Office of Inspector General
Corporation for National and Community Service

PRE-AUDIT SURVEY OF THE LOUISIANA SERVE COMMISSION

OIG REPORT NUMBER 04-07
SEPTEMBER 26, 2003

Corporation for NATIONAL & COMMUNITY SERVICE

Prepared by:

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This report was issued to Corporation management on February 17, 2004. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than August 17, 2004, and complete its corrective actions by February 17, 2005. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of Inspector General
Corporation for National and Community Service
Audit Report 04-07

Pre-Audit Survey of Corporation for National and Community Service Grants Awarded to the Louisiana Serve Commission

Introduction

The Corporation for National and Community Service, pursuant to the National and Community Service Trust Act, as amended, awards grants and cooperative agreements to State commissions, nonprofit entities, tribes, and territories to assist in the creation of full-time and part-time national and community service programs. Currently, under the Act's requirements, the Corporation awards approximately three-fourths 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.

The Office of Inspector General retained KPMG LLP to perform a pre-audit survey of the Louisiana Serve Commission. The objective of the pre-audit survey was to evaluate: (1) the adequacy of the pre-award selection process; (2) the administration of grant funds; and (3) grant monitoring. The audit period included Program Years 2000–2001 and 2001–2002.

The Commission was awarded AmeriCorps Formula, AmeriCorps Competitive, Program Development and Training, Education Award, America Reads Promise Fellow, and Administrative grants of approximately $7,396,568 for Program Years 2000-2001 and 2001-2002, the period covered by the pre-audit survey. The auditors noted that the Commission did not always follow its procedures for awarding subgrants, Financial Status Reports did not agree with accounting records, and the Commission charged unallocable and unallowable costs to its grants. In addition, the Commission charged unallocable and unallowable costs to it required match amount. The auditors also noted that the Commission did not monitor and follow up on the results of subgrantee A-133 audits. The auditors recommended performing a full-scope audit for Program Years 2000-2001 and 2001-2002.

The Office of Inspector General has reviewed the report and the work papers supporting the auditors' conclusions. Our review of the auditors' work papers disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

The Office of Inspector General provided the Louisiana Serve Commission and the Corporation with a draft of this report for their review and comment. Their responses are included in their entirety as Appendices C and D, respectively.

Pre-Audit Survey of the
Louisiana Serve Commission
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KPMG LLP
2001 M Street, NW
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September 26, 2003

Inspector General
Corporation for National and Community Service:

At your request, KPMG LLP (KPMG) performed a pre-audit survey of the Louisiana Serve Commission (Commission) on Corporation for National and Community Service (Corporation) funds received by the Commission for program years 2000-2001 and 2001-2002. The primary purpose of this survey was to provide a preliminary assessment of:

- the adequacy of the Commission's pre-award selection process;
- the procedures at the Commission for the fiscal administration of its Corporation grants; and
- the effectiveness of the Commission's procedures for monitoring subgrantees.

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

Results in Brief

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

- The Commission administers an open, competitive process to select national service subgrantees. However, the Commission could not provide Conflict of Interest forms for all officials that participated in the subgrantee selection process. In addition, the Commission did not comply with the Corporation's requirements for awarding a Promise Fellow grant.

- The Commission did not have adequate controls in place over the administration of grant funds. Differences were noted between amounts reported on the Commission's Financial Status Reports (FSRs) submitted to the Corporation and the Commission's financial records. Additionally, questioned costs claimed included $28,393 and $27,284 for various expenditures charged to the Administrative and Learn and Serve grants, respectively. Further, Administrative grant match amounts of $84,440 were also questioned.

- The Commission has established controls to evaluate and monitor subgrantees. However, the Commission does not have adequate procedures for: (i) obtaining and reviewing subgrantees' Office of Management and Budget (OMB) Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations* audit reports, and (ii) following up to ensure the timely resolution of identified deficiencies.

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

The section of this report entitled "Findings and Recommendations" describes the weaknesses noted in further detail, makes recommendations for corrective actions, and addresses additional issues noted during the survey.
The Commission is a part of the Louisiana Lieutenant Governor's Office and is subject to an annual OMB Circular A-133 audit performed by the Louisiana State Legislative Auditor. The State auditors identified the Commission's AmeriCorps grants as a major program and reported findings and questioned costs, pertaining to the AmeriCorps program in fiscal years 2001 and 2002. The auditor's findings related to a prior-year questioned cost for a Commission subgrantee.

Based on our preliminary assessments and the nature of our findings, we recommend the performance of a full-scope audit of the Commission for years not beyond record retention requirements.

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

Background

The National and Community Service Trust Act of 1993, Pub. L. No. 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, tribes and territories to assist in the creation of full-time and part-time national and community service programs. Through these grantees, AmeriCorps members perform services 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 three-fourths 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 subgrantees' compliance with grant requirements. 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. 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 commissions maintain internal controls that provide for accurate, current, and complete disclosure of the financial and programmatic results of financially assisted activities. The commissions must also provide effective control and accountability for all grant and subgrant cash, real and personal property, and other assets.

