The Alliance relies heavily on its computer system. It has its own server maintained by a staff member and has retained the services of a computer consultant to perform periodic system maintenance and repair.

The Office Manager is responsible for backing up the system, a task which is performed almost everyday that she works. These duties, however, are not included in her position description, and no formal documentation exists which requires that the system be backed-up periodically. Additionally, procedures are not in place that would require another staff member to perform these duties in the case of the Office Manager's prolonged absence. As a result, during periods of increased activity at the Alliance, such as funding cycles, or absence of the Office Manager, system back-up tasks may be omitted.

Additionally, the Alliance does not use off-site storage for system back-ups. Currently, all backups are maintained at the Alliance's offices. As a result, the Alliance has not adequately protected its records from destruction in the event of natural disaster or vandalism.

Recommendations:

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

- Strengthen its current procedures to include the documentation of its review of subgrantee FSRs. A standard review worksheet could be used to document such reviews.

- Document its follow-up efforts related to the late submission of subgrantee reports to the Alliance. A telephone log (including date, person contacted, and relevant notes) or written notifications could be used for this purpose.

- Develop and implement procedures that require appropriately tagging all property and equipment upon receipt.

- Formalize its system back-up procedures by officially assigning this task to a specific staff member and an alternate and documenting the back-up procedures to be performed. These procedures should include (1) a schedule for the periodic back-up of data and (2) the creation of several generations of back-ups, such as the son-father-grandfather approach, which would significantly minimize the costs of recreating lost data.

- Obtain off-site storage for system back-ups to guard against loss of data.

Evaluating and Monitoring Subgrantees

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

Since program year 1994-95, the Alliance has annually performed programmatic site monitoring visits of its subgrantees to assess their compliance with applicable requirements and their progress toward program objectives. In program year 1998-99, the Alliance also assumed the fiscal monitoring duties which had previously been performed by MDOE and, in program year 1999-2000, the Alliance implemented a risk-based approach to fiscal monitoring. Under this approach, the riskiest one-third of subgrantees annually receives a fiscal monitoring visit, and the Alliance performs desk reviews over the expenses of the subgrantees not visited. The Alliance assesses the risk of each subgrantee based on review of general assessment questionnaires completed by each subgrantee and the results of OMB Circular A-133 audits.

In Spring 1998, the Alliance began requiring that applicants submit copies of their audited financial statements and OMB Circular A-133 audit reports, when applicable, during the application process. Additionally, the Alliance has developed a standard form to document its review of these reports.

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

Fiscal Monitoring Site Visits Prior to Program Year 1999-2000

Prior to program year 1998-99, MDOE was responsible for fiscal monitoring of subgrantees. However, we were not provided documentation to support fiscal monitoring activities for the nine subgrantees selected during this timeframe. According to MDOE, its fiscal monitoring records have been archived and could not be retrieved during our on-site work.

In program year 1998-99, the Alliance assumed the fiscal monitoring activities that had been the responsibility of MDOE. However, during program year 1998-99, no fiscal monitoring site visits were conducted.

As a result, control weaknesses or instances of material non-compliance related to the subgrantees' financial systems and expense documentation of which the Alliance is not aware may exist and may not be corrected. On-site monitoring of fiscal activity and review of documentation supporting subgrantee expenses enhance a grantee's ability to ensure subgrantee compliance with applicable federal requirements.

In program year 1999-2000, the Alliance began performing fiscal monitoring site visits and desk reviews using the risk-based approach described above. Therefore, no recommendation is required related to fiscal monitoring site visits.

Review of Subgrantees' OMB Circular A-133 Audit Reports Prior to Program Year 1998-99

Prior to Spring 1998, documentation does not exist to support the review of subgrantees' OMB Circular A-133 audit reports. In addition, for 4 of 20 items tested, the Alliance could not provide copies of the relevant OMB Circular A-133 audit report or audited financial statements. These four subgrantees were funded prior to program year 1998-99 when the Alliance assumed responsibility for all fiscal operations. During this time period, MDOE was responsible for obtaining and reviewing all audit reports of subgrantees. As a result of this monitoring deficiency, control weaknesses or instances of material noncompliance related to the AmeriCorps or Learn and Serve programs may have existed and may not have been corrected.

OMB Circular A-133 Compliance Supplement, March 2000, 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.

As noted above, in Spring 1998, the Alliance began requiring that applicants submit copies of their audited financial statements and OMB Circular A-133 audit reports, when applicable, during the annual application process. Alliance personnel document their review of these reports using a standard form. Therefore, no recommendation is required related to the review of subgrantees' OMB Circular A-133 audit reports.

Site Visit Monitoring Tool

As noted above, the Alliance uses a standard form to document the results of each site visit. Through the years, the Alliance has continued to refine and improve its monitoring tool as it receives guidance from the Corporation and other entities.

We noted that the programmatic site monitoring tools used prior to program year 1999-2000 (1) lacked the items noted below related to the current tool, (2) did not require the review of timesheets for allowable activities and agreement of total timesheet hours to the end of term form, (3) lacked space to identify specific Member files reviewed, and (4) contained limited (1995-96) or no (1994-95) Member file checklist. Moreover, although the current tool is more comprehensive, it should be enhanced to instruct the evaluator to document the (1) rationale for sample size selection, (2) Members interviewed and operating sites visited, and (3) verification of selected program accomplishments.

