Office of the Inspector General
Corporation for National and Community Service

Pre-Audit Survey Report of the North Carolina Commission on Volunteerism and Community Service

OIG Audit Report Number 00-08
October 8, 1999

Prepared by:
Urbach Kahn & Werlin, PC
1030 Fifteenth Street, N.W.
Washington, D.C. 20005

Under CNS OIG MOU # 98-046-5003
With the Department of Labor
Contract # J-9-G-8-0024
Task Order B9G9X102

This report was issued to Corporation management on May 30, 2000. 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 November 27, 2000, and complete its corrective actions by May 30, 2001. 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

CORPORATION
FOR NATIONAL
SERVICE

Pre-Audit Survey of the North Carolina Commission on Volunteerism and Community Service OIG Audit Report Number 00-08

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, monitoring of subgrantees (including AmeriCorps Member activities and service hour reporting), and the use of training and technical assistance funds. For each survey, we will issue a report to the state commission and to the Corporation communicating the results and making recommendations for improvement, as appropriate.

We engaged Urbach Kahn & Werlin PC to perform the pre-audit survey of the North Carolina Commission on Volunteerism and Community Service. UKW's report, which follows, concludes that the Commission appears to have an open and competitive process to select national service subgrantees, but noted areas for improvement. The report concludes that the Commission does not have an adequate process in place for the fiscal administration of grants, nor does it have adequate

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

controls to evaluate and monitor subgrantees. The report notes that the Commission does appear to have adequate controls in place for the use of training and technical assistance funds. The report includes recommendations for improvements by the Commission and oversight by the Corporation for National Service, including a recommendation that the Corporation revise its guidance to state commissions on subgrantee monitoring to specify minimum procedures to be performed and minimum documentation requirements. Finally, the report recommends a full-scope financial audit of the Commission for 1995 through the current program year.

We have reviewed the report and work papers supporting its conclusions, and we agree with the findings and recommendations presented. A response to the report by the North Carolina Commission is included as Appendix C. In its response, the Commission disagreed with the majority of the report's findings and recommendations, including the recommendation that the OIG perform a full-scope financial audit of funds awarded to the Commission for 1995 through the current program year. The Corporation did not respond in writing to the report within the 30 day comment period.

Office of the Inspector General
Corporation for National and Community Service

Pre-Audit Survey Report of the North Carolina Commission on Volunteerism and Community Service

Table of Contents

Pre-Audit Survey Report

Results in Brief 1

Background 2

Overview of the North Carolina Commission 3

Objectives, Scope and Methodology 3

Findings and Recommendations 4

Appendices

Appendix A – North Carolina Commission Funding – 1995 through 1999 11

Appendix B – Detailed Engagement Objectives and Methodology 16

Appendix C – North Carolina Commission Response 19

Appendix D – Corporation Response 25

Inspector General
Corporation for National and Community Service

At your request, Urbach Kahn and Werlin PC performed a pre-audit survey of the North Carolina Commission on Volunteerism and Community Service. 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;
- the effectiveness of monitoring North Carolina State subgrantees, including AmeriCorps Member activities and service hours; and
- the controls over the provision of technical assistance.

We were also asked to report on the recommended scope of additional audit procedures to be performed at the North Carolina 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 grants received from the Corporation.

- The Commission appears to have an open and competitive process to select national service subgrantees, and the related systems and controls appear to be functioning as designed. However, we noted areas for improvement related to the process of selecting Learn and Serve subgrantees.
- The Commission does not have an adequate process in place for the fiscal administration of grants.
- The Commission does not have adequate controls in place to evaluate and monitor subgrantees.
- The Commission appears to have adequate controls in place to provide reasonable assurance that training and technical assistance are made available and provided to subgrantees.

Based on our preliminary assessments, we recommend that the OIG perform a full-scope financial audit of the funds awarded to the North Carolina Commission for 1995 through the current program year. Procedures should also include verification of reported Member service hours and matching amounts by subgrantees. In addition, 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 North Carolina 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 between 15 and 25 voting members. Each Commission has a responsibility to develop and communicate a vision and ethic of service throughout the State.

The State Commissions provide AmeriCorps funding to approved subgrantees for service programs within their states and are responsible for monitoring these subgrantees' compliance with grant requirements. The State 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 throughout 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, as well as effective control and accountability for all grant and subgrant cash, real and personal property, and other assets.

OVERVIEW OF THE NORTH CAROLINA COMMISSION

The North Carolina Commission on Volunteerism and Community Service is headquartered in Raleigh, North Carolina. The Commission has been providing national and community service programs in its current form since 1995. The Commission reported that it received funding from the Corporation totaling $2,938,709 in 1995; $3,166,401 in 1996; $3,046,510 in 1997; $2,843,002 in 1998, and $2,940,005 in 1999. Additional information on the Commission's funding is presented in Appendix A.

The Commission currently has seven full-time staff consisting of an Executive Director, four Program Officers, and two support personnel. The AmeriCorps and Learn and Serve Program Officers provide full-time fiscal and program monitoring of these programs.

As part of the State of North Carolina, the Commission is included in the state's annual OMB Circular A-133 audit. There have been no questioned costs or findings identified at the Commission to date. However, it was not considered or tested as a major program.

OBJECTIVES, SCOPE AND METHODOLOGY

We were engaged by the Office of the Inspector General for the Corporation for National and Community Service, to provide a preliminary assessment of the systems and procedures in place at the Commission for administering grants and for monitoring the fiscal activity of subgrantees.

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;
- the effectiveness of monitoring of North Carolina State subgrantees, including AmeriCorps Member activities and service hours; and
- the controls over the provision of technical assistance.

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

Our survey included the following procedures:

- reviewing Corporation laws, regulations, grant provisions, the *Reference Manual for Commission Executive Directors and Members,* and other information to gain an understanding of legal, statutory and programmatic requirements;

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

- obtaining information from Commission management to complete flowcharts documenting the hierarchy of Corporation grant funding for program years 1995 through 1999; and

- performing the procedures detailed in Appendix B, in connection with the Commission's internal controls, selection of subgrantees, administration of grant funds, evaluation and monitoring of grants, and technical assistance process.

As part of the procedures performed, we documented and tested certain internal controls in place at the Commission using inquiry, observation, and examination of a sample of source documents. Finally, we summarized our observations and developed the findings and recommendations presented in this report. We discussed all findings with Commission management during an exit conference on October 8, 1999.

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 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 and 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 North Carolina Commission and the Corporation for National and Community Service. The Commission's response to our findings and recommendations is included as Appendix C. In order to address certain of the concerns expressed in the Commission's response, we have clarified the wording of the respective Findings and Recommendations. The Corporation did not respond in writing to our findings and recommendations within the thirty-day comment period.

