# Office of Inspector General
# Corporation for National and Community Service

## PRE-AUDIT SURVEY OF THE PUERTO RICO STATE COMMISSION ON COMMUNITY SERVICE

## OIG REPORT NUMBER 04-09

Corporation for NATIONAL & COMMUNITY SERVICE

Prepared by:

KPMG LLP
2001 M Street NW.
Washington, DC 20036

**This report was issued to Corporation management on March 9, 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 September 9, 2004, and complete its corrective actions by March 9, 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 04-09

# Pre-Audit Survey of Corporation for National and Community Service Grants Awarded to the Puerto Rico State Commission on Community Service

## OIG Summary

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation) retained KPMG LLP to perform a pre-audit survey of the Puerto Rico State Commission on Community Service. The objectives of the pre-audit survey were 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 Corporation AmeriCorps Formula, Program Development and Training, and Administrative grants totaling $3,276,865 for Program Years 2000-2001 and 2001-2002. During the survey program years, the auditors noted the following: the Commission could not demonstrate that a competitive selection process was in place for AmeriCorps Formula Awards; Financial Status Reports were not submitted in a timely manner, and the amounts reported did not reconcile with subgrantee expenditure records; and the Commission does not have adequate controls in place to evaluate and monitor its subgrantees. The auditors recommended performing a full-scope audit to address the survey findings.

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 Puerto Rico State Commission on Community Service 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.

## Background

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 oversee the subgrantees that execute the programs. Through these subgrantees, AmeriCorps members perform service to meet educational, human, environmental, and public safety needs.

Pre-Audit Survey of the
Puerto Rico State Commission
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KPMG LLP
2001 M Street, NW
Washington, DC 20036

October 17, 2003

Inspector General
Corporation for National and Community Service:

At your request, KPMG LLP (KPMG) performed a pre-audit survey of the Puerto Rico State 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 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 AmeriCorps grants:

- The Commission administers an open, competitive process to select national service subgrantees. However, the Commission could not demonstrate that a competitive selection process was in place for the AmeriCorps formula grant awards.

- The Commission did not have adequate controls in place over the administration of grant funds. Financial Status Reports (FSRs) were not submitted in a timely manner to the Corporation, and subgrantee amounts reported in FSRs did not reconcile to subgrantee expenditure records. With respect to the Administrative grant, the Commission has not tracked or reported match costs since it received the Administrative grant. In addition, costs claimed under the Administrative grant included unsupported costs of $3,844.

- The Commission does not have adequate controls in place to evaluate and monitor its subgrantees for fiscal compliance.

The section of this report entitled "Findings and Recommendations" describes these weaknesses in further detail and addresses additional issues noted during the survey.



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

The Commission is a part of the Puerto Rico Department of Education, Division of Federal Affairs and, as such, is annually subject to an OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* audit performed by external auditors. The external auditors did not identify the Corporation grants as major programs.

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, 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 service to meet 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 these 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 the 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 commission must also provide effective control and accountability for all grant and subgrant cash, real and personal property, and other assets.

## Overview of the Puerto Rico State Commission

The Puerto Rico State Commission, located in San Juan, Puerto Rico, has received AmeriCorps grant funds from the Corporation for National and Community Service since its inception in 1994. The Commission operates as an agency of the Puerto Rico Department of Education (Department) and relies on the Department's finance division to perform grant accounting duties. The Commission has four full-time employees.

As a State agency, the Commission is annually subject to an OMB Circular A-133 audit. However, the Commission's AmeriCorps grants were not identified as major programs in fiscal years 2000, 2001 or 2002.

The Commission provided the following information for program years 2000-2001 and 2001-2002:

| Program Year | Total Corporation Funding | Number of Subgrantees | Number of Subgrantees Subject to A-133 Audits* |
|---|---|---|---|
| 2000-2001 | $1,508,318 | 6 | 5 |
| 2001-2002 | 1,768,547 | 7 | 6 |

* 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 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 through 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 service hours and performance accomplishment reporting.

As part of the procedures performed, we documented and tested internal controls in place at the Commission by utilizing 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 17, 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. We have responded to the Commission's response in Appendix E.