Overview of the Louisiana Serve Commission

The Louisiana Serve Commission, located in Baton Rouge, Louisiana, has received AmeriCorps grant funds from the Corporation for National and Community Service since its inception in 1994. The

Commission operates within an agency of the State of Louisiana and relies on the State's Office of Finance and Management (OFM) to perform grant accounting duties. The Commission has six full-time employees, including an Executive Director, a Deputy Director, a Learn and Serve Director, an AmeriCorps Program Officer, an Office Manager, and an Assistant to the Learn and Serve Director.

As a State agency, the Commission is annually subject to an OMB Circular A-133 audit performed by the Office of the Legislative Auditor. The Commission's AmeriCorps grants were identified as major programs in fiscal years 2001 and 2002, and findings related to these programs were specific to one of the Commission's subgrantees.

The Commission provided us with the following information for the program years we reviewed:

Program Year	Total Corporation Funding	Number of Subgrantees	Number of Subgrantees Subject to OMB Circular A-133 Audits*
2000-2001	$4,125,932	15	1
2001-2002	$3,270,636	22	1

* Determination is based solely on the 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 sources other than the Corporation.

Appendix A contains more detailed information on funding received from the Corporation during program years 2000-2001 and 2001-2002.

Objectives, Scope, and Methodology

We were engaged by the Office of 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 is to provide a preliminary assessment of:

- the adequacy of the Commission's pre-award selection process;
- the procedures used by the Commission for the fiscal administration of its Corporation grants; and
- the effectiveness of the Commission's procedures for monitoring subgrantees.

We also reported 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 2000-2001 and 2001-2002; and

- performing procedures to achieve the objectives, detailed in Appendix B, to assess the Commission's internal controls, selection of subgrantees, administration of grant funds and monitoring of subgrantees, including internal controls over reporting service hours and performance accomplishments.

As part of the procedures performed, we documented and tested internal controls in place at the Commission by utilizing inquiries, observations, and examinations of a limited sample of source documents. Finally, we summarized the results of our work to develop the findings and recommendations presented in this report. We discussed all findings with Commission management during an exit conference on September 26, 2003.

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.

We provided a draft of this report to the Commission and the Corporation. The Commission's and the Corporation's responses to our findings and recommendations are included as Appendices C and D, respectively.

Findings and Recommendations

Selecting Subgrantees

According to 45 CFR § 2550.80.(b).(1), "[e]ach 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, newspaper announcements and newsletters. In addition, selection officials sign conflict of interest statements for each application reviewed, receive an instruction package, and use a standard form to evaluate each applicant. However, we identified the following areas needing improvements related to the selection process.

Missing Conflict of Interest Forms

An important part of a sound control environment is the implementation of procedures to ensure objectivity within the selection process. One way to ensure this objectivity is to require selection officials to annually certify, in writing, that they have no conflicts of interest. If selection officials have conflicts of interest but do not report them, the fairness of the selection process may be impaired. All persons participating in the selection process should have signed conflict of interest statements on file. The Commission requires completed conflict of interest forms from application reviewers. However, completed conflict of interest forms were missing in several instances. Specifically, for the sample selected, four forms were missing, two for Promise Fellow grant applications and two for the formula and competitive grant applications. Procedures are currently in place to maintain these forms. Therefore, no recommendation is required related to the maintenance of conflict of interest forms.

Non-Competitive Process for Promise Fellow Award

The Commission rejected a Promise Fellow applicant whose application received a score that was higher than the three other applicants receiving awards. It instead awarded the amount to the Louisiana Association of Nonprofit Organizations (LANO), which had not formally applied for an award.

Recommendation

We recommend the Commission reemphasize its established procedures for selecting subgrantees to ensure that it is administering a competitive process for selection.

Administering Grant Funds

As part of the grant administration process, "[g]rantees are responsible for managing 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." *See* 45 CFR § 2541.400(a).

The Commission has developed and implemented procedures that are intended to provide reasonable assurance that grant funds received from the Corporation are properly administered.

Procedures are in place to withhold funding payments if subgrantees do not submit Financial Status Reports in a timely manner, manage cash draw downs and disbursements to subgrantees, and ascertain whether subgrantees have met their matching requirements. The Commission's personnel have adequate skills and experience to manage and administer Corporation grant funds. However, we identified the following areas for improvement within the grant administration process.

Discrepancies between Financial Status Reports and Financial Records

Financial Status Reports (FSRs) that were submitted to the Corporation during program years 2000-2001 and 2001-2002 did not agree to the financial records that were maintained by the Commission. Examples of FSRs that were submitted to the Corporation that did not agree with financial records of the Commission include the FSR for the AmeriCorps grant for September 30, 2002, as well as the Administrative grant for December 31, 2002. Further, transactions associated with the AmeriCorps formula and competitive grants were accounted for with the use of one organization code in the Commission's accounting system, thereby making it difficult to distinguish costs applicable to each of these grants.

