OFFICE OF THE INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE

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

OIG Audit Report Number 01-26
October 13, 2000

Prepared by:

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

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This report was issued to Corporation management on January 31, 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 July 30, 2001, and complete its corrective actions by January 31, 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
Vermont Commission on National and Community Service
OIG Audit Report Number 01-26

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 Vermont Commission on National and Community Service. Based on the limited procedures performed, KPMG concluded that the Commission administers an open, competitive process to select national service subgrantees. However, KPMG recommended improvements in the award process and in the Commission's grant fiscal administration. Moreover, KPMG concluded that the Commission lacks adequate controls to evaluate its subgrantee's fiscal compliance. Consequently, this report also recommends that the Corporation follow-up to ensure appropriate corrective actions are put into place to correct the conditions reported herein, the performance of a full-scope audit for program years 1994-1995 through 1996-1997, and limited scope audit procedures for more recent program years.

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

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

Both the Vermont Commission and the Corporation responded to this report. Their responses are included as Appendices C and D, respectively. Both responses express agreement with certain of the findings and disagree with others. KPMG reviewed the responses and revised certain portions of the information in the report based on documentation 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
Vermont Commission on National and Community Service
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2001 M Street, NW
Washington, DC 20036

Telephone 202 533 3000
Fax 202 533 8500

October 13, 2000

Inspector General
Corporation for National and Community Service:

At your request, KPMG LLP (KPMG) performed a pre-audit survey of the Vermont 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, the Commission does not have policies and procedures in place to review applicants' financial systems and controls in place during the selection process.

- The Commission did not have adequate controls in place over the administration of the grant funds in program years 1994-95 through 1996-97. The Commission presently does not have written policies and procedures in place that accurately reflect all current activities of staff members and contractors in the day-to-day administration of the grant funds. Such procedures should include calculation and reporting of grant matching requirements and preparation and submission of Financial Status Reports (FSRs). Additionally, we questioned costs of $1,481 as unallowable related to fees for a teleconference of the National & Community Trust Act Briefing and proposal writing/consultation fees to assist in the AmeriCorps and Learn & Serve applications for program year 1994-95.

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- The Commission does not have adequate controls in place to evaluate and monitor subgrantees for fiscal compliance. For example, the Commission does not have a process in place for testing expenditure transactions and in-kind costs. However, beginning in program year 1997-98, evidence exists to support adequate programmatic monitoring of subgrantees, except for the verification of the accuracy of performance measures reported by subgrantees.

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 assessment, we recommend the performance of a full scope audit for program years 1994-95 through 1996-97 and a limited scope audit for program years 1997-98 through 1999-2000 with a focus on allowable costs and matching requirements.

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.

Overview of the Vermont Commission

The Vermont Commission on National and Community Service, located in Montpelier, Vermont, has received AmeriCorps grant funds from the Corporation for National and Community Service since program year 1994-95. The Commission operates as part of the State of Vermont's Office of the Governor and has 2.5 full time equivalent (FTE) employees, including an Executive Director, a Program Officer and a part-time Information Officer. In addition, the Commission has a part-time accountant under contract and a full-time Learn & Serve contractor. The Executive Director has been with the Commission since February 1996, at which time the Commission experienced a significant turnover of key personnel.

As part of the Office of the Governor of the State of Vermont, the Commission is annually subject to the OMB Circular A-133 audit performed by the Vermont State Auditors' Office. However, the Commission's AmeriCorps grants have never been tested as a major program.

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	$919,031	6	2
1995-96	534,876	13	1
1996-97	494,708	20	1
1997-98	1,389,199	19	4
1998-99	1,388,553	21	4
1999-2000	1,215,415	20	4

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

Appendix A contains more detailed information on funding received from the Corporation during program years 1994-95 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 the procedures detailed in Appendix B over the Commission's internal controls, selection of subgrantees, administration of grant funds, and evaluation and monitoring of grants.

As part of the procedures performed, we documented and tested internal controls in place at the Commission using inquiries, observations, and examination of a limited sample of source documents. Finally, we summarized the results of our work to develop the findings and recommendations presented in this report. We discussed all findings with Commission management during an exit conference on October 13, 2000.

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

We provided a draft of this report to the Commission and the Corporation. The Commission's and Corporation's responses to our findings and recommendations are included as Appendix C and D respectively. If sufficient documentation was provided to support the change, we incorporated the corrections in factual information referred to in the Commission's response in this report. We also clarified the wording related to our finding on level of access authority to the Web Based Reporting System (WBRS). 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, that section of this report remains unchanged, except for the clarification noted above.

Findings and Recommendations

Selecting Subgrantees

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

The Commission administers an open, competitive process to select national service subgrantees. The Commission advertises funding availability through mailing lists and the Commission's web site. In addition, selection officials sign conflict of interest statements annually, receive an instruction package, and use a standard form to evaluate each applicant. However, we noted the following area for improvement related to the selection of subgrantees process.

Assessment of Applicants' Financial Systems

The Commission does not assess the adequacy of applicants' financial systems and controls in place to administer a Federal grant program prior to making award decisions. Lack of assessment of applicants' financial systems and controls may lead to instances of subgrantees' non-compliance with Federal requirements and inability to administer Federal funds appropriately.

Recommendation

We recommend the Commission establish policies and procedures to review applicants' financial systems and controls to ensure that selected subgrantees have adequate systems and procedures, in place to properly administer Federal funds awarded.

Administering Grant Funds

The Corporation's regulations state that, as part of the grant administration process, "Grantees are responsible for managing the day-to-day operations of grants and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with 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 certain policies and procedures intended to provide reasonable assurance that grant funds received from the Corporation are properly administered. Procedures are in place to manage cash drawdowns and disbursements to subgrantees. The Commission's personnel appear to 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.

Policies and Procedures Are Not Properly Documented

Although the Commission has some written procedures as mentioned above, they do not necessarily reflect the actual activities that take place in administering the day-to-day grant operations. The Commission has relied on various checklists, forms and spreadsheets that have either been inherited from prior staff/contractors or devised as needed with no formal procedures

instructing Commission staff on their proper use. Some of these procedures include manual, labor-intensive spreadsheets used to prepare quarterly FSRs. The lack of comprehensive written procedures to instruct Commission staff and contractors may lead to inconsistent or inaccurate results, especially if the Commission experiences turnover or prolonged absenteeism of key personnel.