## 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 advertises funding availability through mailing lists, newspaper announcements, and newsletters. Selection officials sign conflict of interest statements for each application reviewed, they receive an instruction package and use a standard form to evaluate each applicant. However, the following areas need improvement related to the selection process.

#### *Non-Competitive Process for AmeriCorps Formula Awards*

The Commission was unable to provide documentary evidence that a competitive selection process was followed when awarding funds to the six subgrantees under the AmeriCorps formula grant. At the time of these awards, the Commission was part of the Puerto Rico Governor's office and employed not only a different Executive Director, but also an entirely different staff. Current personnel at the Commission could not provide documentation to support the selection process while the Commission was part of the Governor's office. According to minutes of a meeting held on May 15, 2001, between Commission management and Commissioners, the Commission approved the same six subgrantees-and one additional seventh subgrantee-for the next grant year without conducting a competitive selection process.

*Recommendation*

We recommend the Commission improve the effectiveness of its subgrantee selection process by maintaining all pertinent files and documents, including rejected applicant information, in accordance with the grant provisions and the record retention standards of the Corporation, as published in the Code of Federal Regulations and AmeriCorps Grant Provisions.

### *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 not developed and implemented procedures that provide reasonable assurance that grant funds received from the Corporation are properly administered. We identified the following areas for improvement within the grant administration process.

*Financial Reporting*

During our review, we noted several weaknesses in the Commission's financial reporting as well as in the Commission's subgrantee reporting process. These weaknesses include:

- The Commission did not always submit FSRs for the Administrative grant in a timely manner.
- Subgrantee submission of FSRs through the Web Based Reporting System (WBRS) was consistently late, sometimes as many as 18 months past the due date.
- Subgrantee expenditures submitted through WBRS did not always reconcile to the monthly expense reports submitted to the Commission.
- Neither the Commission nor the Puerto Rico Department of Education finance division have controls in place to monitor and track payments made to subgrantees to ensure that these payments are based on projected expenditures and do not exceed actual expenditures.

*Recommendations*

We recommend the Commission improve the effectiveness of its financial reporting processes as follows:

- Include additional, detailed procedures in the Commission's current financial manual that are reflective of its financial responsibilities, such as procedures specifying:
    - Timelines for review and reporting of financial information,
    - Follow-up actions on untimely FSRs,
    - Requirements for retention of documents, and
    - Filing requirements.

- Add procedures requiring that the Commission contact subgrantees when reports are late. If needed, the Commission could withhold payments to subgrantees that fail to submit required information and reports (e.g., FSRs, program progress reports) by the specified deadlines. The Commission should emphasize the importance of submitting the required information and reports timely during training sessions and site visits.

- Add procedures for reconciling costs reported on applicable FSRs to the accounting system. The Commission should document these reconciliation procedures and any follow-up procedures performed.

- Develop and implement procedures to require an analysis of subgrantee expenditures to date, as well as expenditures reported on FSRs and the budget, prior to authorizing reimbursements.

Once these procedures are developed, they should be implemented immediately.

*Questioned Costs*

*Unsupported Costs Charged to Administrative Grant*

The Commission claimed costs to the Administrative grant amounting to $3,844 ($1,719 in 2001 and $2,125 in 2002), that were unsupported. These costs were payroll-related fringe benefit costs such as pension fund contributions and Christmas bonuses.

*Recommendation*

We recommend that the Commission improve the effectiveness of controls over the documentation of expenditures claimed by the Commission. The Commission should develop and implement procedures to require that documentation is retained for all grant expenditures claimed.

*Commission Match Not Reported on the Administrative Grant*

The Corporation's Administrative grants are awarded with the stipulation that the grantee will meet certain matching requirements. The Administrative grant awarded to the Commission requires a Commission match amounting to $135,897 for the first year of the grant and $185,765 in the second year, to supplement Corporation funding. Match information has not been reported in the Administrative grant FSRs submitted to the Corporation. Since match amounts are not properly tracked and reported, it is not known whether the Commission met its match requirements for 2001 and 2002 as required by the Administrative grant provisions.