FINDINGS AND RECOMMENDATIONS

Selection of Subgrantees

According to *A Reference Manual for Commission Executive Directors and Members*, Section 3.2, "Commissions are expected to develop a fair and impartial process for reviewing and selecting applicants for potential funding." The North Carolina Commission has developed various procedures to comply with this requirement. The Commission advertises the availability of funds through many resources, such as, posting notices in local libraries, direct mailings, and submissions of press releases to the local media by the Governor's Office. A peer review panel of volunteers reviews grant applications with the aid of grant reviewer forms and provides

feedback to Commission Board Members as to which subgrantees they feel are the best applicants. The Board Members review the applications, as well as reviewer and ranking forms, and determine who will be presented to the Corporation for funding.

While we believe the documentation maintained by the Commission to support the AmeriCorps selection process is adequate, we believe the documentation maintained to support the Learn and Serve selection process should be enhanced. We have identified the following areas for improvement.

The Commission did not maintain documentation to support the advertisement of the availability of funds for Learn and Serve grants.

A Reference Manual for Commission Executive Directors and Members, page 3-9, states "Just as the process for developing the Unified State Plan must be open and accessible to all interested parties, so too must the process by which the Commission solicits funding applications. The Commission is expected to widely publicize the availability of funds, distribute a clear and easily understood application packet, and offer technical assistance to potential applicants. The application instructions should reflect the themes and priorities of the state and those established by the Corporation."

Commission procedures indicate that Learn and Serve funds are awarded through an open and competitive process. However, no evidence exists to document that this process was performed during 1996. The Commission could not provide an explanation for this lack of documentation and also did not document their reasons for failing to announce the availability of funds during the selection process.

We recommend that the Commission revise procedures to maintain documentation to support the advertisement of the availability of funds.

Some documentation was unavailable to support grant-making decisions.

The Commission provided us with the majority of the requested documentation to support the application award, renewal, and rejection process. However, out of six applicants selected for testing, the Commission was unable to provide us with all requested documentation related to the renewal of a Learn and Serve subgrantee. The renewal file for 1996 did not contain site visits or progress reports to support the renewal of the program. Therefore we were unable to determine whether the Commission followed Corporation guidelines regarding the renewal of this specific subgrantee.

We recommend that the Commission enforce current policies and procedures requiring the retention of documentation supporting the renewal of subgrantees.

Lack of assessment of subgrantee applicants' Financial Systems during the selection process

According to *A Reference Manual for Commission Executive Directors and Members,* Section 4.2, Commissions are responsible for maintaining "appropriate financial management systems to disburse funds and track Commission and program expenditures according to legal and grant requirements." In order to comply with this requirement, the Commission must be able to ensure that subgrantees have systems in place to accurately track expenditures, as this information forms the basis of a majority of the Commission's expenditure reporting.

During our testing, we determined that selection officials do not consider the adequacy of the applicants' financial systems during the Commission's subgrantee selection process. The grant application form provided by the Corporation does not specifically address the applicant's financial systems. In addition, Commission selection procedures do not require Commission personnel to request information from the applicants related to their financial systems. As a result, grant funds may be provided to an organization that does not have financial systems in place to properly account for the Corporation funds received or to ensure compliance with related requirements.

We recommend the Commission evaluate and document the adequacy of the applicants' financial systems during the selection process to ensure that applicants have systems in place to properly account for grant funds and comply with related grant requirements.

Administration of Grant Funds

As part of the grant administration process, "Commissions must evaluate whether subgrantees comply with legal, reporting, financial management and grant requirements and ensure follow through on issues of non-compliance" (*A Reference Manual for Commission Executive Directors and Members*, Section 4.3). Based on the results of our testing, we identified the following areas for improvement related to the evaluation of subgrantee compliance with reporting and grant requirements.

Lack of evidence of Financial Status Report review, including matching recalculation

Commission procedures indicate that subgrantee Financial Status Reports are to be reviewed, and matching requirements, recalculated. However, no documentation exists supporting that this review was performed. In addition, Commission personnel do not compare the FSRs to the subgrantees' accounting systems or other supporting documentation during site visits. Our testing also identified one AmeriCorps FSR that was not properly carried forward from the prior FSR submitted to the Corporation.

Because of these conditions, errors on the FSRs may exist and remain undetected. Although all subgrantees are on a reimbursement only basis, if subgrantee FSRs are not agreed to the subgrantees' accounting system, there is an increased risk that subgrantees are incorrectly

reporting amounts on their FSRs and the Commission lacks reasonable assurance that subgrantees are correctly reporting amounts on their FSR.

We recommend the Commission develop standard procedures to review subgrantee FSRs, recalculate matching requirements and formally document the results of this review. In addition, the Commission should implement site visit monitoring procedures that require the reconciliation of the subgrantees' FSRs to the subgrantees' accounting systems along with other supporting documentation (e.g. invoices).

Inability to determine timeliness of receipt of FSRs

The Commission does not routinely date-stamp FSR reports from subgrantees as they are received. Thus, the Commission can not routinely verify whether these documents are submitted timely in compliance with the grant agreement. As a result, subgrantee FSRs may not be submitted on a timely basis and the Commission has no basis to verify the FSRs' receipt date.

During October 1999, the Commission began using the Web Based Reporting System which electronically records the date subgrantees submit their FSRs to the Commission. As a result, no recommendation is required at this time related to recording the date of the receipt of FSRs.

The Commission did not maintain all required FSRs.

Learn and Serve provisions, issued during 1995, require grantees submit timely Financial Status Reports in accordance with Corporation guidelines four times a year. During 1998, Learn and Serve provisions were revised that require grantees submit Financial Status Reports two times instead of four times a year.

The Commission was unable to provide us with FSRs for the 1995 through 1998 program years for seven of the eight Learn & Serve subgrantees tested.

This lack of documentation precluded us from determining whether the North Carolina Commission submitted required FSRs for Learn and Serve grants to the Corporation in a timely manner. In addition, we were also unable to determine the accuracy of FSRs submitted to the North Carolina Commission by subgrantees, as well as the accuracy of FSRs submitted by the Commission to the Corporation, due to various missing quarterly FSRs.

We recommend that the Commission maintain copies of, and support for, all FSRs it submits to the Corporation, as well as appropriate copies of subgrantee FSRs and supporting documentation.

Evaluation and Monitoring of Subgrantees

As discussed above, the Commission is responsible for evaluating whether subgrantees comply with legal, reporting, financial management and grant requirements and ensuring corrective action when noncompliance is found.

We identified the following areas for improvement related to the evaluation and monitoring of subgrantees.

The evaluating and monitoring system for subgrantees needs to be improved at the Commission.

According to OMB Circular No. A-133, *Audit of States, Local Governments, and Non-Profit Organizations,* as amended, Subpart D § 400 (d)(3) pass through entities are required to "Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved." In addition, § 400 (d)(4) requires that pass through entities "ensure that subrecipients expending $300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year."

The monitoring tool, currently in place at the North Carolina Commission was created under guidelines and recommendations received from a CNS contractor. During our review of monitoring folders for subgrantees, we determined that certain information was not included. Specifically, the names of the Member files reviewed, identification of Member files where exceptions were noted and procedures followed to select Member files reviewed were not included. In addition, comments included on the checklists were general in nature and prevented others or us from re-performing procedures completed by North Carolina Commission personnel. The lack of specific documentation prevents us from determining the adequacy of the monitoring procedures performed by North Carolina Commission personnel.