Lack of Adequate Procedures to Report Matching Expenditures

The Commission does not have adequate procedures in place to properly report its matching expenditures to the Corporation. The Commission achieves its expenditures matching requirements with a combination of in-kind costs and administrative expenditures such as state funded payroll related to AmeriCorps grants. The Commission could not provide adequate documentation to support the total amount of salaries claimed as match reported in the FSR for the 4th quarter of 1999 because the amount reported as administrative expenditures was estimated by taking the total needed to cover the Federal Share of Outlays minus in-kind costs.

According to 45 CFR Section 2541.240 (b)(6), "Costs and third party in-kind contributions counting toward satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantees or cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived."

Level of Access Authority to WBRS

We determined that the Commission has implemented WBRS. The Commission, along with the Corporation, has established a set of controls for the use of WBRS by the subgrantees. Most of these controls are embedded in the system, such as automated calculation of costs in its Financial Status Reports, tracking of AmeriCorps Members' hours and projection of hours to fulfill requirements, and automated carry-forward of financial and reporting data from prior periods.

However, we noted that although the Commission has prescribed distinct segregation of duties between different users of WBRS, all the users were granted "Executive Director" access authority, as denoted on a user profile printout from WBRS dated October 6, 2000. The integrity of the report process through WBRS could be compromised with users gaining access to levels of authority that do not coincide with their employee profiles.

Unallowable Cost in Program Year 1994-95

According to OMB Circular A-87 Section 34 Proposal Costs, the cost of preparing proposals for potential Federal awards are allowable. Proposal costs should normally be treated as indirect costs and should be allocated to all activities of the governmental unit utilizing the cost allocation plan and indirect cost rate proposal. However, proposal costs may be charged directly to Federal awards with the prior approval of the Federal-awarding agency.

The Commission directly charged unallowable costs of $1,481 related to fees for a teleconference of the National & Community Trust Act Briefing, incurred prior to its first grant award, and for unapproved proposal writing/consultation to assist in the preparation of AmeriCorps and Learn & Serve applications for program year 1994-95. These unallowable costs constitute questioned costs.

Lack of Adequate Supporting Documentation for Program Years 1994-95 through 1996-97

Although, the Commission was able to provide adequate documentation in the areas noted below for program years 1997-98 through 1999-2000, the Commission could not provide adequate documentation to support drawdowns, payroll transactions, and allowability of costs related to AmeriCorps, Learn & Serve, PDAT, and Administration grants during program years 1994-95 through 1996-97. We also noted that payroll documentation amounting to $41,297 for program year 1994-95 was not available for review. In addition, from program years 1994-95 through 1996-97, the Commission did not require subgrantees to submit detailed invoices separating costs among the different cost categories as support for reimbursement requests.

According to OMB Circular A-87, Section C. Basic Guidelines Part 1," Factors affecting allowability of costs," adequate documentation is a general criteria for costs to be allowable under Federal awards.

Control Weaknesses Related to Financial Status Reports

According to 45 CFR, 2541.410 (b)(4), "When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period."

During our review of 69 selected FSRs for programs years 1994-95 through 1999-2000, we noted that three PDAT and eight AmeriCorps consolidated FSRs were not submitted on a timely basis. We also noted that nine Administrative FSRs and six PDAT FSRs for program years 1994-95 and 1995-96 were missing from the Commission's files. In addition, we noted inconsistencies in the FSR approval process at the subgrantee level; more specifically, it was not clear whether approval should come from the Program Director or the Fiscal Director.

Lack of Control Procedures over Maintenance of Equipment Purchases

The Commission has not developed control policies and procedures to monitor and maintain equipment. Specifically, no procedures are in place to document or maintain equipment purchases, equipment dispositions or equipment transferred to subgrantees. In addition, the Commission has never performed a full physical inventory of equipment on-hand. Since 1994, approximately $25,000 in equipment purchases has been charged to the Corporation grants.

According to 45 CFR Section 2541.320 (d)(1), property records must be maintained that include information such as description, value, holder of title, serial number and acquisition and disposal dates. In addition, a physical inventory of the property must be taken and the results reconciled with the property records at least once every two years (45 CFR Section 2541.320 (d)(2)).

Recommendations

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

- Develop and implement written procedures that accurately reflect all current activities of staff members and contractors in the day-to-day administration of grant funds. Such

procedures should include monitoring of grant matching requirements and preparation and submission of FSRs.

- Revise its method of reporting matching costs and ensure that adequate records support matching costs.
- Develop and implement control procedures to grant the appropriate level of access authority to the different users of WBRS.
- Develop and implement written procedures that ensure compliance in the preparation and submission of FSRs. In addition, we recommend that the Commission instruct its subgrantees to have FSRs approved by the fiscal director.
- Develop and implement adequate inventory controls, including detailed property records and periodic physical inventory counts.

Evaluating and Monitoring Subgrantees

As noted above, the Commission is responsible for monitoring subgrant-supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. The Commission has established controls to evaluate and monitor subgrantees, which include reviewing program and financial reports and scheduling annual site visits for each subgrantee during the grant period. However, we identified the following areas for improvement related to the evaluation and monitoring of subgrantees.

Missing Program Review Documentation

The Commission could not provide adequate documentation supporting selected annual program and fiscal reviews. Of 15 subgrantees' site visit reviews, 2 program review checklists for program years 1994-95 through 1995-96 and 10 fiscal review checklists for program years 1994-95 through 1999-2000 were missing from the Commission's files.

We also noted that 2 of the 5 fiscal checklists located were prepared by the subgrantee without the Commission verifying their accuracy. In addition, the Commission does not consistently document subgrantee matching requirement reviews. Documentation for three of five subgrantees sampled did not mention any review of matching requirements.