*Recommendation*

We recommend that the Commission improve the effectiveness of controls over the accounting and reporting of match information by developing and implementing a method to account for and appropriately document the funds used to meet match requirements. Additionally, the Commission should modify previously submitted FSRs to include appropriate match costs.

We also recommend that the Corporation determine whether the Commission has met its matching requirements for the applicable years, as appropriate.

*Excessive Subgrantee Cash Advances*

Payments to Commission subgrantees are based on a combination of actual expenditures and projections. We noted that the projections resulted in excess funding to subgrantees in three instances as shown in the table on the following page. The overpayments were subsequently refunded to the Corporation. The amounts refunded, however, did not include any interest earned on the advances. Section 2543.22 of the Code of Federal Regulations entitled "Payment" requires recipients to minimize the time elapsing between the transfer of funds and disbursements by recipients. It also allows only $250 of interest earned to be retained by the recipient.

| Subgrantee | Amount of Excess Funding | Date of Excess Payment to Subgrantee | Date Subgrantee Reimbursed Puerto Rico Department of Treasury | Date Puerto Rico Treasury Reimbursed The Corporation |
|---|---|---|---|---|
| Youth Service Center | $3,920 | November 2001 | August 2002 | February 2003 |
| Museum and Communities Working Together | $4,649 | February 2002 | April 2002 | February 2003 |
| University of Sacred Heart | $2,089 | January 2002 | March 2002 | February 2003 |

*Recommendations*

We recommend the Commission establish proper procedures to limit cash advances for subgrantees' immediate needs. Further, interest income in excess of $250 earned on advances should be returned to the Corporation. Additionally, we recommend that the Commission:

- Determine which subgrantees (if any) deposit funds into interest-bearing accounts and instruct those who do not to open such accounts.
- Determine the amount of interest that would have been earned, from the date the excess payment was issued to the subgrantee, in the cited cases had the funds been placed in an interest bearing account. The Commission should remit those respective amounts to the Corporation.

*Property Management System*

With regard to equipment purchased with Federal funds, Corporation grantees are required to maintain a description of the equipment, serial number, source (including award number), title vesting information, date of acquisition, percentage of Federal participation, location and condition, unit acquisition cost, and disposition information. The Commission has not developed control policies and procedures to monitor and maintain property and equipment purchases made with Federal funding. Specifically, no procedures are in place to document or maintain equipment purchases, equipment dispositions, or equipment transferred to subgrantees.

Rather than maintaining an updated inventory listing, the Commission relies on occasional Department inventories performed by the Puerto Rico Department of Education. The last inventory took place on January 29, 2001. In August 2001, Commission computer equipment purchased with Corporation funding was stolen and never recovered.

*Recommendation*

We recommend that the Commission develop and implement property and equipment management controls, including detailed property and equipment records.

*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 not established controls to evaluate and monitor subgrantees, such as reviewing program and financial reports and scheduling site visits during the grant period. We identified the following areas for improvement related to the evaluation and monitoring of subgrantees.

The Commission has not performed subgrantee site visits since July 2001. It relied on an external firm to evaluate the programmatic operations of the subgrantees during the months of March, April and May of 2002. The evaluations did not include fiscal evaluations or monitoring. As a result, the Commission may not be aware of control weaknesses or instances of material noncompliance related to the subgrantees' financial systems and expenditures documentation. Without fiscal monitoring, the Commission cannot conclude that (i) subgrantees' accounting systems are sufficient; (ii) records and support for grant expenditures are complete; (iii) AmeriCorps member timesheets are complete and accurate; (iv) AmeriCorps members meet eligibility requirements; (v) living allowances are accurate and proper; (vi) service hours are properly supported; and (vii) AmeriCorps members are aware of prohibited activities.

*Recommendation*

We recommend the Commission adhere to its current procedures and conduct annual site visits to all of its subgrantees so that both programmatic and fiscal aspects of the AmeriCorps program are monitored.