We recommend that the Commission revise written policies and procedures to require that specific information be included in the documentation for site visits (for example, sample sizes, exceptions, recommendations, and follow up). This will allow the Corporation to assess the Commission's oversight of subgrantees when it performs its planned Commission administrative reviews.

In addition, we recommend that the Corporation for National and Community Service revise its guidance on subgrantee monitoring to specify minimum procedures to be performed, as well as minimum documentation requirements.

Lack of documentation of review of OMB Circular A-133 reports or other audit reports from subgrantees

As discussed in the previous finding, OMB Circular No. A-133, *Audit of States, Local Governments, and Non-Profit Organizations,* as amended, Subpart D § 400 (d)(3) requires that pass through entities " Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved." In addition, §400 (d)(4) requires that pass through entities "ensure that subrecipients expending $300,000 or more in Federal awards during the subrecipients' fiscal year have met the audit requirements of this part for that fiscal year."

However, the Commission does not document the review of subgrantee OMB Circular A-133 audits or other audit reports as part of the monitoring process. Therefore, we were not able to determine if the Commission routinely reviews these reports to determine if auditors have identified control weaknesses or instances of non-compliance related to the AmeriCorps programs.

In its failure to review and consider audit results, the Commission ignores information helpful in carrying out its oversight and monitoring responsibilities. Therefore, we recommend the Commission maintain a schedule of subgrantees subject to OMB A-133 audit requirements and ensure that the audits are performed. We also recommend the Commission establish policies and procedures requiring the review of A-133 audit reports and that such results are documented.

Schedule of planned and actual site visit dates

While the Commission maintains a schedule of planned dates for site visits to be performed during each program year, the Commission does not document actual dates site visits were performed. Without documentation of dates site visits were performed, the Commission could overlook a particular site visit or not perform the site visits timely. In addition, during our review of subgrantee monitoring files, we were unable to find documentation for several site visits.

We recommend that the Commission revise its current schedule of site visits to include dates site visits is actually performed. A Commission staff member, different from those who perform site visits, should periodically review this schedule to ensure the site visits are completed timely and documented in the file.

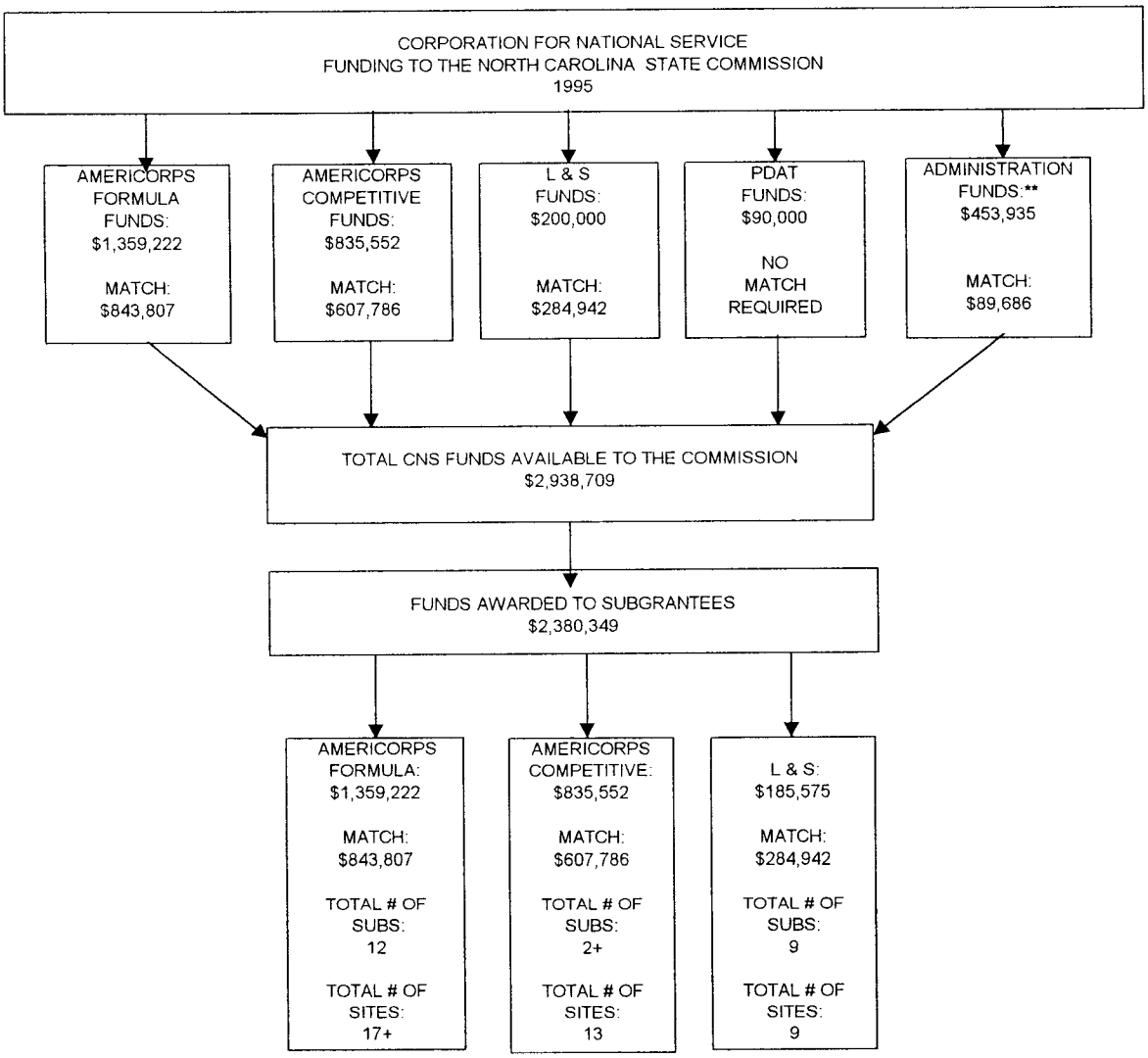
Providing Technical Assistance

Annually, the Commission receives grant funds to provide technical assistance to its subgrantees. Procedures are in place at the Commission to (1) identify training needs of subgrantees through periodic staff meetings with the program directors and a needs assessment survey; (2) notify subgrantees of training programs; and (3) provide needed training to subgrantees. We identified no significant areas for improvement within this process.

This report is intended solely for information and use of the Office of the Inspector General, management of the Corporation for National and Community Service, the North Carolina Commission on Volunteerism 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.