Lack of Expense Testing during Site Visits

The Commission relies on the results of its subgrantees' OMB Circular A-133 audits as part of its monitoring process. Consequently, the Commission does not include expenditure transaction and in-kind cost testing as part of its annual fiscal review of subgrantees. However, the AmeriCorps grants administered by the Commission's subgrantees have never been tested as major programs during these OMB Circular A-133 audits. As a result, instances of material noncompliance related to the subgrantees' Federal and matching expenditures, of which the Commission is not aware, might exist.

Review of Performance Measures and Program Results

The Commission does not verify program result statistics found on the subgrantees' progress reports and Annual Accomplishment Reports. The Commission has not inquired of subgrantees what type of documentation exists to support program results. In addition, site visits to subgrantees do not include the verification of program results reported by the subgrantees.

Recommendations

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

- Develop and implement procedures to document results of site visits, including strengths, weaknesses, concerns, recommendations, and any necessary follow-up requirements.
- Develop and implement procedures to document the review of Members timesheets, and types of activities and service hours performed during fiscal site visits. These procedures should require identification of sample selection criteria and items actually selected for testing.
- Develop and implement a process for testing expenditure transactions and in-kind cost during fiscal site visits to subgrantees.
- Develop and implement written procedures to verify the accuracy of reported subgrantee performance measures and program results during site visits.

*****

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

KPMG LLP

Commission Funding

Appendix A

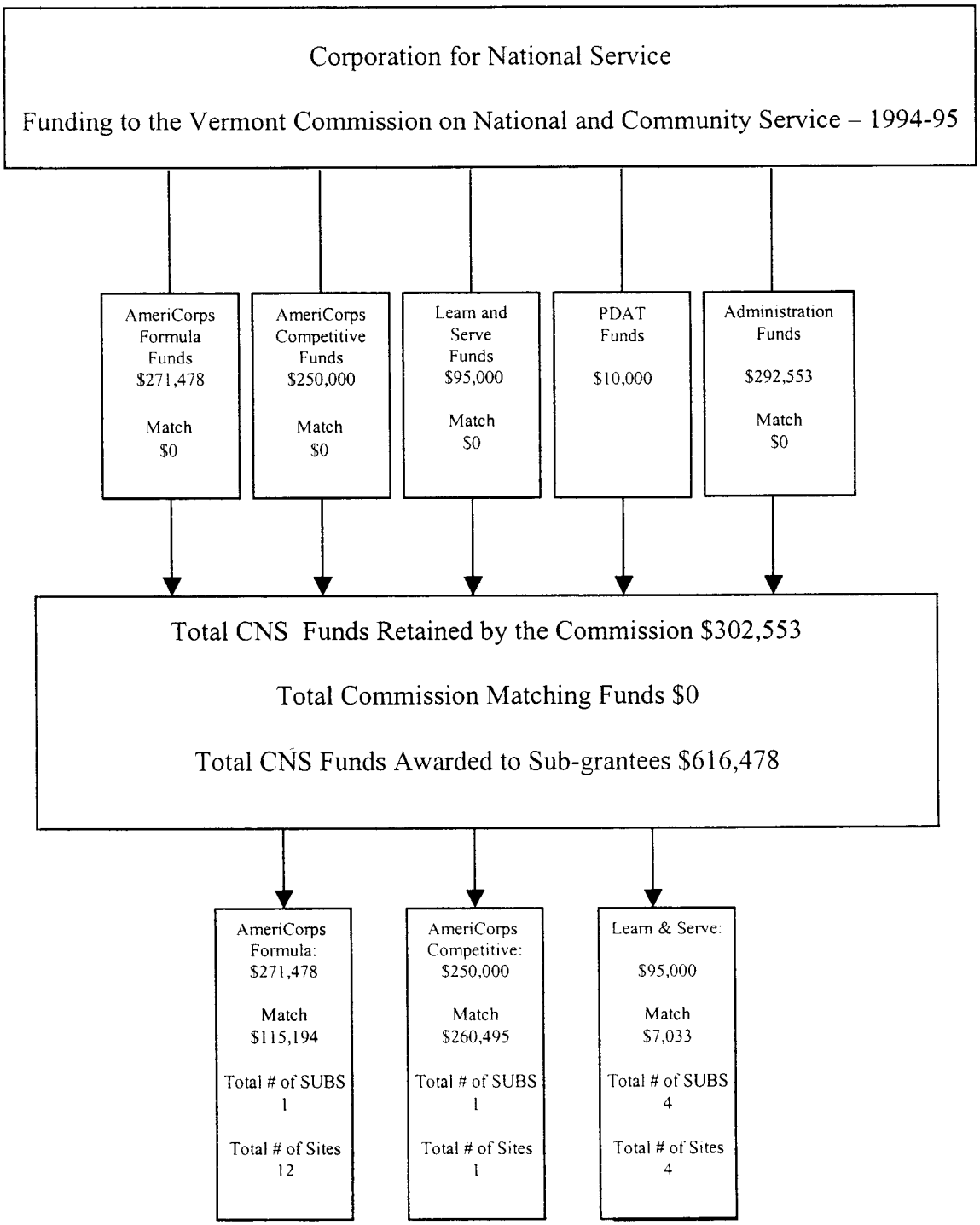
The table below and the flowcharts on the following pages depict the Commission's funding over the past six program years.

Funding Source	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
CNS Formula Grant Funds	$271,478	$284,667	$299,872	$420,714	$499,757	$370,764
CNS Competitive Grant Funds	250,000	-	-	651,166	545,943	433,936
CNS Learn and Serve Funds	95,000	88,000	87,963	96,500	95,000	95,000
CNS Educational Only Awards	-	-	-	28,690	24,749	24,999
CNS PDAT Funds	10,000	65,000	46,438	84,000	19,975	86,000
CNS Admin Funds	292,553	97,209	60,435	108,129	108,129	107,316
Promise Fellows	-	-	-	-	95,000	97,400
State Matching Funds*	-	24,824	23,000	27,000	52,608	54,880
	$919,031	$559,700	$517,708	$1,416,199	$1,441,161	$1,270,295

*Amounts reported represent cash matching funds only.