A reviewer (e.g., supervisor) of the site monitoring tool remains unable to (1) assess if the sample size selected was adequate and (2) review the same documentation if a question arose about the results of the test.

Recommendation:

We recommend the Commission focus on measures for improving the effectiveness of its evaluation and monitoring of subgrantees by implementing the enhancements identified above to its current site visit monitoring tool. Although not specifically required by a law or regulation, including a requirement for more specific documentation in a standard monitoring tool enhances an organization's ability to consistently evaluate key compliance and programmatic requirements, validate the results of its reviews, and ensure the performance of all monitoring

steps at each subgrantee visited. Sensitive information documented in the monitoring tool, such as the identity of Members interviewed, does not need to be included in the site visit report.

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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 Massachusetts Service Alliance, 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

Alliance Funding Appendix A

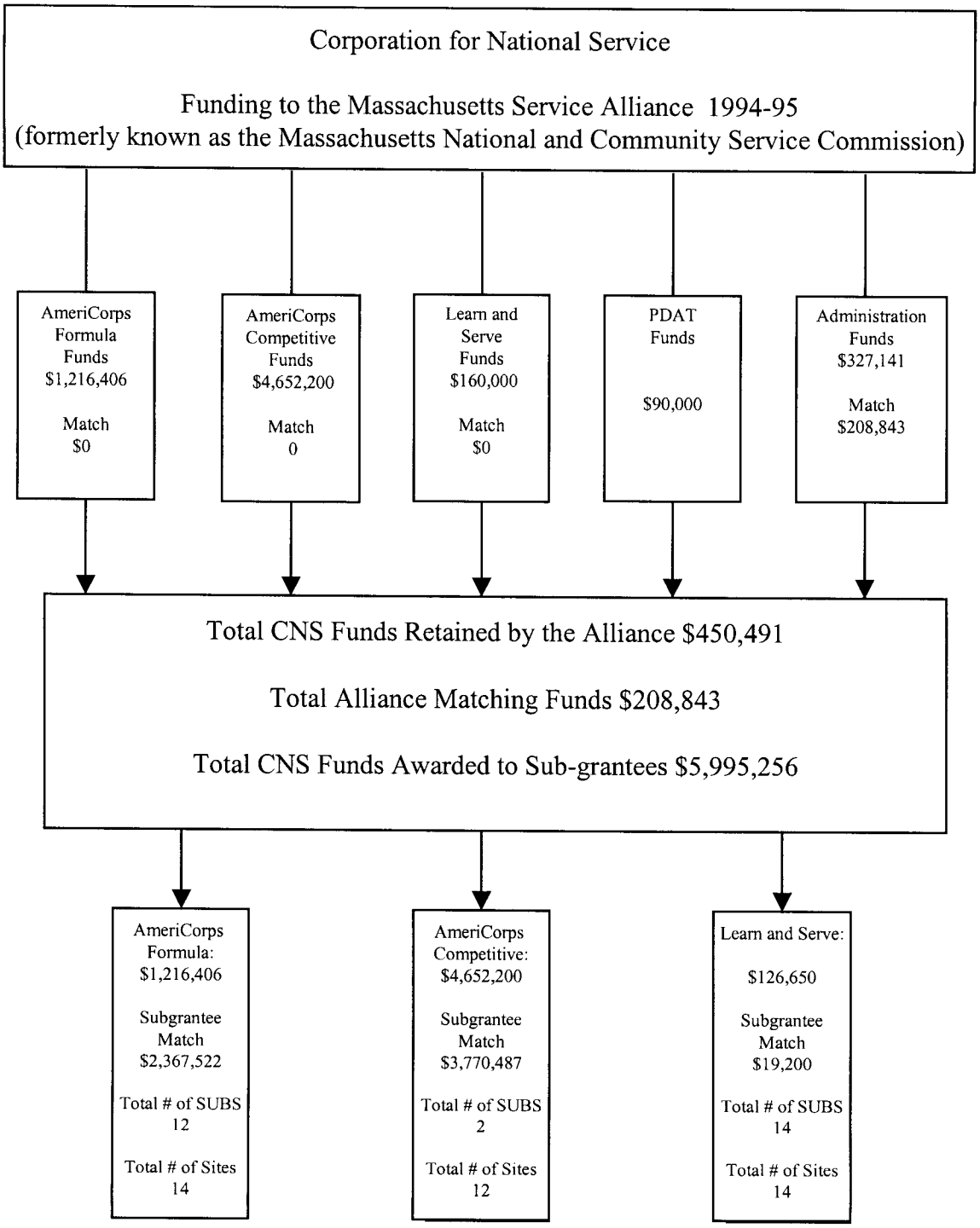
The table below and the flowcharts on the following pages depict the Alliance's funding over the past six program years.