Federal regulations, prescribes standards for financial management systems of grant recipients. *See* 45 CFR § 2543.21(a). Federal grants recipients' financial management systems are required to provide accurate, current, and complete disclosure of the financial results of each Federally-sponsored project or program. Financial management systems are also required to provide for records that identify the source and application of funds for Federally-sponsored activities. AmeriCorps Provisions, C.22, entitled "Financial Management Provisions," requires grantees to maintain financial management systems that include standard accounting practices, sufficient internal controls, a clear audit trail, and written cost allocation procedures. The systems also must be capable of distinguishing the expenditures attributable to each grant.

Recommendation

We recommend that the Commission improve the effectiveness of its administration and accounting for grants as follows:

1. Develop procedures for reconciling costs reported on applicable FSRs to the accounting system. The Commission should document these reconciliation procedures and any follow-up procedures that they perform.
2. Establish a separate organization code in the accounting system for formula and competitive grants in order to track costs separately.
3. Complete reconciliation of all prior FSRs where necessary and, if required, submit revised FSRs to the Corporation stating corrected amounts.

Questioned Costs

The following costs were questioned or issues were raised about the costs below:

Membership Fees Paid to the American Association of State Service Commissions

The Commission claimed membership fees paid to the American Association of State Service Commissions (ASC) amounting to $2,305 as an Administrative grant cost in December 2001.

On its website, http://www.asc-online.org, ASC lists "advocacy" for State commissions as one of its functions. More specifically, in a sublink to a page titled "Advocacy," the website states the following:

> ASC educates the public about and advocates for State Service Commissions by . . .
>
> - Working hand-in-hand with Commissions – legislatively, programmatically and on policy – to advance service and volunteerism in every state while building a network of Americans serving communities
>
> - Educating members of Congress on the needs of State Service Commissions all year long and particularly during Appropriation and Reauthorization deliberations.

This "Advocacy" page contains a "write to Congress" box which, based on the input of a person's home zip code, provides e-mail links to that person's Congressional representatives. A sublink to a page titled "Membership" also lists as one of ASC's activities "efforts to pass legislation designed to: provide a tax-free education award and living allowance, streamline programs providing grant awards, provide the basic Commission funding necessary for operating, reduce the match necessary for federal funds, [and] provide for portability of the education award." This page goes on to state that the membership fee for ASC "is 1% of the Administrative Fund Allocation to your state."

The cost for membership in this organization appears to run contrary to the lobbying prohibition contained in the annual Treasury and General Government Appropriation Act, which every year states that "[n]o part of any appropriation contained in this or any other Act shall be used for publicity or propaganda purposes heretofore not authorized by the Congress." (*See*, *e.g.*, Section 626 of the Consolidated Appropriations Resolution of 2003, Pub. L. No. 108-7, 117 Stat. 470.) The Comptroller General has interpreted this appropriation act section to mean that Federal funds cannot be used by grant recipients to organize appeals to the public to urge elected representatives to support legislation or vote in a particular manner. *See* 60 Comp. Gen. 423 (1981), B-202975(1), (Nov. 3, 1981).

These costs are not being questioned at this time. The OIG is researching this issue. If costs are determined to be questioned, this finding will be communicated in a separate document.

Other Potentially Unallowable Expenditures Charged to Administrative Grant (Questioned Claimed Costs of $7,022)

The Commission claimed costs amounting to approximately $7,022 in expenditures that were not allocable to the Administrative grant. The majority of these expenditures related to payments for registration fees and lodging associated with conferences (such as the Southwest Cluster's Commissioner Leadership Development Conference). These costs do not appear to meet the prescribed objective of the Administrative grant, whereby funds are provided solely for the purpose of the operations of the Commission.

Expenditures for Costs Charged to Administrative Grant for Services Provided Prior to the Start of the Grant (Questioned Claimed Costs of $3,869)

The Commission charged $3,869 to the Administrative Grant for services provided prior to the January 1, 2001, start date of the grant. The majority of these expenditures related to payroll costs for hours worked in December 2000. The grant was awarded in January 2001.

Unsupported Costs Charged to Administrative Grant and Learn and Serve Grant (Questioned Claimed Costs of $17,502 and $27,284, respectively)

The Commission charged unsupported costs to the Administrative grant ($8,526 in 2001 and $8,976 in 2002) amounting to $17,502. Approximately $17,200 of the total questioned costs relates to amounts that were estimated and provided by the Louisiana State Legislature to recover costs associated with the work provided by the Office of Finance and Management, which performs grant accounting services for the Commission. However, no basis was provided for this allocation. No invoices were provided to support the remaining $302.

In addition, we noted that an unidentifiable basis was also used to charge grant accounting costs to the Commission's Learn and Serve grants in the amount of $13,395 and $13,889 in program years 2002 and 2001, respectively.

Recommendation

We recommend that the Commission improve the effectiveness of controls over the determination of allowability and allocability of expenditures claimed by the Commission. The Commission should develop and implement procedures that require reviews of all grant expenditures for allowability and allocability.