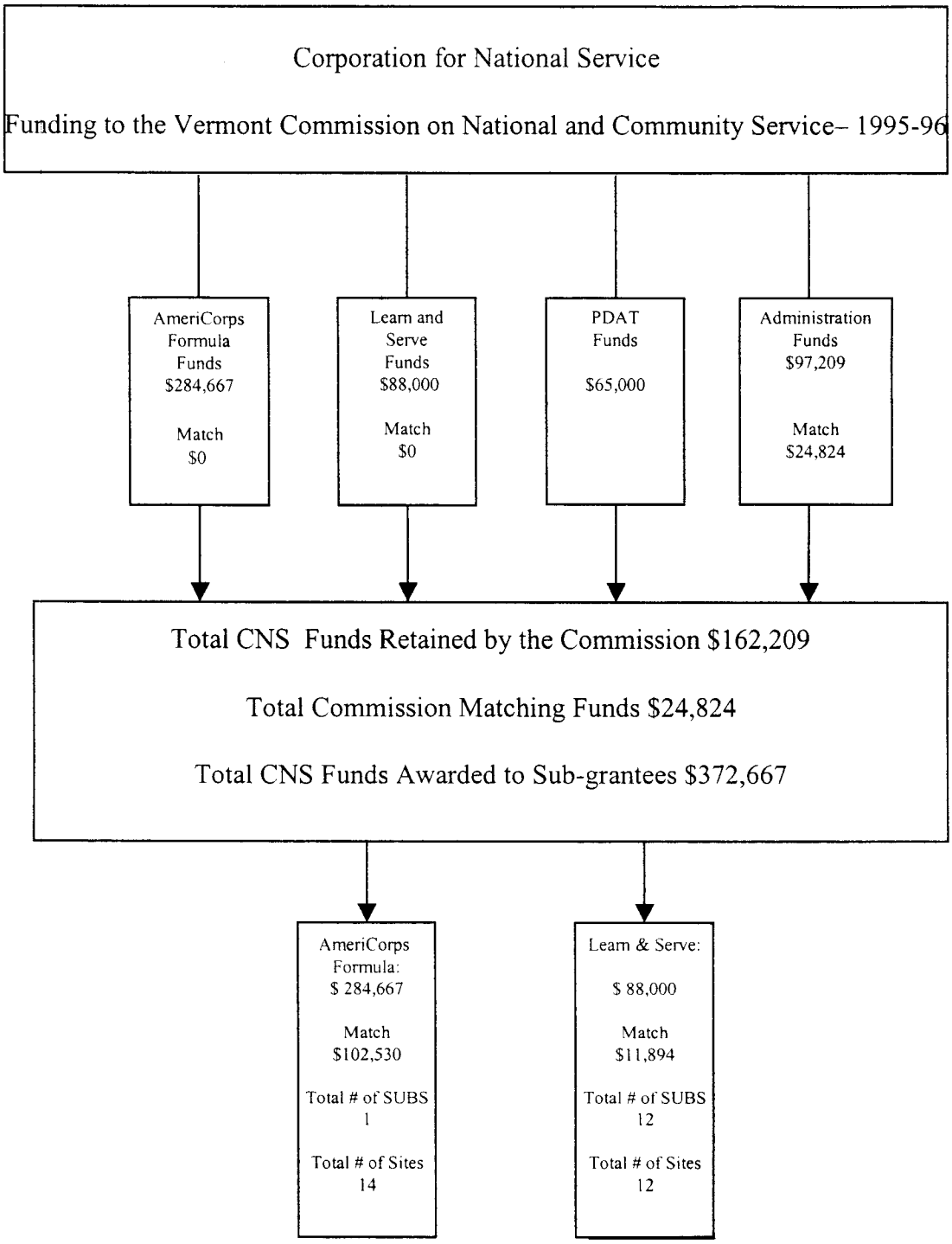
Commission Funding

Appendix A



Commission Funding

Appendix A



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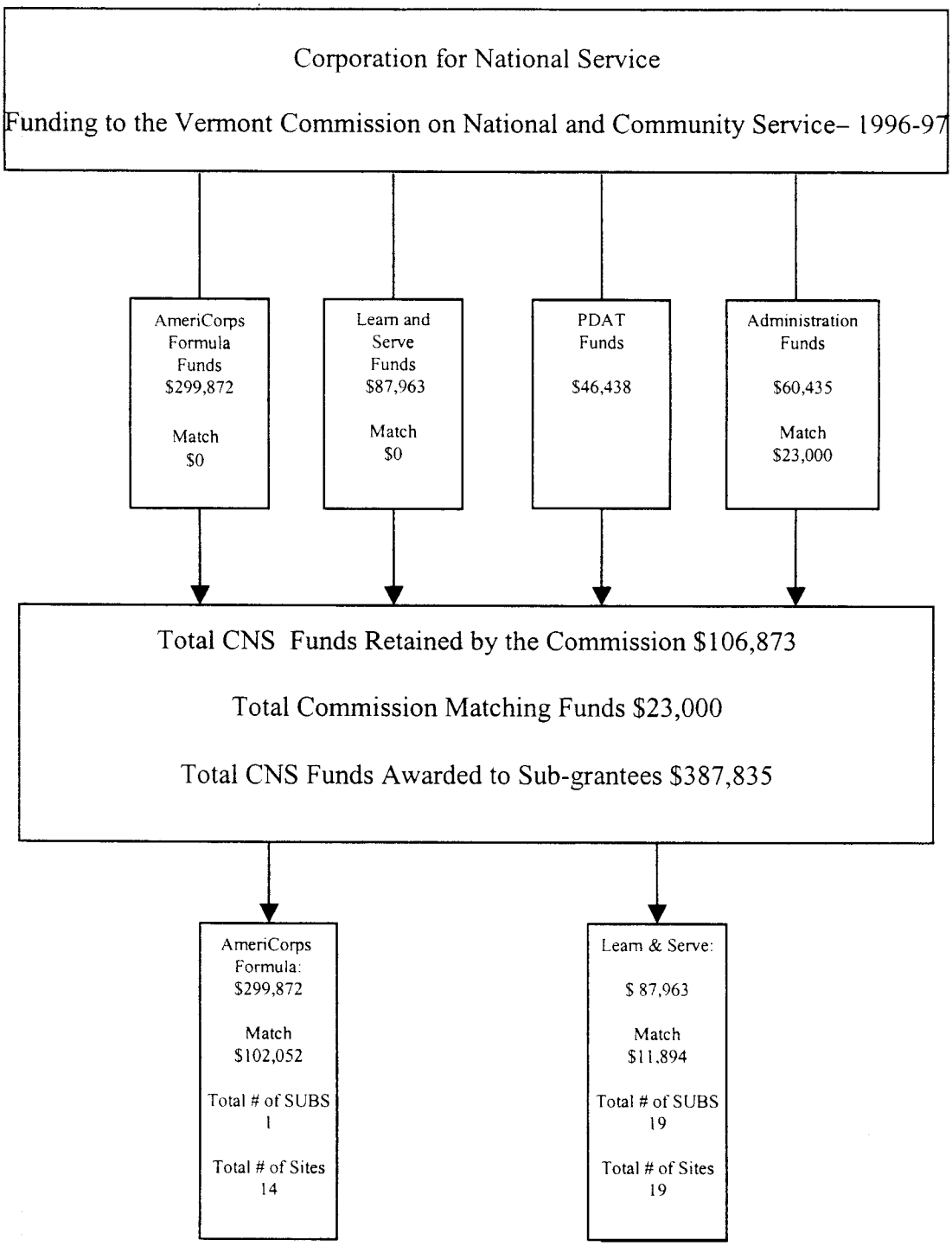