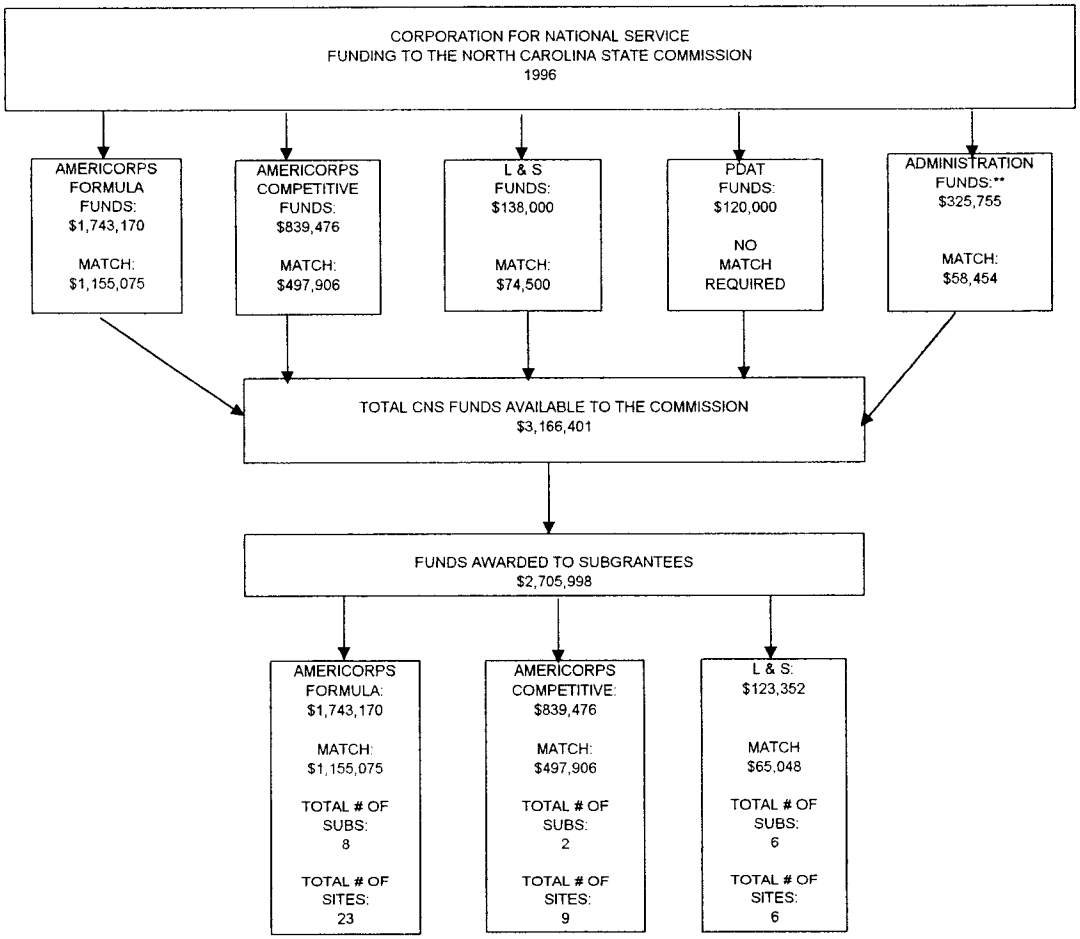
Urbach Kahn & Werlin PC

Washington, DC
October 8, 1999



There were no carryovers for 1995

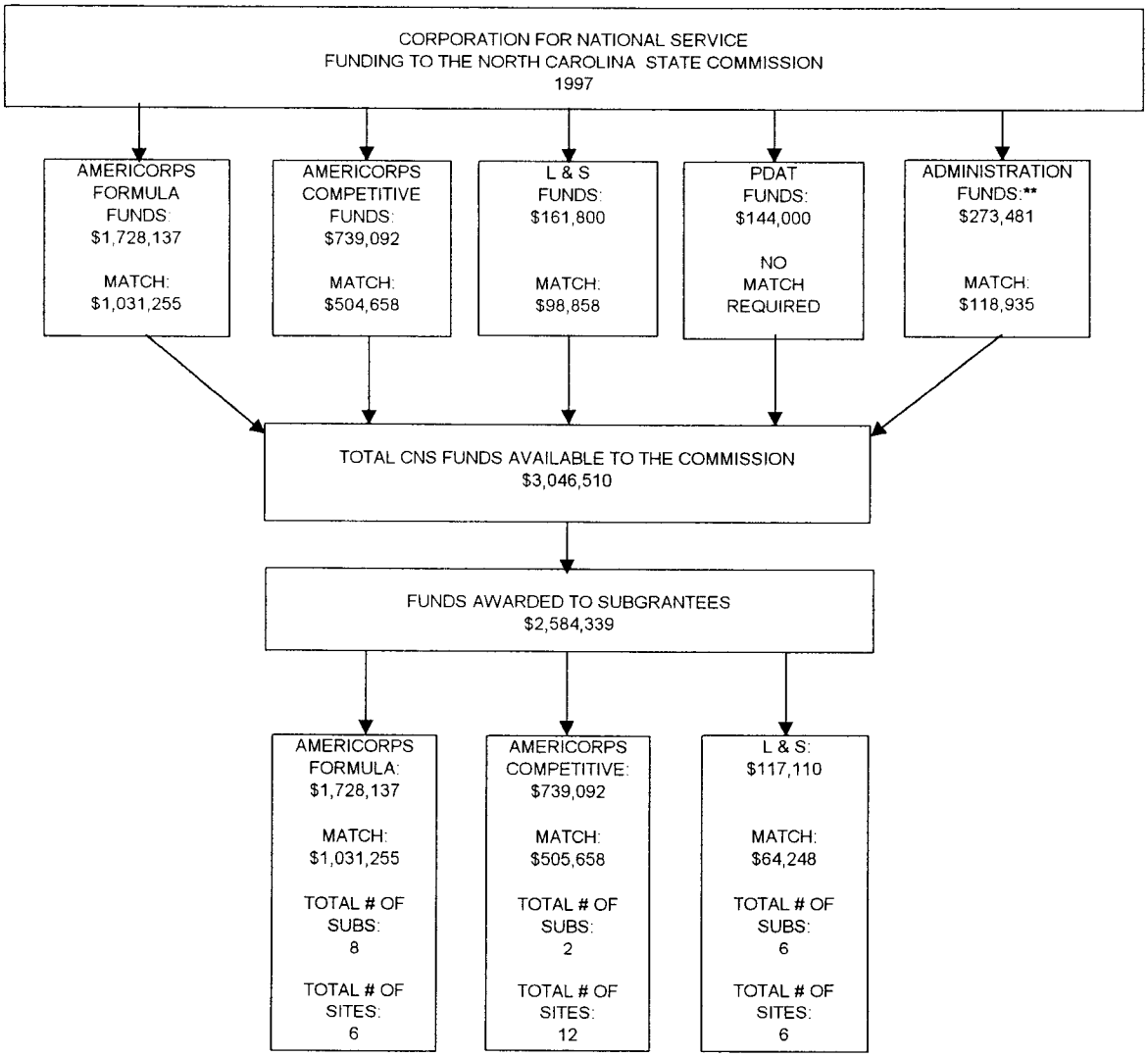
** Disability funds included in grant award



Total Carryovers for 1996 (Not included in the current year funding amounts above):