Funding Source and Type	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
CNS Formula Grant Funds	$1,216,406	$1,495,752	$1,706,378	$1,615,179	$1,646,553	$1,597,349
CNS Competitive Grant Funds	4,652,200	4,505,790	3,635,277	4,160,138	3,683,792	3,729,136
CNS Learn and Serve Funds	160,000	153,000	187,000	156,500	166,000	168,000
CNS PDAT Funds	90,000	139,071	168,000	248,000	251,055	168,000
CNS Administrative Funds	327,141	413,461	220,144	264,231	281,579	279,138
CNS Disability Funds	-	-	-	189,613	-	-
CNS State Governor's Innovative Funds	-	-	232,000	-	-	-
CNS State Governor's Initiative Funds	-	-	-	-	-	435,000
CNS America Reads	-	-	-	-	72,500	237,000
CNS Educational Awards Only	-	-	-	2,647	-	-
CNS Promise Fellows	-	-	-	-	165,000	169,500
Carryover	* 55,119	273,660	82,971	292,000	945,436	690,750
State Matching Funds	208,843	178,772	388,987	468,835	744,558	664,006
	$6,709,709	$7,159,506	$6,620,757	$7,397,143	$7,956,473	$8,137,879

* This amount was carried over from the 1994 administrative grant awarded to the Alliance prior to program year 1994-95, which totaled $232,631.

Alliance Funding

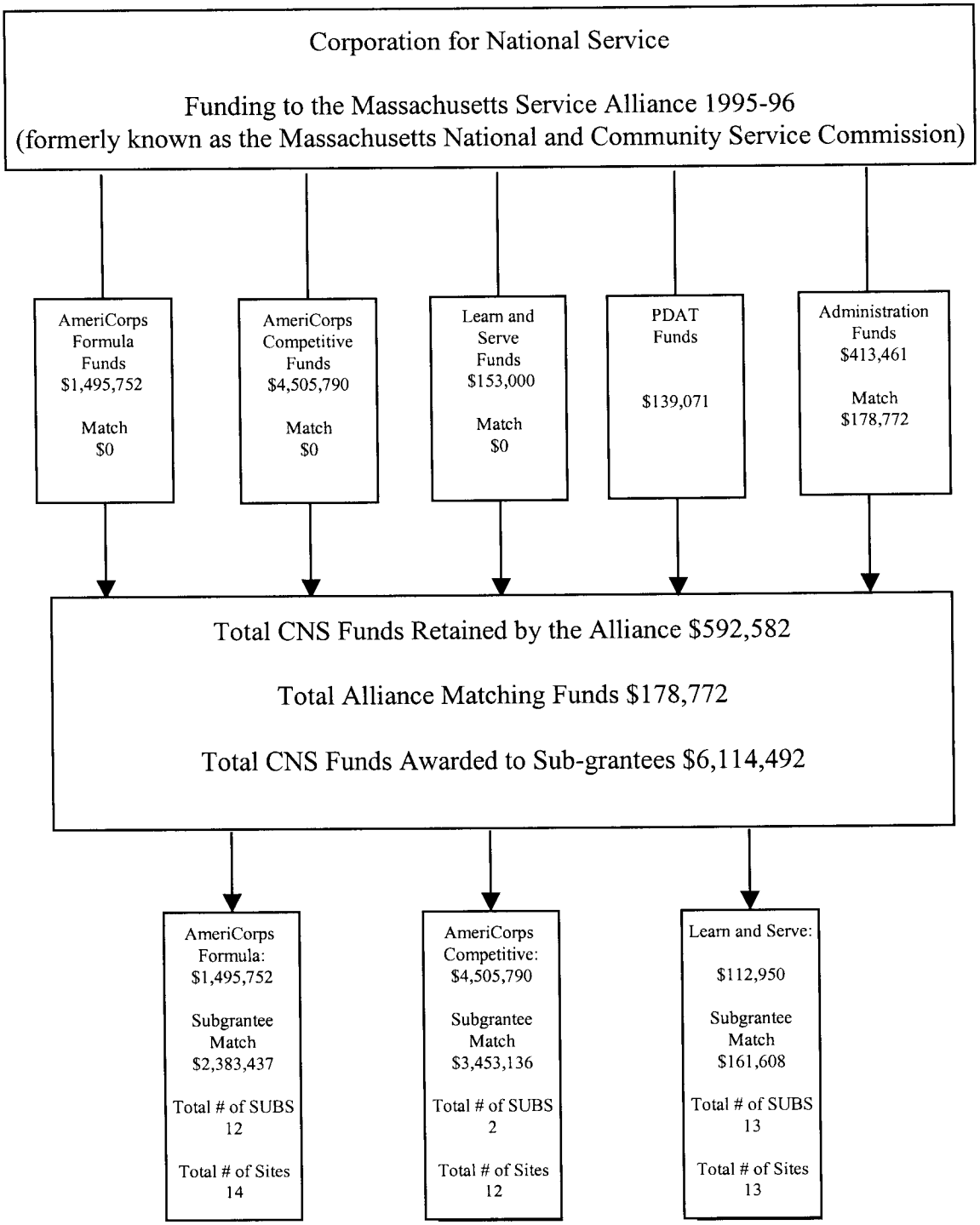
Appendix A



Note 1: The Alliance received a $232,631 Administrative grant prior to the start of program year 1994-95. Of this amount, CNS approved $55,119 of carryover for use in 1994-95. This amount is not reflected above.