We also recommend that the Corporation determine the allowability of these costs and recover the funds, as appropriate.

Questioned Match

Unallocable, Unsupported and Potentially Unallowable Costs Claimed to Administrative Grant Match (Questioned Match Costs of $84,440)

The Commission claimed match costs that did not meet the applicable cost principles of 45 CFR § 2541.240. The majority of these match costs were questioned because an entity other than the Commission was entitled to the funding that was reported as match. Other match costs questioned related to match amounts for which there was no supporting documentation.

Recommendation

We recommend that the Commission improve the effectiveness of its grant administration process as follows:

1. Develop and implement procedures to review the documentation supporting the amount of match, as well as the allowability of match amounts claimed.

2. Maintain adequate documentation to support all in-kind match amounts. Documentation should include detailed records of all contributions received and the methodology used to value these contributions.

Prior Subgrantee Audit Finding Resolution (Questioned Cost $31,300)

The Commission's fiscal year 1999 OMB Circular A-133 audit report revealed questioned costs amounting to $31,300 related to the New Orleans Youth Action Corps, a subgrantee (Grant Number 94ASCLA019). In a letter dated May 27, 1999, from the Corporation to the Commission, the Corporation required the debt to be paid within 30 days. The Corporation further stated that, unless the debt was resolved within 30 days, interest would accrue pursuant to the Federal Claims Collection Standards (4 CFR §§ 101-105) and the Corporation's Claims Collection Regulations (45 CFR Part 2506). The subgrantee is no longer in operation. Therefore, the responsibility for the payment of the debt falls on the Commission. The Commission has not yet paid this debt to the Corporation.

Recommendation

We recommend that the Commission immediately repay the Corporation the amount due, plus penalties and interest.

Evaluating and Monitoring Subgrantees

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

Monitoring Results of OMB Circular A-133 Audits of Subgrantees

Part 6 of the Compliance Supplement to OMB Circular A-133, entitled "Internal Control" suggests that reviews and follow-up on subgrantees' audit reports are integral to monitoring subgrantees' compliance with Federal grant requirements. The OMB circular also requires that procedures include corrective action plans and consideration of whether subgrantee audits necessitate adjustment of the grantee's own records. However, the Commission has not implemented an adequate process for obtaining and reviewing OMB Circular A-133 audit reports for its subgrantees.

Recommendation

We recommend that the Commission improve its evaluation and monitoring of subgrantees by developing and implementing a process for obtaining and following up on OMB Circular A-133 audit reports for its subgrantees. This process should include documenting, for each of its subgrantees, the following: (1) whether an OMB Circular A-133 audit was required to be conducted; (2) whether the audit was actually conducted; (3) the collection and review of the

report; and (4) the follow-up procedures performed for missing reports and for the resolution of reported findings.

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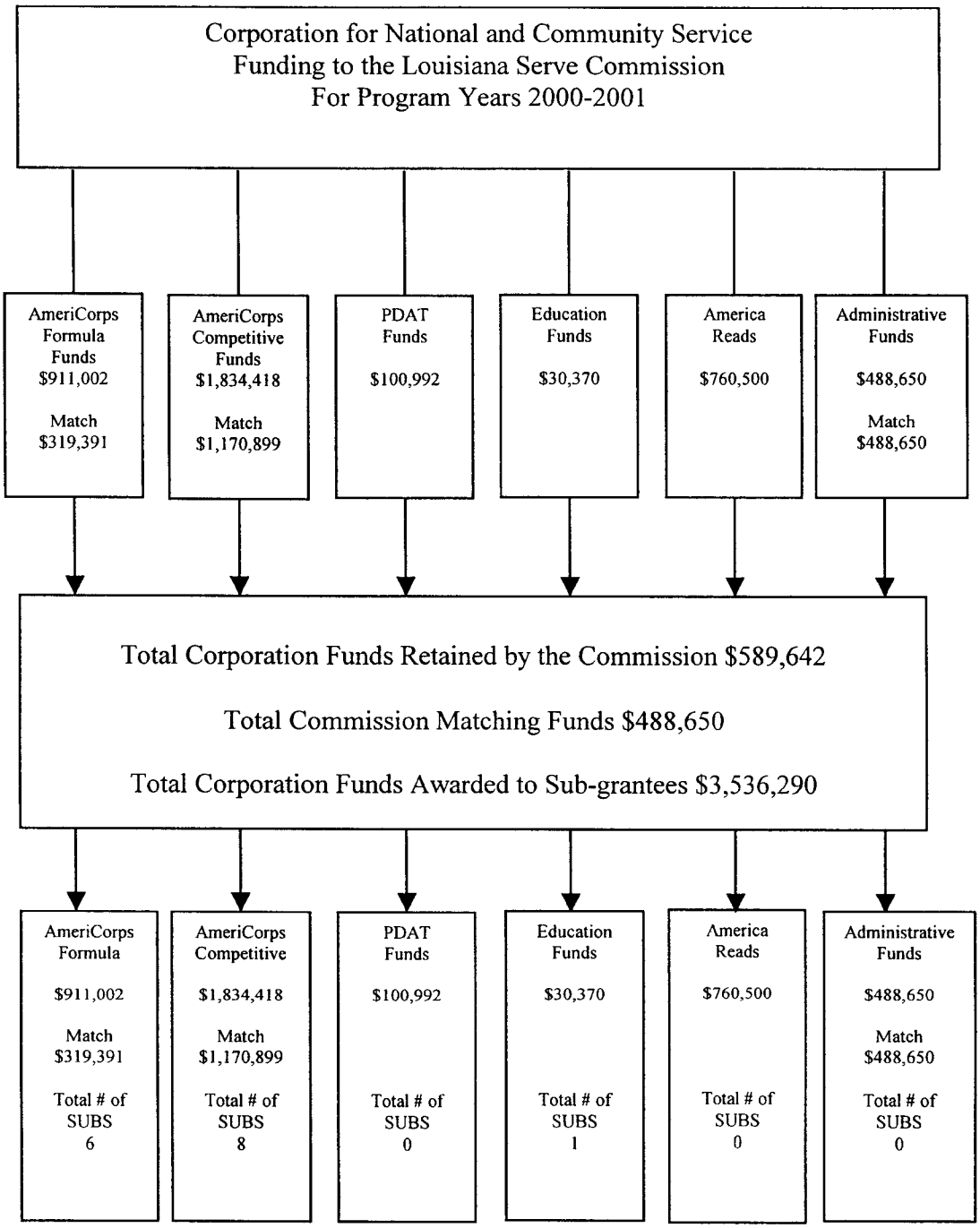
This report is intended solely for the information and use of the Office of Inspector General, the management of the Corporation for National and Community Service, the management of the Louisiana Serve Commission, and the United States Congress. It is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