Administration:	$	40,401
PDAT:		20,000

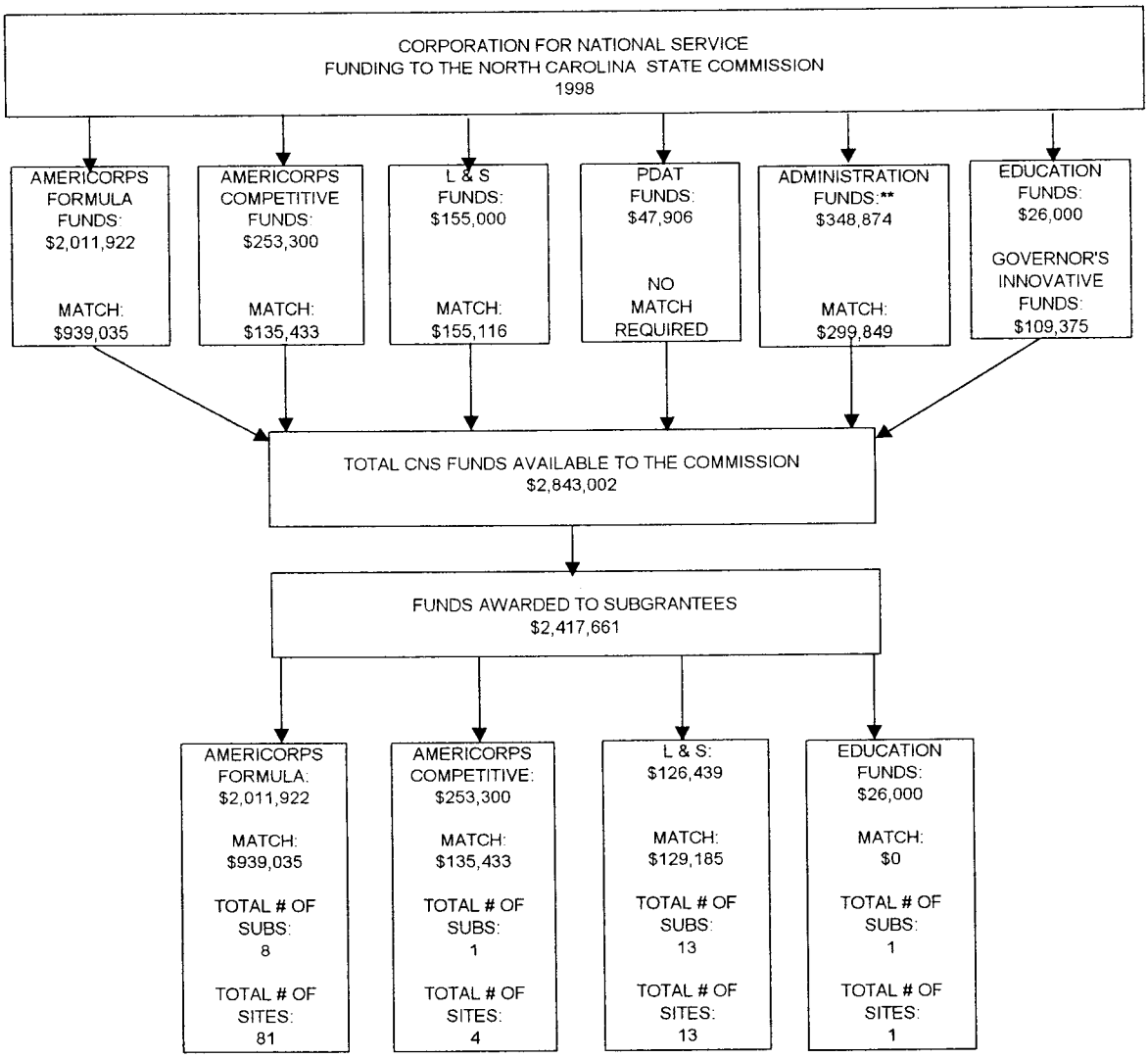
** Disability funds included in grant award



Total Carryovers for 1997 (Not included in the current year funding amounts above):

Administration:	$	78,000
PDAT:		34,000
AmeriCorps:		136,442

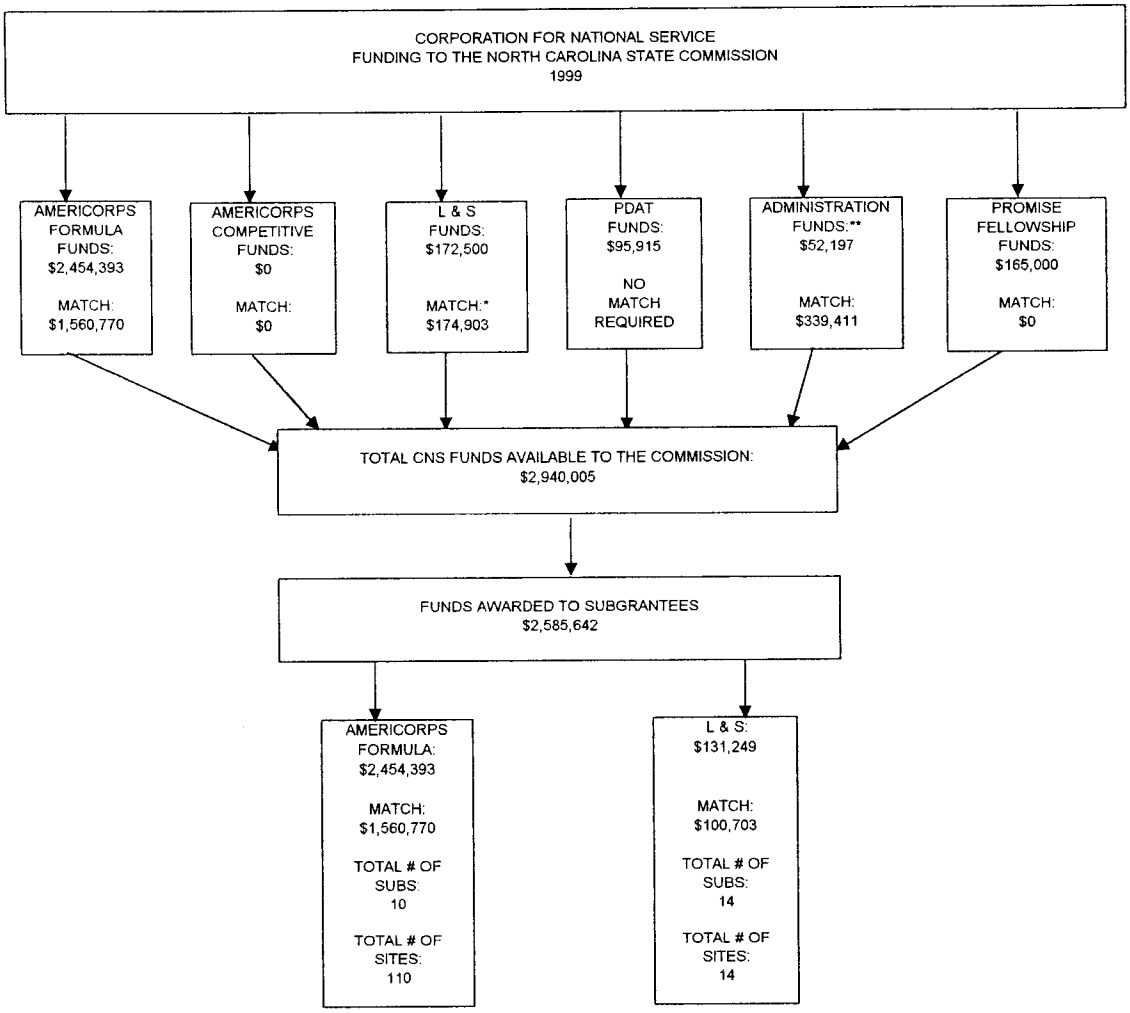
** Disability funds included in grant award