Alliance Funding

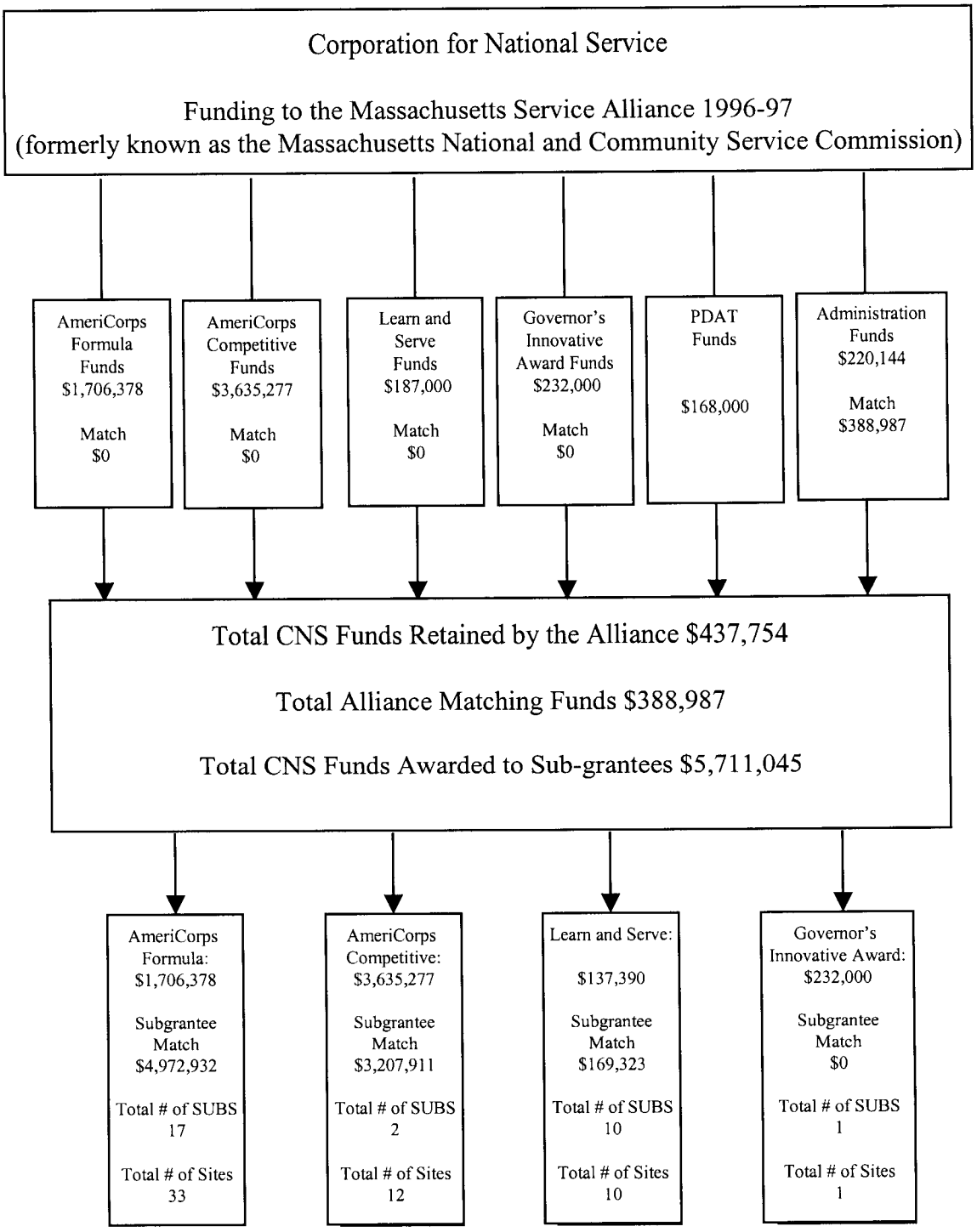
Appendix A



Note 1: CNS approved $182,239, $19,000 and $72,421 of carryover from 1994-95 for use in 1995-96 for the AmeriCorps Formula/Competitive, PDAT and Administrative grants. These amounts are not reflected above.