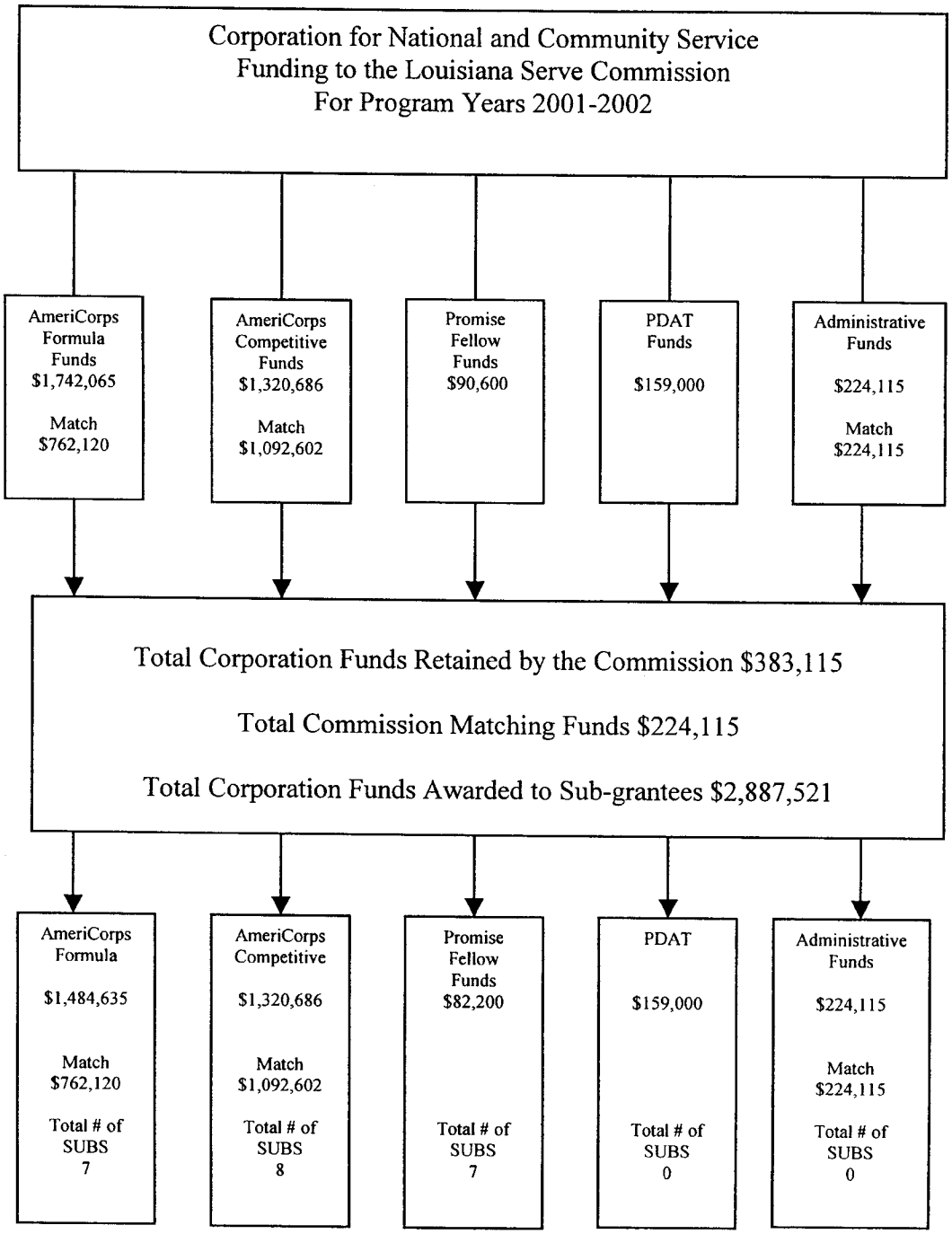
Appendix A

Commission Funding



Appendix A

Commission Funding



Appendix B

Detailed Engagement Objectives and Methodology

Internal Controls

Our objective was to make a preliminary assessment of the adequacy of the Commission's financial systems and the 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) ensure 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; 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 related to these requirements.

Selecting Subgrantees

Our objectives were to make a preliminary assessment of:

- the adequacy of the systems and controls used by the Commission to select national service subgrantees to be included in an application to the Corporation;

- 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

- whether Commission involvement in the application process involved any actual or apparent conflict of interest.

In order to achieve the above objectives, we interviewed key Commission management personnel and documented procedures performed by the Commission during the pre-award financial and programmatic risk assessment of potential subgrantees. We also reviewed documentation to determine if conflict of interest forms for each subgrantee applicant tested were signed by selection officials annually and maintained by the Commission.

Administering Grant Funds

Our objectives were to:

- make a preliminary assessment of the adequacy of the systems and controls used by the Commission to oversee and monitor the performance and progress of funded subgrantees;

- make a preliminary assessment as to whether the Commission's organizational structure and staffing level and skill mix are conducive to effective grant administration;

- make a preliminary assessment as to whether the Commission provided adequate guidance to subgrantees related to maintenance of financial systems, records, supporting documentation, and reporting of subgrantee activity;

- make a preliminary assessment of the adequacy of financial systems and documentation maintained by the Commission to support oversight of subgrantees and required reporting to the Corporation (including Financial Status Reports, progress reports, enrollment and exit forms, and change of status forms); and

- determine whether the Commission has procedures in place to verify the accuracy and timeliness of reports submitted by the subgrantees.

In order to achieve the above objectives, we reviewed accounting records, 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 the submitted reports.

Evaluating and Monitoring Subgrantees

Our objectives were to:

- make a preliminary assessment of the adequacy of the systems and controls used by the Commission, in conjunction with the Corporation, to implement a comprehensive, non-duplicative evaluation and monitoring process for subgrantees;

- determine whether the Commission has an established subgrantee site visit program in place and make a preliminary assessment of the effectiveness of its design in achieving monitoring objectives;