Commission Funding

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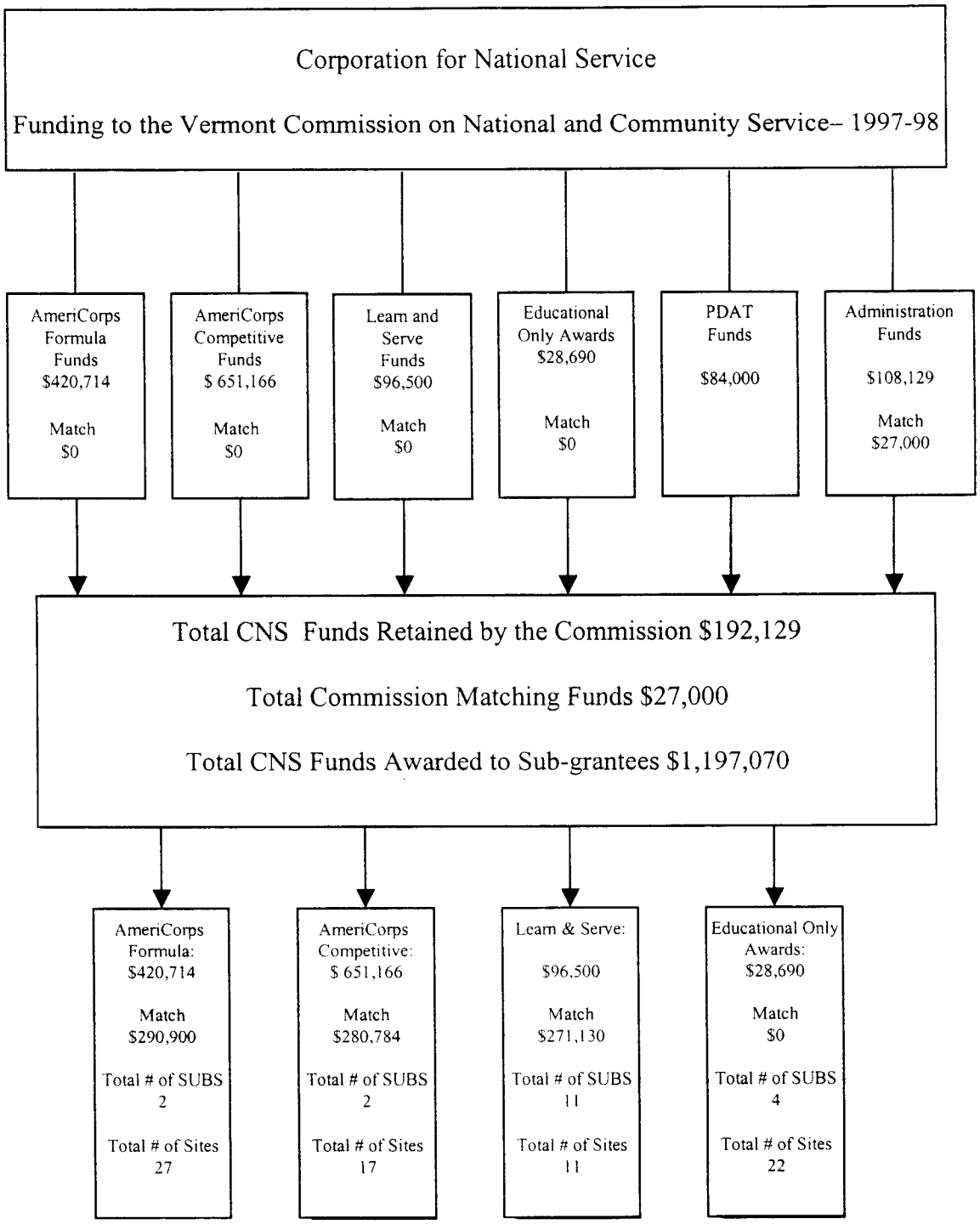