Alliance Funding

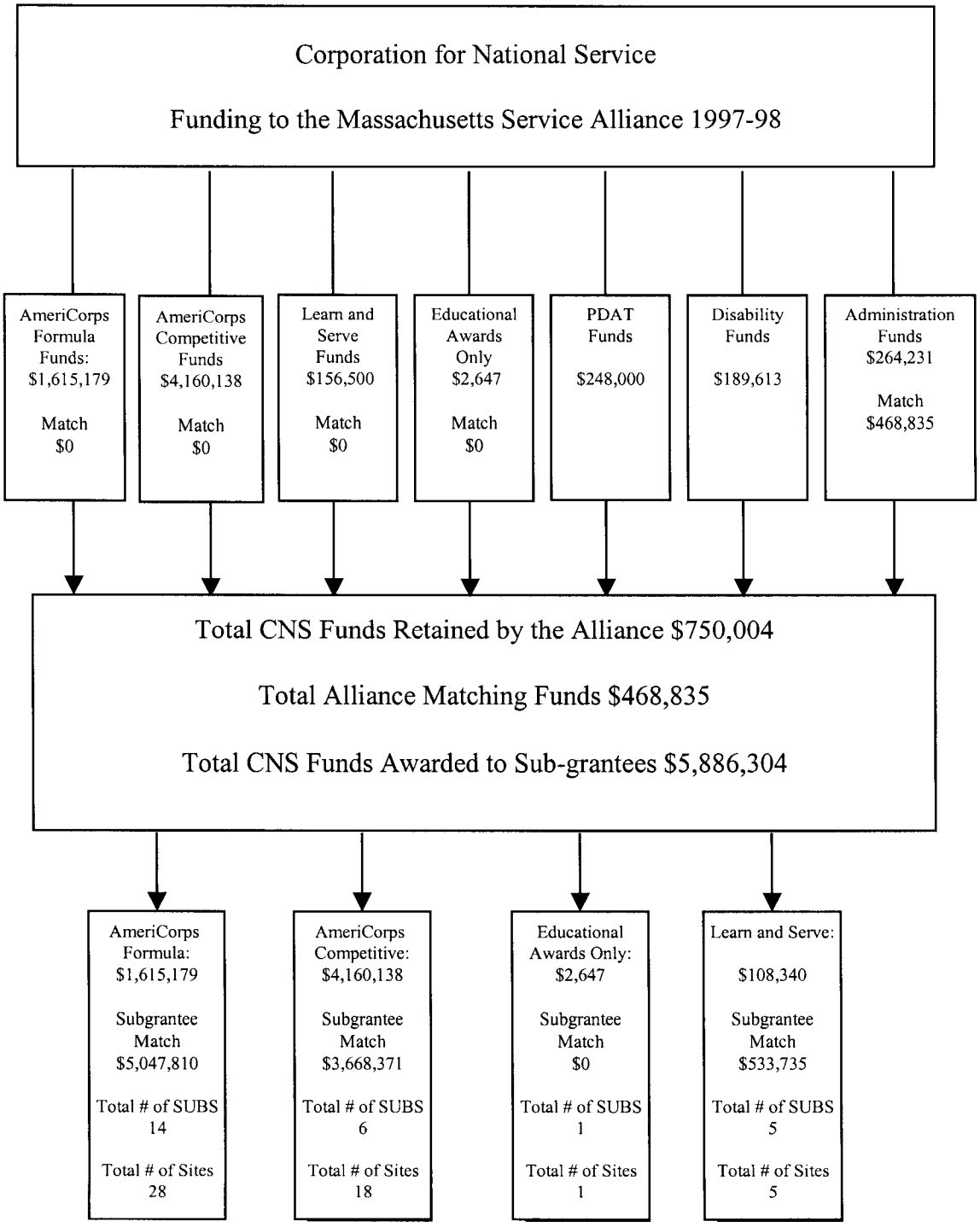
Appendix A



Note 1: CNS approved $20,000 and $62,971 of carryover from 1995-96 for use in 1996-97 for the PDAT and Administrative grants. These amounts are not reflected above.