- make a preliminary assessment of the adequacy of the Commission's procedures used to assess subgrantee compliance with Corporation regulations (e.g., those governing eligibility of members, service hour reporting, prohibited activities, payment of living allowances to members, and allowability of costs incurred and claimed under the grants by subgrantees, including reported match);

- make a preliminary assessment of the adequacy of the Commission's procedures for obtaining, reviewing and following up on findings included in the subgrantee OMB Circular A-133 audit reports, where applicable;

- determine whether program goals are established and results are reported and compared to these goals; and

- make a preliminary assessment of the adequacy of the procedures in place to evaluate whether subgrantees are achieving their intended purpose.

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

Appendix C

State of Louisiana

KATHLEEN BABINEAUX BLANCO
LIEUTENANT GOVERNOR

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OFFICE OF THE LIEUTENANT GOVERNOR

January 9, 2004

Mr. J. Russell George
Inspector General
Corporation for National and Community Service
1201 New York Avenue, NW, Suite 830
Washington, DC 20525

Dear Mr. George:

The Louisiana Serve Commission welcomes opportunities to improve its operations and effectiveness as detailed in our vision and mission statement. The Commission has a record of using visits such as the Pre-Audit Survey as an opportunity for improvement and, as always, remains focused on improving our operations.

Having recently successfully completed the standards process, the Commission has a greater appreciation of the level of work we do. The ability of our peers to know the intricacies of this business and their ability to use that knowledge as a backdrop on which they paint a portrait of constructive criticism is much more valuable as it relates to organizational improvement.

The Commission has two goals for this response, the first being to add clarity to the issues that are presented, and secondly to demonstrate that a full audit is not warranted at this time.
In short, we appreciate the purpose of the visit and the opportunity to further streamline our operations, but strongly disagree with the recommendation of a full audit. The Commission has systems, policies, and qualified staff to quickly address those areas that need refining or further clarification. What follows is the Commission's initial response to the draft report submitted to the Inspector General of the Corporation for National and Community Service

Selecting Subgrantees

Missing Conflict of Interest Forms

The draft report indicates that the Commission has in place a system to ensure that peer reviewers for our competitive processes complete conflict of interest forms. The Louisiana Serve Commission takes issue with two statements in the report that deserves clarification.