Commission Funding

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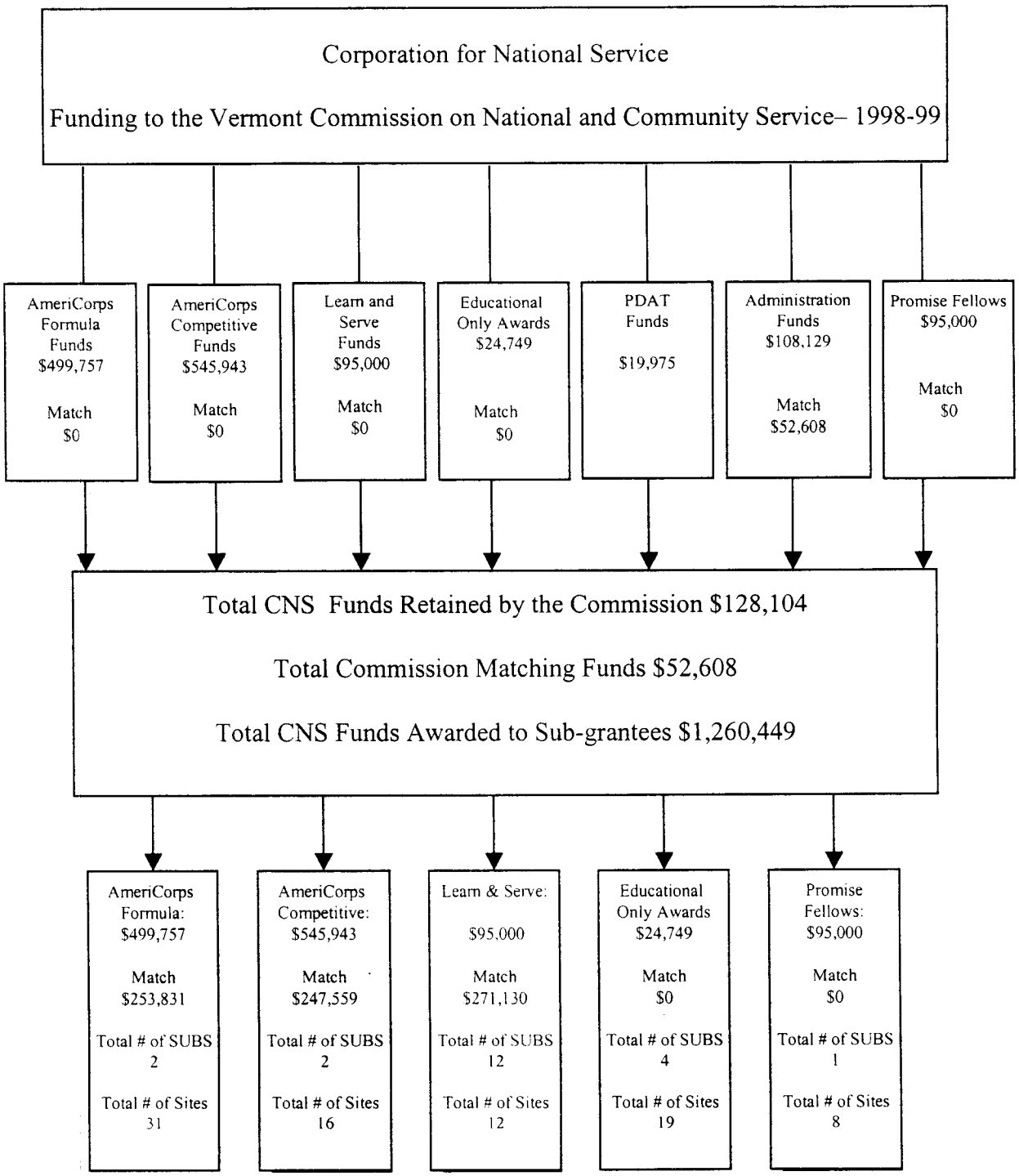

Commission Funding

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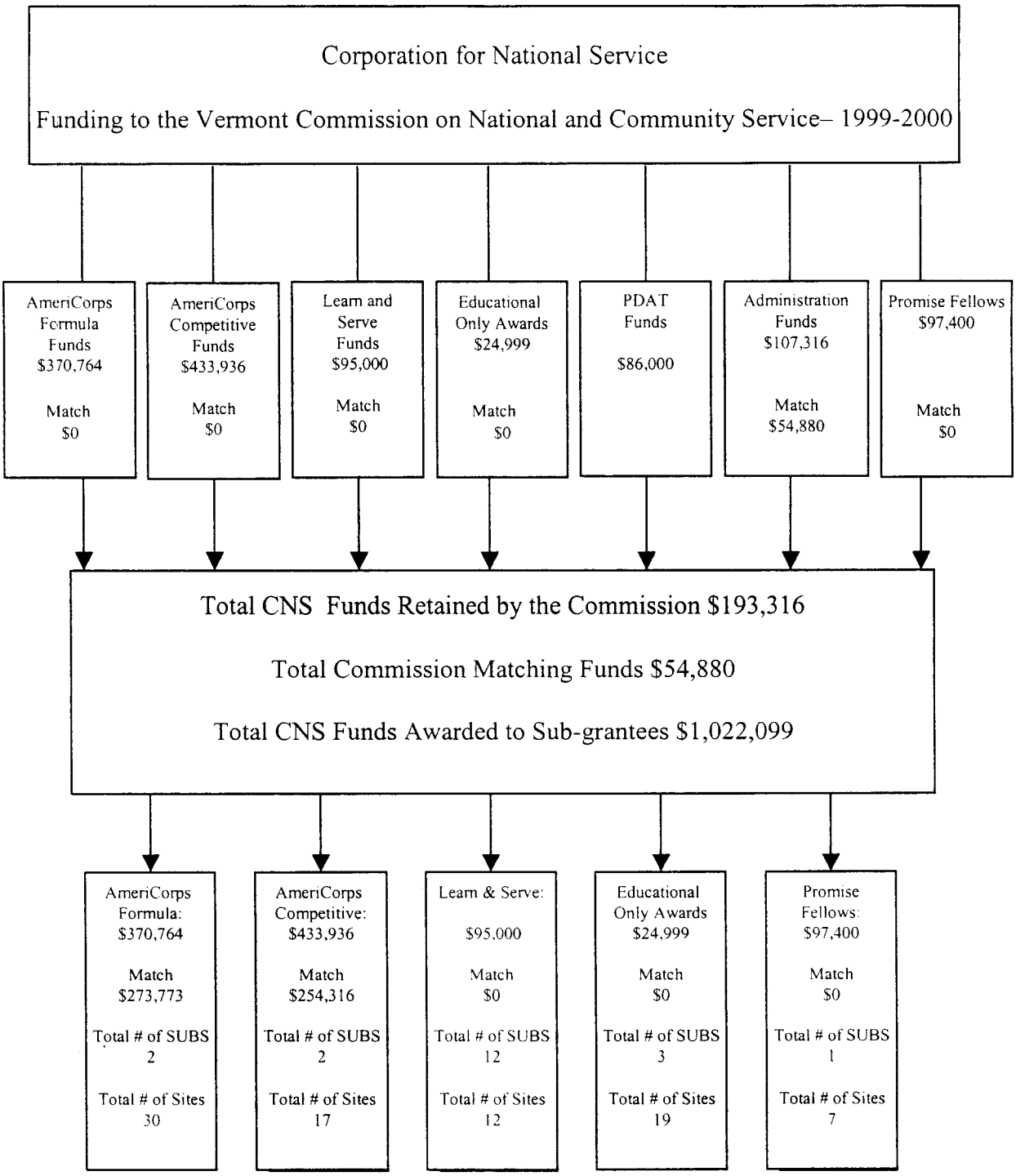