Alliance Funding

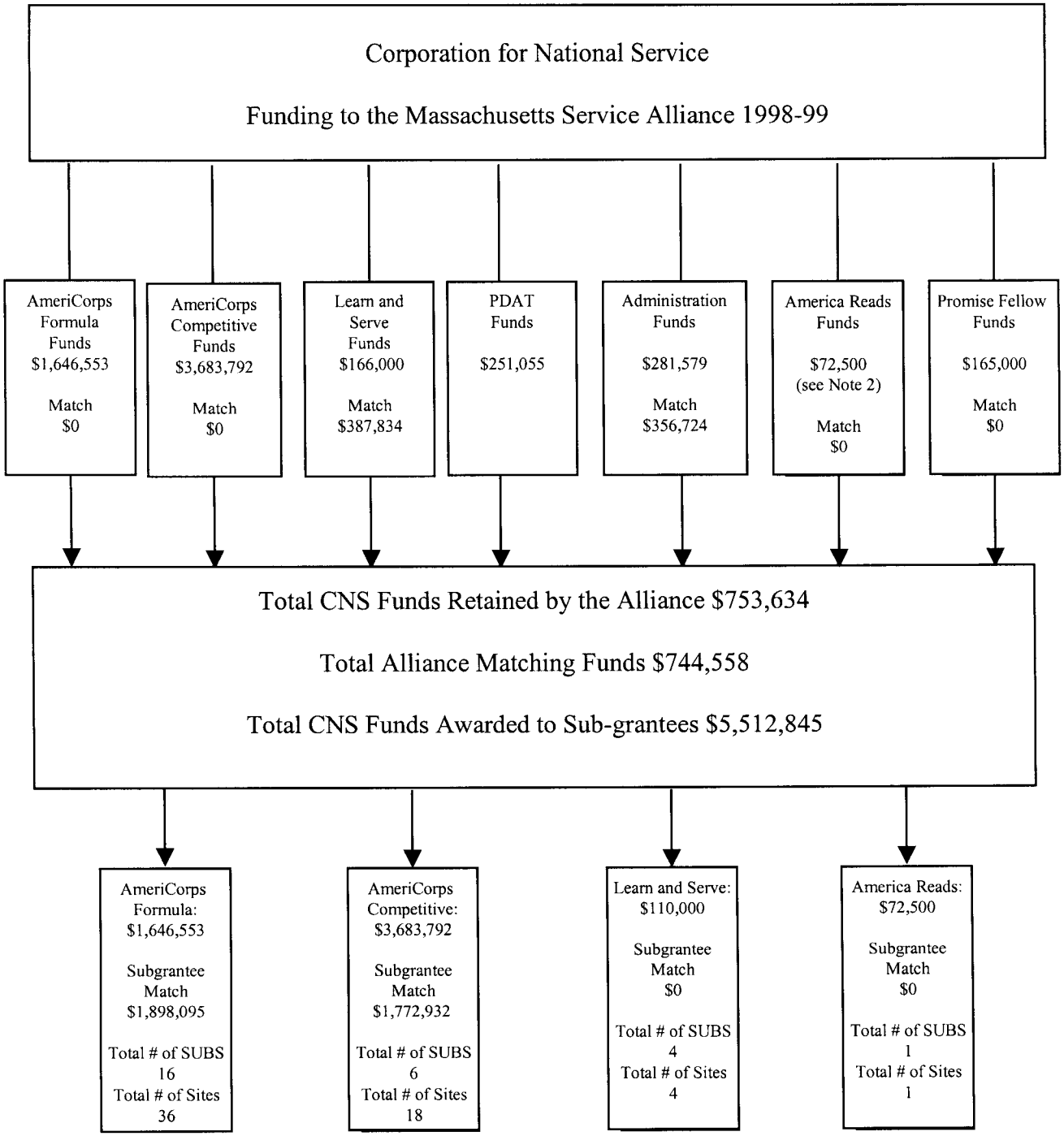
Appendix A



Note 1: CNS approved $250,000 and $42,000 of carryover from 1996-97 for use in 1997-98 for the AmeriCorps Formula/Competitive and PDAT grants. These amounts are not reflected above.

Alliance Funding

Appendix A

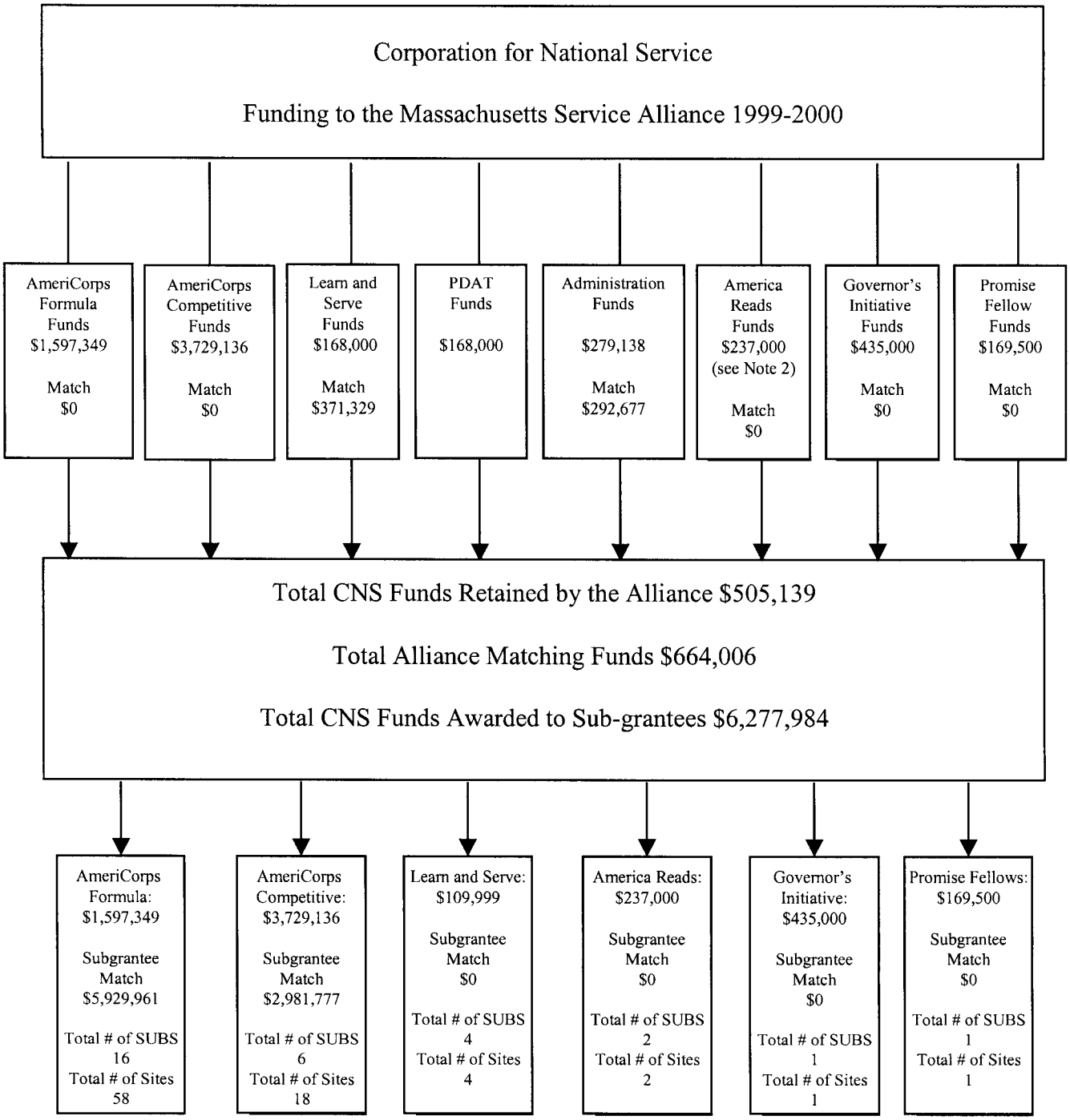


Note 1: CNS approved $184,120, $751,316, $10,000 of carryover from 1997-98 for use in 1998-99 for the AmeriCorps Formula, AmeriCorps Competitive, and Administrative grants, respectively. These amounts are not reflected above.