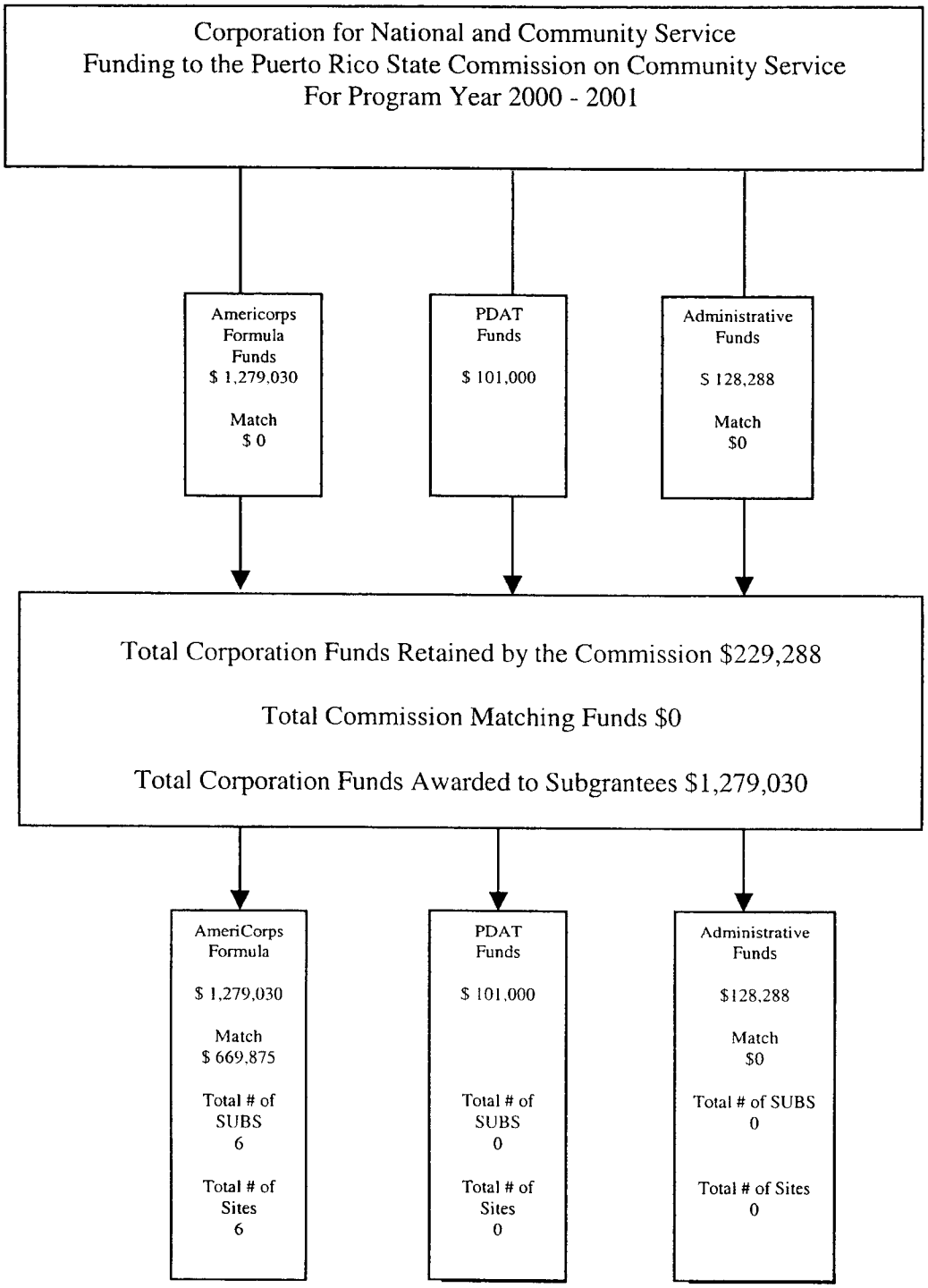
*****

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 Puerto Rico State Commission, and the United States Congress. It is not intended to be and should not be used by anyone other than these specified parties.