Internal Controls

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 selection officials signed conflict of interest forms for each subgrantee applicant tested 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, 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 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 hours 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

VERMONT COMMISSION ON NATIONAL AND COMMUNITY SERVICE
Office of the Governor
National Life Building
Drawer 33
Montpelier, VT 05633-4801

Tel.: (802) 828-4982
Fax: (802) 828-4988
TDD: (802) 828-3345

January 10, 2001

Ms. Luise Jordan, Inspector General
Office of Inspector General
1201 New York Avenue, NW
Washington, DC 20525

Dear Ms. Jordan,

I am writing in response to receipt of your letter of December 14, 2000 which included a draft report of the recent pre-audit survey of the Vermont Commission on National and Community Service. Please consider this letter to be the separate response, per your suggestion, intended to correct errors and clarify facts.

On page 3 in the Overview of the Vermont Commission section, the first paragraph includes a sentence saying the Commission has a full-time Learn & Serve contractor. The Vermont Commission actually contracts with an individual to work part-time on the Learn & Serve grant. Also in the same section on page 3, Total Corporation Funding for Program Year 1996-97 should be $494,708 and for Program Year 1998-99 should be $1,338,553. In the Number of Subgrantees column, the number for Program Year 1997-98 should be 19, the number for Program Year 1998-99 should be 21 and the number for 1999-2000 should be 20.

On page A.1 of the draft issue, the first column titled 1994-95 includes $68,641 as State Matching Funds. During that year VTCNCS had no State Matching Funds. The $68,641 was in-kind match. The total of this column should be $919,031 with $0 for State Matching Funds. The other figures on this line for all other years are State Matching Funds and to include this $68,641 would be inconsistent.

Also on page A.1, CNS Formula Grant Funds for 1998-99 were $449,757. The total of the column should be recalculated to be $1,391,161.

http://www.state.vt.us/cncs

On page A.2, the Total Commission Matching Funds of $68,641 appears again. This figure is in-kind match as stated previously.

On page A.5, in the Educational Award Only box, Total # of SUBS should be 4 and Total # of Sites should be 22.

On page A.6, the AmeriCorps Formula Funds should be $449,757 and the Total CNS Funds Awarded to Sub-grantees recalculated to $1,210,449. Also, several changes are required in the Educational Award Only Awards box. The correct award figure is $24,749, SUBS should be 4 and Sites should be 19. In the Promise Fellows box, the Total # of Sites should be 8.

On page A.7, in the Educational Only Awards box, the Total # of SUBS should be 3 and the Total # of Sites should be 19. In the Promise Fellows box, the Total # of Sites should be 7.

Also, pages A.2 through A.7 all show the Vermont Commission awards to subgrantees the entire amount of the Learn & Serve grant. This is not accurate as VTCNCS awards to subgrantees only the portion of the Corporation-approved Learn & Serve grant intended for subgrants. VTCNCS uses the Corporation-approved Administration and Training and Technical Assistance portion of the Learn & Serve grant for administration and training and technical assistance.

The match figures included for the AmeriCorps Formula and Competitive grants and the Learn & Serve grant detailed at the bottom of each chart in Appendix A are not necessarily the numbers supplied to KPMG by Commission staff. Given the fact so many of the grants are extended and often funded by carryover, it is difficult to separate each grant and the respective match. It appears match has been spread ratably over the program years of some grants, the end result being numbers we do not recognize at first glance.

If you have questions or concerns please do not hesitate to call me at the phone number listed above.

Sincerely,

Jane Freeland Williams

Jane Freeland Williams
Executive Director

Vermont Commission on National and Community Service Response

Page 6 includes a section called "Level of Access Authority to WBRS". The Vermont Commission did not set up access authority to the WBRS system, as the system belongs to the Corporation for National and Community Service. User access, including access for an Aguirre staff person, was entered into the WBRS system by Aguirre International personnel. As you are aware, Aguirre International is a consulting company hired by the Corporation for National and Community Service. This section implies the Vermont Commission is responsible for WBRS access and consequent potential compromise of WBRS report integrity though it is actually the responsibility of Aguirre and the Corporation. Therefore, we do not believe this section and respective recommendation on page 8 should be included in the report at all. This is an issue for the Corporation for National Service and Aguirre International, not the Vermont Commission.

Also on page 6, is a section called "Lack of Adequate Procedures to Report Matching Expenditures". In the respective recommendation on page 8, KPMG advises VTCNCS to revise the method used to report matching costs. Though we do not believe our method of reporting match is inaccurate, which we made known in our first response to the recommendation, we did agree to change our method of calculation and follow an algorithm devised by KPMG. We explained this to the KPMG auditors during their fieldwork. They said they did not have such an algorithm for us to follow. We then offered to follow an algorithm devised by the Corporation for National and Community Service. The auditors responded the Corporation would not have such an algorithm either. So, we have offered to make changes to our match reporting method as we have been told we have been doing it improperly but no one is forthcoming with instructions as to how to do it properly. I am sure you can imagine our frustration posed with this situation. Consequently, we believe this section on page 6 and the respective recommendation on page 8 should be removed from the report.