Note 2: Although CNS awarded and obligated a total of $1,496,250, only $72,500 was released to the Alliance during program year 1998-99. Therefore, only $72,500 of this award is included above.

Alliance Funding

Appendix A



Note 1: CNS approved $690,750 of carryover from 1998-99 for use in 1999-2000 for the AmeriCorps Formula/Competitive grants. This amount is not reflected above.

Note 2: CNS initially awarded the Alliance America Reads funds of $1,496,250 in program year 1998-99. Two subgrantees were approved in program year 1999-2000, resulting in a funding release from CNS of $237,000, which is included above.

Internal Controls

Our objective was to make a preliminary assessment of the adequacy of the Alliance's financial systems and documentation maintained by the Alliance 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 Alliance'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 Alliance to the Corporation. We then interviewed key Alliance personnel to assess the Alliance'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 Alliance to select national service subgrantees to be included in an application to the Corporation;
- as to whether the Alliance 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 Alliance involvement in the application process involved any actual or apparent conflict of interest.

In order to achieve the above objectives, we interviewed key Alliance management and documented procedures performed by the Alliance 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 Alliance.

Administering Grant Funds

Our objectives were to:

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

- make a preliminary assessment as to whether the Alliance 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 Alliance 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 Alliance 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 Alliance to the Corporation, to preliminarily assess the accuracy of submitted Financial Status Reports and progress reports. We also preliminarily assessed whether the Alliance'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 Alliance, in conjunction with the Corporation, to implement a comprehensive, non-duplicative evaluation and monitoring process for their subgrantees;

- determine whether the Alliance 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 Alliance'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 Alliance'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 Alliance to evaluate and monitor individual subgrantees. In addition, we judgmentally selected subgrantees and obtained the Alliance's documentation for site visits. We reviewed the documentation to preliminarily assess the adequacy of the procedures performed by the Alliance to assess financial and programmatic compliance and related controls at the sites. We also determined whether the Alliance received and reviewed OMB Circular A-133 audit reports from subgrantees.

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ALLIANCE

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Executive Director

Appendix C

March 20, 2001

Ms. Louise Jordan
Office of the Inspector General
Corporation for National Service
1201 New York Avenue, NW
Washington, DC 20525

Dear Ms. Jordan,

This letter is in response to the pre-audit survey report conducted by KPMG LLP concerning our organization, dated October 27, 2000, and issued February 23, 2001. We understand that the primary purpose of this survey was to provide preliminary assessment of the internal controls in regards to our administration and sub-granting processing of funds granted to us by the Corporation for National Service.

Overall, we respectfully disagree with the recommendation for a limited scope audit. After thoroughly reviewing the report, we feel that although some valuable management improvements were cited, none of the findings or recommendations demonstrate material weaknesses with regard to our internal controls. In addition, we feel that since the Alliance met all of the State Administrative Standards during the review in the Spring of 2000, this further illustrates that we perform at a consistently high level. Finally, we feel that the pre-audit survey does not take into consideration the findings and some of the documentation in the State Administrative Standards Report that was submitted to you prior to the survey.

Furthermore, we disagree specifically with the recommendation for a limited scope audit that would focus on sub-grantee expenses for program years 1994-95 through 1998-99. First of all, the number of our sub-grantees subject to annual A-133 is incorrect in the chart on the top of page four in the report. The information presented only took into consideration the amount of federal funding received from CNS, and did not take into account other federal funding these organizations received. The revised chart, found in attachment A, illustrates an entirely different picture. The fact that, 98% of our AmeriCorps grantees went through substantial A-133 Audit by independent CPA firms, in our opinion, mitigates the risk of the expenditures under this grant.

The following are our comments on individual recommendations as outlined in the report.

Conflict of Interest

We disagree with this issue as a finding in our pre-audit survey report, due to the fact that Commissioners are not required by the Corporation of National Service to complete Conflict of Interest forms. The Alliance has had a long standing practice to have board members with a conflict of interest concerning applicants to state so before the vote and decline from voting on that grant. This practice is well documented in our meeting minutes. However, the Alliance does see this recommendation as a good management practice. Therefore, we have instituted a new policy by which all board members will sign a conflict of interest form at the beginning of each meeting at which grants will be decided.

Review and Timely Submission of FSR's

We disagree with this issue as a finding in our pre-audit survey report. Our policy was informal, and included a review of the FSR's to check for mathematical errors and review budget expenditure to check for matching levels. This review was unique for each report due to the individually of the program's budget that was submitted. This review was not documented and we did not have a check sheet to show exactly what was reviewed in each form. A form to document this review is a good management practice, however, and we will institute such a process.

We also have an informal policy to follow-up on FSR submission with grantees. We require programs to submit FSR's approximately two weeks prior to the CNS deadline in order to provide us with ample time to prepare an aggregate report. As a result, our submissions to CNS have always been timely. This was noted and documented in our State Administrative Standards Report issued on July 26, 2000 and submitted to you as preparation for the Pre-Audit Survey. This demonstrates that our procedures work.