Total Carryovers for 1998 (Not included in the current year funding amounts above):

Administration:	$	41,600
PDAT:		152,094
AmeriCorps:		116,642
Disability:		54,398

** Disability funds included in grant award



Total Carryovers for 1999 (Not included in the current year funding amounts above):

Administration:	$	247,837
AmeriCorps:		176,211
PDAT:		50,085

* Amount in excess of required match - L&S : $119,911

** Disability funds included in grant award

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 objectives, we interviewed key Commission personnel to assess the Commission's internal controls surrounding the following to ensure compliance with Part 6 of A-133, Internal Control of the Compliance Supplement to *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*: overall control environment; activities allowed or unallowed and allowable costs; cash management; eligibility; equipment and real property management; matching; period of availability of Corporation funds; procurement and suspension, debarment; program income; and reporting by the Commission to the Corporation.

Selection of Subgrantees

Our objectives were to:

- conduct a preliminary survey of the systems and controls utilized by the Commission to select national service subgrantees to be included in any application to the Corporation;

- make a preliminary assessment 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

- make a preliminary assessment as to whether the Commission's 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 ensure that conflict of interest forms for each subgrantee applicant tested were signed by all peer review members annually and maintained by the Commission.

Administering the Grant Funds

Our objectives were to:

- conduct a preliminary survey 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 is conducive to effective grant administration and whether the commission has a properly constituted membership;
- 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;
- conduct a preliminary survey of financial systems and documentation maintained by the Commission to support oversight of subgrantees and required reporting to the Corporation (including Financial Status reports, enrollment and exit forms); and
- make a preliminary assessment as to what procedures the Commission has 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 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. We also determined whether the Commission has implemented the Web Based Reporting System.

Evaluating and Monitoring Grants

Our objectives were to:

- conduct a preliminary survey 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;
- make a preliminary assessment as to whether the Commission has a subgrantee site visit program in place and assess the effectiveness of its design in achieving monitoring objectives;
- conduct a preliminary survey 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));

- conduct a preliminary survey of the Commission's procedures for obtaining, reviewing and following up on findings included in the subgrantee single audit reports, where applicable;

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

- conduct a preliminary survey 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 A-133 audit reports from subgrantees.

Providing Technical Assistance

Our objectives were to:

- conduct a preliminary survey of the systems and controls utilized by the Commissions to provide technical assistance to subgrantees and other entities in planning programs, applying for funds, and implementing and operating programs;

- make a preliminary assessment as to whether a process is in place to identify training and technical assistance needs; and

- make a preliminary assessment as to whether training and technical assistance is provided to identified subgrantees.

In order to achieve the above objectives, we documented the procedures performed by the Commission to identify and satisfy training needs for the subgrantees and Commission employees. We also obtained a summary of all training costs incurred during the current year to ensure they properly related to training activities which were made available to all subgrantees.

NC COMMISSION ON VOLUNTEERISM AND COMMUNITY SERVICE
Governor's Office of Citizen and Community Services
20312 Mail Service Center
Raleigh, NC 27699-0312

April 14, 2000

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

Dear Inspector General Jordan:

We have received the draft report on the pre-audit survey of the North Carolina State Commission on Volunteerism and Community Service. We are grateful that your procedures provide an opportunity for review with consideration for revisions as well as the inclusion of our comments in the report. The Commission wishes to submit the attached comments and proposed revisions for your review.

I must say that I am gravely concerned with the disparity between the findings shared with the staff and me during the pre-audit exit interview and the findings reflected in the report. Additional findings included in the report are both alarming and disturbing.

We hold in high esteem the work of your Office and the critical role you play in monitoring the expenditures and accountability of federal funds. In that same spirit, the North Carolina Commission takes very seriously its responsibility for the good stewardship of funds and resources granted to the State of North Carolina. Our Commissioners are dedicated and committed to the mission of the AmeriCorps and Learn and Serve Programs, and work closely with the staff on the entire grant process, including site visits and monitoring. I think this diligence in monitoring and evaluation is reflected in the steps we have taken to terminate programs that were found to be out of compliance.

These comments are given in an effort to share our true concerns for the findings in this report. Our Commission staff has worked diligently in preparing sound factual responses to our concerns. However, it is sometimes difficult to express all facets of procedures and circumstances, and sincere commitment to excellence in words. Therefore, the Executive Director and I would be happy to come to Washington to meet with you and your staff regarding our report. Again, we thank you for all of the work you do on behalf of the citizens in the United States. We look forward to hearing from you in the near future.

Sincerely,

Alice Keene

Alice Keene, Chair
North Carolina Commission on Volunteerism
and Community Service

Cc: William Lindsay, Executive Director
Linda Povlich, Deputy Chief of Staff, Office of the Governor

(919) 715-3470, or 1- 800-820-GIVE
(919) 715-8677 fax

UKW RESULTS IN BRIEF

Page 1

- *"The Commission appears to have an open and competitive process to select national service subgrantees, and the related systems and controls appear to be functioning as designed. However, we noted areas for improvement related to the process of selecting Learn and Serve subgrantees."*

COMMISSION COMMENT:

An "open" selection process as described in the Commission's Policies and Procedures Manual, Learn and Serve Section, Subsection IV ("Grant Process"), Part A ("Grant Selection Process") was put into place in 1997 for Learn and Serve subgrantees.

- *"The Commission does not have an adequate process in place for the fiscal administration of grants."*

COMMISSION REVISION (CLARIFICATION):

The Commission appears to have policies in place for adequate fiscal administration of grants as described in their Policies and Procedures Manual, AmeriCorps Section, Subsection V ("Financial Information"); and Learn and Serve Section, Subsection III ("Financial Information"). The fiscal administration of all federal funds awarded to any state agency is administered in accordance with the North Carolina Accounting System (NCAS). North Carolina General Statute 143-16.1, titled "Federal Funds under the Executive Budget Act" states, "All federal funds shall be expended and reported in accordance with provisions of the Executive Budget Act except as otherwise provided by law."