Appendix D

Memorandum

TO: Luise S. Jordan, Inspector General

THRU: Anthony Musick, Chief Financial Officer

FROM: Peter Heinaru, Director, AmeriCorps State and National

AmeriCorps National Service

CORPORATION FOR NATIONAL SERVICE

DATE: January 16, 2001

SUBJECT: Comments on the OIG Draft 01-126: *Pre-Audit Survey of the Vermont Commission on National and Community Service*

We have reviewed the draft Pre-Audit Survey of the Vermont Commission on National and Community Service and are pleased to note that the Vermont Commission:

- conducts an open competitive process for its subgrant selections; and
- has improved its systems for programmatic monitoring of subgrantees since 1997-98.

This letter serves as the Corporation's response to the review of the three major areas: ***Selecting Subgrantees***, ***Administering Grant Funds***, ***and Evaluating and Monitoring Subgrantees***. This letter comments on several of the key issues.

In the Pre-Audit Survey, one area of improvement was identified regarding the Commission's process for ***Selecting Subgrantees.*** The finding states that the Commission, "does not assess the adequacy of applicants' financial systems and controls in place to administer a Federal grant program prior to making award decisions." The report recommends that the Vermont Commission, "establish policies and procedures to review applicants' financial systems and controls in place to ensure that selected subgrantees have adequate systems and procedures in place to properly administer Federal funds appropriately."

The Corporation concurs, and we will follow up with the Vermont Commission to ensure that their process for selecting subgrantees appropriately considers the grantee's financial systems.

In the section, ***Administering Grant Funds,*** several findings were cited with respect to the Commission's grant administration process. The findings include: *Policies and Procedures Are Not Properly Documented; Level of Access Authority to WBRS; Unallowable Cost in Program Year 1994-95; Lack of Adequate Supporting Documentation for Program Years 1994-95 through 1996-97; and Lack of Control Procedures Over Maintenance of Equipment Purchases.*

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Washington, DC 20525
Telephone 202-606-5000

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The first finding states that the "lack of comprehensive written procedures to instruct Commission staff and contractors may lead to inconsistent or inaccurate results, especially if the Commission experiences turnover or prolonged absenteeism of key personnel." The Report recommends that the Commission "develop and implement written procedures that accurately reflect all current activities of staff members and contractors in the day-to-day administration of grant funds."

Where a lack of policies and procedures is identified, the Corporation will review and work with the Vermont Commission to ensure that adequate procedures are in place.

The Report also questions the level of access granted to various users of the WBRS system. According to the finding, "all users were granted 'Executive Director' access authority." It recommends that the Commission, "develop and implement control procedures to grant the appropriate level of access authority to the different users of WBRS."

The Corporation examined the user profiles in WBRS. Our review indicates that only the Executive Director has "ED" access. Other staff members are granted "EA" (Executive Administrator) access. The distinction being that only the Executive Director has approval authority.

According to the finding, *Unallowable cost in program year 1994-95,* the "Commission directly charged unallowable costs of $1,481 related to fees for a teleconference of the National & Community Trust Act Briefing, incurred prior to its first grant award, and for unapproved proposal writing/consultation to assist in the preparation of AmeriCorps and Learn & Serve applications for program year 1994-95. These unallowable costs constitute questioned costs."

The Corporation does not agree with this finding. The activities were expected as part of all Commission activities at that time. The Corporation will work with the Vermont Commission to amend the grant where necessary. Further, no specific approval is required from the Corporation for charges related to "proposal writing/consultation costs."

With respect to the finding regarding a *Lack of adequate supporting documentation for program years 1994-95 through 1996-97,* the Corporation will work with the Vermont Commission to determine adequate documentation and ensure that the Commission has sufficient guidelines for record retention.

The last finding of this section cites a *Lack of control procedures over maintenance of equipment purchases.* The recommendation advises the Vermont Commission to, "develop and implement adequate inventory controls, including detailed property records and periodic physical inventory counts."

The Vermont Commission has created and implemented procedures for monitoring and maintaining records on equipment. The Corporation will follow up with the Commission to ensure that the system is adequate.

The last section in the Pre-Audit Survey review, ***Evaluating and Monitoring Subgrantees***, identified three areas of improvement: *Missing Program Review Documentation, Lack of Expense Testing during Site Visits,* and *Review of Performance Measures and Program Results.*

The first finding states that the Commission could not provide adequate documentation to support their program and fiscal reviews. In addition, the Commission is cited for not verifying the information prepared by the subgrantees. The recommendation is that the Commission "develop and implement procedures to document results of site visits, including strengths, weaknesses, concerns, recommendations, and any necessary follow-up requirements." Further, the Commission should "develop and implement procedures to document the review of Members timesheets, and types of activities and service hours performed during fiscal site visits. These procedures should require identification of sample selection criteria and items actually selected for testing." The second finding relates to a lack of expense testing. The Pre-Audit Survey recommends that the Commission "develop and implement a process for testing expenditure transactions and in-kind costs during fiscal site visits to subgrantees."

As we have previously stated, the Corporation is concerned that the auditor's recommendation is attempting to direct the establishment of arbitrary, exacting standards for the Commission's monitoring of its programs. The report recommends that program managers use audit techniques including sampling and the performance of specific programmatic and fiscal reviews for every award; concepts not normally associated with or required by Federal management standards as articulated in OMB Circulars A-102, A-110, and A-133.

However, the Corporation advocates a risk-based strategy for monitoring programs that considers the experience, organizational history and past performance, including both 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 needs to consider what, if any, additional procedures it needs 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

Thus, we do not agree with a 'cookie-cutter' standard of site visit reviews and performance of supplemental audit techniques as recommended in the report. The Corporation will coordinate and work with the Vermont Commission to ensure that their monitoring strategy for subgrantees is risk-based and adequate.

The third finding addresses performance measures and program results. The Commission "does not verify program result statistics found on the subgrantees' progress reports and

Annual Accomplishments Reports." In addition, "site visits to subgrantees do not include the verification of program results reported by the subgrantees."

The Corporation does not agree with the auditor's recommendation to implement procedures to verify accuracy of reported subgrantee results during site visits. Verification of results may come from and be obtained in a variety of ways such as feedback from stakeholders, survey of service-recipients or even as part of formal or informal evaluation efforts.