The report indicates that "several" conflict of interest forms were missing. This statement is not accurate and the word 'several' connotes a systematic problem. In fact, in the sample, two forms were missing from the AmeriCorps application pool, which contributed to the termination of a Program Officer. This demonstrates the Commission's commitment to a fair and impartial process, and maintaining a staff to meet such high standards.

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Questioned Cost

Membership Fees Paid to the American Association of State Service Commissions

As stated in the report, "These costs are not being questioned at this time." The Commission believes that these are allowable costs and will address this issue in more detail at a later time if the costs are questioned.

Other potentially Unallowable Expenditures Charged to Administrative Grant (Questioned Claimed Costs of $7,022)

These expenditures, which were associated with the Commissioner Leadership Development Initiative and Service related training, were approved when the administrative grant was awarded. In fact, for the year in question, additional funds were awarded to Commissions for supporting the CLDI. These training opportunities involved several Commissions as well as representation from the Corporation, which further supports our understanding that these are allowable costs.

Expenditures for Costs Charged to Administration Grant for Services Provided Prior to the Start of the Grant (Questioned Claimed Costs of $3,869)

The State of Louisiana operates under a modified accrual basis, and payroll expenses are paid on a cash basis. The actual payment in question was made after the start of the grant period and reflected as such in our accounting records. These costs have been consistently reported in this manner. If, however, we are required to accrue payroll costs and report them in the period in which they were actually earned, there would be an accrual amount in excess of this amount ($4,708) for the end of the grant period, which could have been claimed. It is understood that charges are not to be made to grants until an award has been made.

Unsupported Costs Charged to Administration Grant for Services Provided Prior to the State of the Grant (Questioned Claimed Costs of $17,502 and $27,284, respectively)

When the Louisiana Serve Commission was established within the Office of the Lieutenant Governor, the Legislature budgeted $22,250 in the Office of Management and Finance to be collected from the Commission for services provided in support of the Commission. This amount was based on the budgeted salary of the Budget Analyst for that agency. Although the salary and benefits increased each year, and although support services are provided by several staff members in the Office of Management and Finance, there was no adjustment in the original budgeted amount

In years where the funds were not needed, the Office of Management and Finance did not invoice the Commission for its services, but provided them as in-kind match. Detailed calculations of the in-kind services provided are attached. Much of this information has been previously provided to the audit team. Because the Office of Management and Finance handles the accounting functions for itself and for the Louisiana Serve Commission, and because records were available which clearly show that the value of services provided far exceed the total payment made by the LA Serve Commission to the Office of Management and Finance, invoices were not prepared.

In the case of Learn and Serve America, the explanation is the same. As you know, Learn and Serve America was not within the scope of work in this audit. While we are happy to provide this information, we do not believe that these should be considered questioned costs for the purpose of this audit.

In response to the recommendation, the Commission has systems in place that will be refined to ensure more effective controls for allocating cost to grants. Additionally, the Commission and OMF have agreed that an invoice for specific service provided to the Commission for future years will be prepared.

Additionally, during the visit, it was determined that the Commission was not required to conduct a peer review process for Promise Fellows for the years in question, but had them in most cases. Only two forms were missing from all of the voluntary peer reviews for Promise Fellows. The fact that the Commission requires each application to be reviewed by three different reviewers further minimizes possibility of a conflict of interest.

Non-Competitive Process for Promise Fellow Award

The report does not accurately reflect the position of the Commission or the circumstances that lead to the decision not to fund an application for a Promise Fellow. It further implies that the Commission had a questionable relationship with another reputable organization, the Louisiana Association of Nonprofit Organizations (LANO). The Commission has a long history of partnering with LANO on statewide initiatives, as can be documented in previous progress reports submitted to CNCS.

The Commission aims to have a balanced portfolio that does not concentrate resources in one geographic area. By funding the application as suggested by the report, we would have disproportionately placed three of seven fellows in one geographic area, an area that had at least two fellows each of the two previous years of the program's existence.

In the state guidelines, the Commission indicated that the Commission was the decision making body which justifies our ability to not fund based solely on the scoring system. Because of this dilemma, and in an effort to strengthen our grant procedures, the Commission revised its scoring rubric, which considers the number of programs in proximity, thus benefiting those applicants from areas where there is not a national service program.

In both cases, the Commission feels strongly that our policies and actions were sufficient, served its purpose, and are confident that the recommendation has been met.

Administering Grant Funds

Discrepancies between Financial Status Reports and financial Records

The Commission understands the issues that are included in this section and offers an explanation for why the discrepancies occurred. Therefore, we partially agree with this finding. The Commission has responded as follows:

1. Discrepancies between PER's and FSR's occurred when changes were made to PER's by sub-grantees after FSR's were completed but before they were rolled up and transmitted to the Corporation for National Service. Procedures have been established to ensure that costs reported on applicable FSR's are reconciled with payments to the programs. Notices are now being sent to the Program Officer each time a PER has been edited by a sub-grantee after the FSR has been completed. Also, the Commission's policy now requires the Office of Management and Finance to provide monthly reconciliation reports.