- *"The Commission does not have adequate controls in place to evaluate and monitor subgrantees."*

COMMISSION REVISION (CLARIFICATION):

A monitoring tool provided by a Corporation contractor and utilized by the Commission is described in the Commission's Policies and Procedures Manual, AmeriCorps Section, Subsection II ("Required Documentation"), Part C ("Policy Guidance for Site Visits"). The Commission appears to have a need to enhance its documentation of monitoring procedures over the internal controls of subgrantees to ensure transactions are properly recorded. The Commission proposes to collaborate with management consultants with the North Carolina Office of Budget and Management to identify components of the current monitoring tool in need of strengthening and develop strategies to address these areas. Furthermore, we recommend the Corporation revise its guidance on subgrantee monitoring to specify minimum procedures to be performed, as well as minimum documentation requirements.

Page 2

UKW Recommendation:

"Based on our preliminary assessments, we recommend that the OIG perform a full-scope financial audit of the funds awarded to the North Carolina Commission for 1995 through the current program year. Procedures should also include a verification of reported Member service hours and matching amounts by subgrantees. In addition, 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 North Carolina Commission."

COMMISSION REVISION (CORRECTION):

As required by state law, the North Carolina State Auditor's Office has recently concluded a full-scope fiscal audit of the Office of the Governor, which houses the Commission. The State Auditor's report identified no findings related to the Commission or its subgrantees. A full-scope audit by the OIG would appear to be a duplication of effort. Based on the UKW exit conference *(see Attachment #1)* and the four UKW Pre-Audit Survey Findings and Recommendations *(see Attachment #2)*, no evidence was identified to warrant a full-scope audit of Corporation funds received by the Commission. UKW acknowledged the Commission's current policies and procedures concerning monitoring of subgrantees *(see Attachment #3)* and focused its recommendations on "enhancing" or "strengthening" these policies and procedures.

FINDINGS AND RECOMMENDATIONS

Page 5 - Selection of Subgrantees
UKW Finding:
"The Commission did not maintain documentation to support the advertisement of the availability of funds for Learn and Serve grants... Commission procedures indicate that Learn and Serve funds are awarded through an open and competitive process. However, no evidence exists to document that this process was performed. The Commission could not provide an explanation for this lack of documentation and also did not document their reasons for failing to announce the availability of funds during the selection process."
UKW Recommendation:
"We recommend that the Commission revise procedures to document the reasoning for not announcing the availability of funds, during the selection of subgrantees."

COMMISSION REVISION (CORRECTION):
The Commission strongly disagrees with the UKW recommendation. The Commission previously recognized the need to enhance the process for announcing availability of Learn and Serve funds and providing appropriate supporting documentation. In fiscal year 1999-2000, the application process for new and continuing programs was implemented. The Commission ensured that the application and review processes were as consistent and inclusive as possible. Over 1000 RFPs *(see Attachment #4)* were sent out to various community-based organizations. Notification of funds availability was published in various statewide newsletters (Center for Non-Profits, NC Association of Volunteer Administrators). A statewide press release *(see Attachment #5)* was issued from the Governor's Press Office. The announcement was publicized on the Commission and Governor's Office websites. As a result of the Commission's effort to strengthen the advertising of fund availability, there was an 84% increase in the number of applications submitted. The Commission advertised and conducted three regional training and technical assistance workshops across the state. Sessions were open to the general public and centered on writing quality applications to be submitted to the Commission for funding consideration. In 1998, a Request for Proposal *(see Attachment #6)* was mailed to more than 300 community-based organizations listed in the Commission's database. The RFP was also made available to other interested parties by publicizing it on the Commission's website. The Program Officer conducted three statewide grantwriting training sessions to support submission of quality applications. The Commission received 23 applications. In 1997, the Learn and Serve RFP *(see Attachment #7)* process included mailing press releases and applications to more than 300 non-profit agencies, churches, and other community-based organizations that were included in the Commission's database. The notice of funding availability was also published in The Philanthropy Journal (see Attachment #8), and advertised on the Commission's website.

In the process of relocating the Commission office in 1997, several boxes of program files were apparently lost. The Commission has conducted an in-depth search in the old office location, the new office location, and the office of State Archives; however the pre-FY 95-96 files stored in the boxes have not been located. *(see Attachment #9)*

Page 5
UKW Finding:
"Some documentation was unavailable to support grant-making decisions... However, out of six applicants selected for testing, the Commission was unable to provide us with all requested documentation related to the renewal of a Learn and Serve America subgrantee. The renewal file for 1996 did not contain site visits or progress reports to support the renewal of the program."
UKW Recommendation:
"We recommend that the Commission enforce current policies and procedures requiring the retention of documentation support the renewal of subgrantees."

COMMISSION REVISION (CLARIFICATION):
The Commission can clearly show that all grant-making decisions have been open after Program Year 1996-97. In the process of relocating the Commission office in 1997, several boxes of program files were apparently lost. The Commission has conducted an in-depth search in the old office location, the new office location, and the office of State Archives; however the pre-FY 95-96 files stored in the boxes have not been located. ***(see Attachment #9)***

Page 6
UKW Finding:
"Lack of assessment of subgrantee applicants' Financial Systems during the selection process... selection officials do not consider the adequacy of the applicants' financial systems during the Commission's subgrantee selection process... In addition, Commission selection procedures do not require Commission personnel to request information from the applicants related to their financial systems."
UKW Recommendation:
"We recommend the Commission evaluate and document the adequacy of the applicants' financial systems during the selection process to ensure that applicants have systems in place to properly account for grant funds and comply with related grant requirements."

COMMISSION COMMENT:
The AmeriCorps grant guidelines and application requires applicants to describe the legal applicant's ability to manage federal funding, as well as a description of the financial management systems. For FY 99-00, Commission staff visited potential new applicants (applicants identified from the peer review process) to review financial systems, received and reviewed a copy of the most recent audit, and met with the financial officer. The Commission sees this as a requirement for all new applicants and will make an amendment to the AmeriCorps procedures manual to include fiscal assessments before grants are awarded to new programs. Commission staff also visits at least twice a year with current or renewal applicants to assess and document their financial management systems.

Page 6 - Administering Grant Funds
UKW Finding:
"Lack of evidence of Financial Status Report review, including matching recalculation. Commission procedures indicate that subgrantee Financial Status Reports are reviewed, and that matching requirements are recalculated. However, no documentation exists supporting that this review was performed. In addition, Commission personnel do not compare the FSRs to the subgrantees' accounting systems or other supporting documentation during site visits. Also, we identified one AmeriCorps FSR that was not properly carried forward from the prior reported FSR submitted to the Corporation."
UKW Recommendation:
"We recommend the Commission develop standard procedures to review subgrantee FSRs, recalculate matching requirements and formally document the results of this review. In addition, the Commission should implement site visit monitoring procedures that require the reconciliation of the subgrantees' FSRs to the subgrantees' accounting systems along with other supporting documentation (e.g. invoices)."