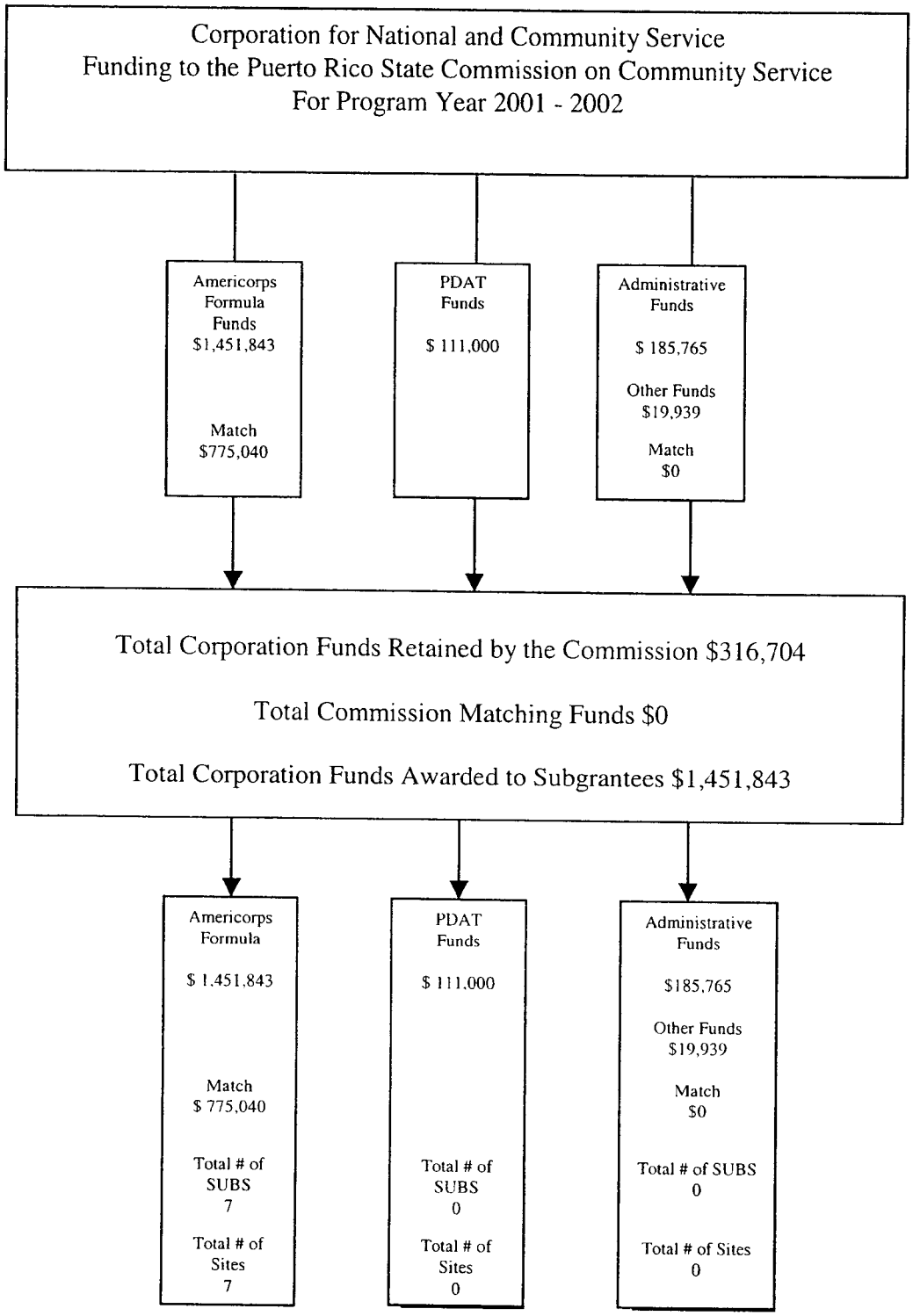
KPMG LLP

# Appendix A

## Commission Funding



# 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: (1) to permit the preparation of reliable financial statements and Federal reports; (2) to maintain accountability over assets; and (3) to demonstrate compliance with laws, regulations, and other compliance requirements.

In order to achieve the above objective, we identified 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 related to these requirements.