2. At the time the records were reviewed, unique Reporting Categories were used to separate formula and competitive grant costs in the accounting system. Prior to the audit, beginning with the program year 2002-2003, a sub-object code was set up to allow these costs to be tracked more easily. Therefore, this finding had already been corrected, but was not done retroactively to cover the years of the pre-audit survey. Although this does simplify the audit trail, there was sufficient information available in the accounting system prior to this change to provide a complete audit trail as required.

3. The Commission is in the process of reconciling the FSR's. Programs with discrepancies have been given a deadline to correct the FSR's.

Questioned Match

Unallowable, Unsupported and Potentially Unallowable Costs Claimed to Administrative Grant Match (Question Match Costs of $84,440)

No detail of the unallowable, unsupported and potentially unallowable costs was provided in the audit report. The Commission believes that sufficient match was provided during the period under review. We will be happy to respond to this issue further if more information can be obtained.

Prior Subgrantee Audit Finding Resolution (Question Cost $31,300)

This issue was initiated more than 6 years ago under the previous Executive Director and Grant Officer. In working with the Grants department at the Corporation, we were notified that the Commission had exhausted its appeals to get to this current balance, and will be notified as to the appropriate time to appeal the remaining balance. The Commission intends to appeal this at the next stage of collection as instructed by the Grant Officer.

The Commission disagrees with the recommendation to immediately pay these questioned costs with interest and penalties because all appeals have not been exhausted and we have not yet received the necessary guidance to appeal this remaining balance.

Evaluating and Monitoring Subgrantees

Monitoring results of OMB Circular A-133 Audits of subgrantees

The Commission has a policy of determining which applicants need an A-133 Audit through it pre-award financial survey that has been in place for two years. This was not in place for the entire sample, but it did exist for the last year. All programs are required to submit an audit that is forwarded to the Office of Management and Finance for appropriate review.

For the years of the review, none of the applicants funded by the Commission required an A-133 Audit, therefore there was no documentation of the Commission reviewing the A-133 Audit or responding appropriately. The Commission is confident that its current procedures meet the recommendations of the draft report, and that the staffs of the Commission and the Office of Management and Finance are capable of identifying issues by site visit, desk monitoring, or other forms of financial management.

Based on the existing policy and the actual applicants, the Commission disagrees with the recommendations as printed in the report.

Enclosure

Sincerely,

Shawn D. Wilson, Executive Director
Louisiana Serve Commission

c: Matthew A. Jones, Undersecretary

Appendix D

Corporation for
NATIONAL & COMMUNITY SERVICE

To: Russell George, Inspector General

From: Margaret Rosenberry, Director of Grants Management

Cc: Michelle Guillermin, Chief Financial Officer
Rosie Mauk, Director of AmeriCorps

Date: January 20, 2004

Subject: Response to OIG Draft Audit Report 04-07, Pre-Audit Survey of Louisiana Serve Commission

FINDINGS AND RECOMMENDATIONS

We have reviewed the draft Pre-Audit Survey of the Louisiana Serve Commission. Due to the limited timeframe for response we have not reviewed the audit work papers. We will respond to all findings and recommendations when the audit is issued and we have reviewed the findings in detail.

QUESTIONED COSTS

The audit questioned memberships fees paid to the American Association of State Service Commissions. We disagree with the questioned cost. The Corporation's Acting Director of Grants Management issued a memorandum dated November 1, 1999 allowing the use of grant funds for membership cost. The Corporation's General Counsel issued a memorandum, December 15, 2003 stating, "Our grantees' use of funds for this purpose neither violates the cited provisions of appropriation law, nor is it inconsistent with the OMB cost principles, or relevant OGC guidance".

The audit questioned costs, approximately $7,022 in expenditures that were related to expenditures for conference (such as the Southwest Cluster's Commissioner Leadership Development Conference). According to the audit, these costs do not appear to meet the prescribed objective of the Administrative grant, whereby funds are provided solely for the purpose of the operations of the Commission. We disagree with the questioned cost. According to the Administrative Provisions, "State Administrative grant funds are to support the operations of State Commissions and alternative administrative entities in implementing their duties as required by the Act". 45 CFR 2250.80 provides the duties

of the State Commission including Technical Assistance, Program development assistance and training, and Development of a three year service plan.
The audit questioned administrative grant match costs of $84,440. The audit report cited criteria from AmeriCorps Provisions that are not applicable to State Administrative Grant. However, due to the limited timeframe for response we have not reviewed the audit work papers. We will respond to the questioned costs when the final Pre-Audit Survey is issued.

The audit questioned prior subgrantee audit findings resolution in the amount of $31,300. We will respond to the questioned costs when the final Pre-Audit Survey is issued.