COMMISSION REVISION (CORRECTION):
In compliance with Commission guidelines, described in their Policies and Procedures Manual, AmeriCorps Section, Subsection V ("Financial Information"), Part B ("FSR Analysis"), an Excel program ***(see Attachment #10)*** **developed by our former CNS grants officer is used to calculate programs' match level. On a quarterly basis the AmeriCorps Program Officer sends written correspondence to fiscal agents of legal applicants an update as to whether programs are on target or behind in meeting the required match. Programs that are not on target with meeting the match are required to submit a plan within 30 days as to how the match will be in compliance. The FSR referenced in the report was a filing error. The program had submitted a revised, corrected FSR but it was filed in the program file rather than the fiscal file.**

Page 7
UKW Finding:
"Inability to determine timeliness of receipt of FSRs... The Commission does not routinely date-stamp FSR reports from subgrantees as they are received. Thus, the Commission cannot routinely verify whether these documents are submitted timely in compliance with the grant agreement. "

UKW Recommendation:
None noted

COMMISSION COMMENT:
This year the Commission requires programs to submit FSRs through WBRS at least one week before it's due to the Corporation for National Service to allow for review by the AmeriCorps Program Officer and State Budget Officer. Prior to FY 99-00, the majority of programs faxed their FSR to the office and a date of transmittal is at the top of each. In the event that paper FSRs are accepted again, the Commission will affix a date stamp.

Page 7
UKW Finding:
"The Commission did not maintain all required FSRs...The Commission was unable to provide us with FSRs for the 1995 through 1998 program years for seven of the eight Learn and Serve subgrantees tested. This lack of documentation precluded us from determining whether the North Carolina Commission submitted FSRs for Learn and Serve grants to the Corporation in a timely manner. In addition, we were also unable to determine the accuracy of FSRs submitted to the North Carolina Commission by subgrantees, as well as the accuracy of FSRs submitted by the Commission to the Corporation, due to various missing quarterly FSRs."
UKW Recommendation:
"...we recommend that the Commission reemphasize the requirement that all FSRs submitted by subgrantees, as well as FSRs submitted by the Commission to the Corporation, be maintained and be available for review. In addition, the Commission should ensure that data collection is accurate and timely."

COMMISSION COMMENT:
The Commission, in compliance with their Policies and Procedures Manual, Learn and Serve Section, Subsection III ("Financial Information"), Part B ("FSR Reports"), will re-emphasize and mandate that all FSRs submitted by subgrantees, as well as FSRs submitted by the Commission to the Corporation, be maintained and available for review. The Commission will ensure that data collection is accurate and timely. The North Carolina Office of State Budget and Management has submitted all required Learn and Serve FSRs to the Corporation in a timely manner and has hard copies on file in their office.

COMMISSION REVISION (CORRECTION)
UKW correlates the Learn and Serve Program with AmeriCorps Provision #17; however this Provision does not govern Learn and Serve. We are in agreement that Learn and Serve needs to enhance their method of documenting the performance of the FSR review. Effective immediately, Program Officers, while on site visits, will place added emphasis on the local program documentation for match. In our effort to be good stewards of grant money, the Commission wants to take this issue to the Monitoring and Evaluation Committee for further discussion and suggestions for implementing additional measures.

Page 8 - Evaluation and Monitoring Grants
UKW Finding:
"The evaluating and monitoring system for subgrantees needs to be improved at the Commission. During our review of monitoring folders for subgrantees, we determined that certain information was not included. Specifically, the names of the Member files reviewed, identification of Member files where exceptions were noted and procedures followed to select Member files reviewed were not included. In addition, comments included on the checklists were general in nature and prevented others or us from re-performing procedures completed by North Carolina Commission personnel. The lack of specific documentation prevents us from determining the adequacy of the monitoring procedures performed by North Carolina Commission personnel."
UKW Recommendation:
"We recommend that the commission revise written policies and procedures to require that specific information be included in the documentation for site visits (for example, sample sizes, exceptions, recommendations, and follow up)... we recommend that the Corporation for National and Community Service revise its guidance on subgrantee monitoring to specify minimum procedures to be performed, as well as minimum documentation requirements."

COMMISSION COMMENT:
The Commission follows the Corporation's monitoring module. As stated previously, the Commission proposes to collaborate with management consultants with the North Carolina Office of Budget and Management to identify components of the current monitoring tool in need of strengthening and develop strategies to address these areas. To ensure that monitoring is consistent in Commissions nationwide, the North Carolina Commission strongly supports UKW's recommendation that the Corporation take the lead by providing approved guidelines.

COMMISSION REVISION (CORRECTION):
The monitoring tool currently being used by the AmeriCorps Program Officer in the North Carolina Commission was not the product of collaboration with Commissions in Delaware, California, New Jersey and Washington. It was provided to the North Carolina Commission by a Corporation contractor.

Page 9
UKW Finding:
"Lack of documentation of review of OMB Circular A-133 Reports or other audit reports from subgrantees... However, the Commission does not document the review of subgrantee OMB Circular A-133 audits or other audit reports as part of the monitoring process. Therefore, we were not able to determine if the Commission routinely reviews these reports to determine if auditors have identified control weaknesses or instances of non-compliance related to the AmeriCorps program."
UKW Recommendation:
"In its failure to review and consider audit results, the Commission ignores information helpful in carrying out its oversight and monitoring responsibilities. Therefore, we recommend the Commission establish policies and procedures requiring the review of A-133 audit reports and that such reviews are documented."

COMMISSION REVISION (CORRECTION):
The Commission is in compliance with their Policies and Procedures Manual, AmeriCorps Section, Subsection V ("Financial Information"), Part E ("Tracking Findings of Audit Reports"). The policy will be amended to require Commission staff to attach a memo verifying review of subgrantee program audits prior to placement in the file. The Commission will also receive guidance and review from the Office of State Budget. A letter will be sent to the legal applicants confirming receipt of the audit report. All subgrantee OMB Circular A-133 Audits are on file in the Commission office.

Page 9
UKW Finding:
"Schedule of planned and actual site visit dates... The Commission does not maintain a schedule of planned and actual dates for site visits for each program year... we were unable to find documentation for several site visits."
UKW Recommendation:
"We recommend that the commission maintain a clear and concise schedule of site visits to be performed and a record of when site visits are performed. A Commission staff member, different from those who perform site visits, should review this schedule to ensure the site visits are completed timely and documented in the file."

COMMISSION REVISION (CORRECTION):
Commission staff submits a list of scheduled site visits to the Executive Director and Commissioners. This is to encourage Commissioners to attend and participate in site visits. The Commission also has exercised its right to schedule visits with programs, provided reasonable time is allowed as required by the Commission's Policies and Procedures Manual, AmeriCorps Section, Subsection II ("Required Documentation"), Part C ("Policy Guidance for Site Visits").
A list of AmeriCorps and Learn and Serve subgrantee site visits is available at the Commission office.

Many of our AmeriCorps programs have multi-site placements. Effective FY99-00, AmeriCorps subgrantees are required to send to the Commission, on a quarterly basis, documentation from program staff site visits.

The Corporation did not respond in writing to our findings and recommendations within the thirty-day comment period.