### *Selecting Subgrantees*

Our objectives were to make a preliminary assessment:

- of the adequacy of the systems and controls utilized by the Commission to select national service subgrantees to be included in an application to the Corporation;
- as to whether the Commission evaluated the adequacy of potential subgrantee financial systems and controls in place to administer a Federal grant program prior to making the award to the subgrantees; and
- as to whether Commission involvement in the application process involved any actual or apparent conflict of interest.

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

### *Administering Grant Funds*

Our objectives were to:

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

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

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

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

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

***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 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 subgrantee OMB Circular A-133 audit reports, where applicable;

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

**Commonwealth of Puerto Rico**
DEPARTMENT OF EDUCATION

OFFICE OF FEDERAL AFFAIRS

February 13, 2004

Mr. J. Russell George
Inspector General
101 New York Avenue
NW Suite 830
Washington, D.C. 20525

Dear Mr. George:

Thank you for the opportunity to respond to the findings and recommendations contained in the Office of Inspector General – Corporation for National and Community Service (OIG), Pre-Audit Survey number 04-09 (the "Draft Report") dated October 17, 2003.

I am pleased to announce that on February 9, 2004, Ms. Olga Aldrich was named Executive Director of the Puerto Rico State Commission (Commission) of the Corporation for National and Community Service (Corporation). She will be responsible for implementing most of the recommendations made by your office.

We appreciate your staff's hard work in preparing this report. We will be happy to provide you with further progress reports upon our implementation of your recommendations.

Regards,

Ileana Fas Pacheco
Director

P.O. Box [illegible] SAN JUAN, PUERTO [illegible] 6192

The Department of Education does not [illegible] opportunities on the basis of [illegible] handicap.

Puerto Rico State Commission on Community Service

February 13, 2004

Inspector General
Corporation for National and Community Service

The OIG Report Number 04-09 contains three findings with recommendations for the Commission:

Finding 1: The Commission was unable to provide documentary evidence that a competitive selection process was followed when awarding funds to the six sub-grantees under the AmeriCorps formula grant.

Commission response:

The Commission found evidence that the Office of the Governor did follow an evaluation selection process for six proposals. The process consisted of 3 Parts; Part 1 Program Design (60% of total points), Part 2 Organizational Capabilities (25% of total points) and Part 3 Budget-Cost Effectiveness (15% of total points). Those proposals were evaluated and approved before the funds were granted to the sub grantees. See ***Appendix A***, which include copies of the evaluations performed.

The Commission conducted a competitive selection process for the seventh mentioned sub-grantee. See ***Appendix B***, which include copy of the newspaper ads regarding the orientation for prospective entities that could prepare proposals and ***Appendix C***, which include copy of the evaluation performed.

Finding 2: The Commission has not developed nor implemented procedures that provide reasonable assurance that grant funds received from the Corporation are properly administered, specifically in the following areas:

a. Financial Reporting: The Commission should improve the effectiveness of its financial reporting processes.

b. Unsupported Costs Charged to Administrative Grant: The Commission claimed unsupported costs to the administrative grant amounting to $3,844. The costs were payroll related fringe benefit such as pension fund contributions and Christmas bonuses.

c. Commission Match Not Reported on the Administrative Grant: Match information has not been reported in the administrative grant Financial Status Reports (FSRs) which was submitted to the Corporation.

d. Excessive Sub grantee Cash Advances: Payments to Commission's sub-grantees are based on a combination of actual expenditures and projections. In three instances projections resulted in excess funding to sub-grantees.

e. Property Management System: The Commission has not developed control policies and procedures to monitor and maintain federally funded property and equipment purchases.

Commission response:

a. ***Financial reporting***: The Commission will implement your recommendations (see ***Appendix D***). However, the Commission staff evaluates program expenditures before the reimbursement to ascertain that the amount claimed is allowable under current statutes and regulations applicable to the program.

b. ***Unsupported Costs Charged to Administrative Grant***: As explained to OIG auditors during the exit conference on October 17, 2003 those questioned amounts totaling to $3,844 represents pension fund contributions and Christmas bonuses paid in accordance with local laws and regulations. Those benefits are paid to all public sector employees working in Puerto Rico. These benefits qualify as allowable costs under OMB Circular A-87. For further reference, please see the Puerto Rico Christmas bonus law No. 34 of June 12, 1969, as amended.