It is our opinion that a phone log to document follow-up would be an unnecessary administrative burden when first attempting to obtain grantee reports. We do agree, however, that it would be appropriate to document additional follow-up when necessary.

Tagging of Property and Equipment

Again, the Alliance disagrees with this issue as a finding, and does not see this as a material weakness with regards to our internal controls. The Alliance has strong controls with regards to equipment. There is a detailed inventory maintained by the Office Manager. There is also a requirement to sign out for the use of the lap top computers, overhead projector and LCD projector. These small, but valuable items are kept in a locked cabinet when they are not signed out.

Although the Alliance feels that our polices with regard to equipment are sound, we agree with the management suggestion to tag all capital equipment items.

Computer Back-up

The Alliance disagrees with this issue as a finding, and does not see this as a material weakness with regard to our internal controls. The Alliance agrees with the operational suggestion to keep computer back-ups off site. We have instituted a comprehensive policy to protect our valuable information. This not only includes keeping information off-site, but also includes our recent purchase of a fireproof cabinet for our office.

Sub grantee Monitoring

The Alliance, as stated on page 1, does not agree with this issue as a finding. The Alliance has always had the requirement that Grantees submit a copy of the organizations annual A-133 audit with the proposal upon submission of both new and continuation packages. This policy has ensured that the Alliance collected the information upfront and that the information would be incorporated in the review. Please see enclosed page of RFP's for 1994 to present. You will note that in two places applicants are instructed to include the audit materials.

Site Visit Monitoring Tool

We disagree with this as a finding in our pre-audit survey. We feel that our current monitoring system is adequate to review our programs. This was noted in our State Administrative Standards Report issued on July 26, 2000. We not only utilize the tool that was reviewed, but accompany it with annual accomplishment reviews, progress reports, informal site visits, WBRS review and other interactions with programs. We feel that we have a comprehensive approach to our sub-grantee monitoring.

Thank you for the opportunity to comment on our pre-audit report. Please do not hesitate to contact me if you would like further information or clarification.

Sincerely,

Maureen F. Curley
Executive Director

cc: Corporation for National Service
Enclosure(s)
Revised Schedule of sub-grantees subject to A-133 audits
RFP for 1994 – 1999 requiring A-133 audits as a application requirement

Appendix D

Memorandum

AmeriCorps National Service

CORPORATION FOR NATIONAL SERVICE

TO: Luise Jordan, Inspector General

THRU: William Anderson, Deputy Chief Financial Officer

FROM: Peter Heinaru, Director, AmeriCorps State and National

SUBJECT: Comments on the OIG Draft Report 01-24, Pre-Audit Survey of the Massachusetts Service Alliance

DATE: March 26, 2001

We have reviewed the draft pre-audit survey of Massachusetts Service Alliance (Alliance) and are pleased to note that the Alliance:

- 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 established controls to evaluate and monitor subgrantees.

This letter comments on several key issues identified in the report.

In the section, ***Selecting Subgrantees***, under the *Completion of Conflict of Interest Forms for All Commissioners* there is one recommendation. The recommendation states that:

> "We recommend that the Alliance develop and implement procedures that require all Commissioners to annually complete conflict of interest statements for each of the Alliance's three grant funding streams."

The Corporation agrees that Commissioners should document that no conflict of interest exists. Each Commission is responsible to establish their own procedures in that regard. The Alliance has established a new policy to require all board members present at any meeting during which a vote is taken to sign a conflict of interest form prior to voting on a particular subgrantee.

In the area of ***Administering Grant Funds***, there were five recommendations that generally related to FSR receipt and property controls. The Corporation notes that these recommendations are designed to strengthen the current controls already in place. The Corporation concurs that the Alliance should have written policies and procedures in place and should take preventative measures to assure system backup.

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Washington, DC 20525
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In the section ***Evaluating and Monitoring Subgrantees***, regarding the *Site Visit Monitoring Tool*, the Corporation disagrees with the following recommendation:

> "We recommend the Commission focus on measures for improving the effectiveness of its evaluation and monitoring of subgrantees by implementing the enhancements identified above to its current site visit monitoring tool. Although not specifically required by law or regulation, including a requirement for more specific documentation in a standard monitoring tool enhances an organization's ability to consistently evaluate key compliance and programmatic requirements, validate the results of its reviews, and ensure the performance of all monitoring steps at each subgrantee visited."

The Alliance's monitoring tool in conjunction with the annual accomplishment report recorded in WBRS, progress reports, and other informal visits meets the requirements set forth by the Corporation. The Alliance's methodology adequately documents the results and resolution of issues identified on site visits and provides a level of oversight of its subgrantees based on the level of risk.

The section ***Results in Brief*** includes a recommendation for a limited scope audit of the Commission. The Corporation notes that the pre-audit survey had generally favorable results and there are no other significant indicators of risk at the Alliance. The Alliance has strong oversight and monitoring procedures in place. In addition, the Corporation recently performed an Administrative Standards review at the Commission. Based on that review, the Corporation determined that the Commission met the standards in all areas and continues to meet the requirements and regulations established by the Corporation. Accordingly, the Corporation does not believe such an audit is necessary.