   Attachment B of OMB Circular letter A- 87 identifies cost categories and provides guidance on the allowability of each cost to Governmental grants contracts, The circular clearly states under the caption Compensated Service that compensation paid currently or accrued by the government unit during the period of performance is allowable as is the case with the Christmas Bonus, which is adequately documented and supported by the above mentioned law. Fringe benefits are generally allowable if there are reasonable and required by law, government unit employee agreements or an established policy. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans.

c. **Commission Match Not Reported on the Administrative Grant:** On December 17, 2003 the Commission re-submitted the FSR for the twelve (12) month period ended on September 30, 2003. We are still gathering the information in order to submit the revised versions of the applicable FSR for prior periods. Beginning with the fiscal year 2004 we had taken actions in order to include in the Puerto Rico Department of Education (PRDE) Budget the required amount of match as soon as the funds are granted to the Commission. In the past months we have strengthen the technical knowledge of our staff in all applicable requirements specifically those related to the preparation of the FSR for the Administrative Grant.

d. **Excessive Sub-grantee Cash Advances:** As showed in the OIG finding the amounts mentioned as excess funding were under $5,000 and were subsequently reimbursed. Currently, the Commission no longer advances cash to sub-grantees in order to minimize the time elapsing between the transfer of funds and disbursements by sub-grantees. Now the payments are made on reimbursement basis, except for program under the first quarter of operations.

We contacted all sub-grantees mentioned in the finding and obtained evidence that ascertained that transfers were deposited into non-interest bearing accounts. Therefore there are no monies to reimburse to the Commission for interest earned. See ***Appendix E***, which include copies of the bank statements of the mentioned sub-grantees.

e. **Property Management System:** The Commission implemented your recommendations. We prepared a draft of the control policies and procedure to maintain property and equipment purchases funded with Federal or State appropriations. The procedures include equipment purchases, equipment dispositions and equipment transfers to sub-grantees. As of February 12, 2004 the Commission completed a physical inventory of all property acquired for its administrative facilities and are in the process of preparing a property ledger.

Finding 3: The Commission has not established controls to evaluate and monitor subgrantees, such as reviewing program and financial reports and scheduling site visits during the grant period.

Commission response:

The Commission recognizes the importance of an effective monitoring process intended to provide support and assistance to ensure compliance with all applicable laws and regulations for the sub-grantees. The Commission will reinforce the importance of adherening to the current written policies and procedures through consultation and training.

The OIG Draft Report contained the statement that "the Commission cannot conclude about the completeness of sub-grantees records and support for its expenditure". In response thereto, the Commission disagrees because expenditures incurred by sub-grantees are subject to verification by the Commission's accountant and its executive director before completing the reimbursement.

# 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: February 13, 2004

Subject: Response to OIG Draft Audit Report 04-09, Pre-Audit Survey of the Puerto Rico State Commission

We have reviewed the draft Pre-Audit Survey of the Puerto Rico State 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.

# Appendix E

## KPMG's Comments on Commission Response

The following paragraphs present KPMG's comments on the information presented in the Commission's response to the findings and recommendations included in this report. We continue to believe that, based on the limited procedures performed, our findings are appropriate. Further, our recommendations, if implemented, should result in improvements to internal controls over Commission operations.

1. *Non-Competitive Selection Process for AmeriCorps Formula Awards*

We agree that the limited documentation submitted in response to our finding appears to support the Commission's contention that a competitive selection process was in place. However, without examining the original documentation for the entire process (i.e., information regarding other potential subgrantees that may have applied and were rejected by the Commission), we are unable to remove our finding. We suggest that such original documentation be submitted to the Corporation's Office of Inspector General for review and potential resolution of this finding.

2. *Questioned Costs – Unsupported Costs Charged to Administrative Grant*

As noted in our report we were unable to determine the allowability or allocability of these costs without examining the supporting documentation. The Commission, in its response, has provided explanations for the basis of these costs, but has not provided documentation supporting the explanations.