Office of the Inspector General
Corporation for National and Community Service

Pre-Audit Survey Report of the Washington Commission on National and Community Service

OIG Audit Report Number 00-10
November 18, 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 10, 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 6, 2000, and complete its corrective actions by May 10, 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 Washington Commission on National and Community Service OIG Audit Report Number 00-10

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 Washington Commission on National and Community Service. UKW concludes that the Commission appears to have an adequate pre-award selection process and adequate controls to provide reasonable assurance that training and technical assistance is made available to subgrantees. However, UKW reports that the Commission does not have an adequate process in place for the fiscal administration of grants. UKW also concludes that, although the Commission has established controls to evaluate and monitor subgrantees, the system needs to be improved. The report includes recommendations for improvements by the Commission, oversight by the Corporation for National Service, and a full-scope financial audit of the Commission for 1995 through the current program year.

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

We have reviewed the report and work papers supporting its conclusions, and we agree with the findings and recommendations presented. Responses to the report by the Washington Commission and the Corporation for National Service are included as appendices C and D, respectively. In its response, the Washington Commission disagrees with a number of the report's findings and recommendations. The Corporation's response indicates that it will require semiannual reports on the Commission's corrective actions. UKW's evaluation of the Washington Commission response is included as appendix E.

Office of the Inspector General
Corporation for National and Community Service

Pre-Audit Survey Report of the Washington Commission on National and Community Service

Table of Contents

Pre-Audit Survey Report

Results in Brief 1

Background 2

Overview of the Washington Commission 3

Objectives, Scope and Methodology 4

Findings and Recommendations 5

Appendices

Appendix A – Washington Commission Funding – 1995 through 1999 11

Appendix B – Detailed Engagement Objectives and Methodology 16

Appendix C – Washington Commission Response 19

Appendix D – Corporation Response 27

Appendix E – UKW's Evaluation of the Washington Commission's Response 28

Inspector General
Corporation for National and Community Service

At your request, Urbach Kahn and Werlin PC performed a pre-audit survey of the Washington Commission on National 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 Washington 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 Washington 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 adequate pre-award selection process to select national service subgrantees and related systems and controls appear to be functioning as designed.
- The Commission does not have an adequate process in place for the fiscal administration of grants. The Commission did not maintain all required Financial Status Reports and was unable to provide all of the Financial Status Reports we requested for testing. We also noted that the Commission does not compare Financial Status Reports to subgrantee accounting systems during site visits.
- The Commission has established controls to evaluate and monitor subgrantees. However, the evaluating and monitoring system needs to be improved to document site visit procedures and the review of subgrantee Circular A-133 and other audit reports.

- The Commission appears to have adequate controls in place to provide reasonable assurance that training and technical assistance is 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 Washington Commission for 1995 through the current program year. The financial audit should consider coverage provided by the State's Single Audit and similar audits of subgrantees. 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 Washington 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 applicants 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 provide effective control and accountability for all grant and subgrant cash, real and personal property, and other assets.

OVERVIEW OF THE WASHINGTON COMMISSION

The Washington Commission on National and Community Service is headquartered in Olympia, Washington. 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 $4,522,006 in 1995; $5,800,222 in 1996; $6,788,275 in 1997; $8,112,376 in 1998; $10,894,724 in 1999. Additional information on the Commission's funding is presented in Appendix A.

The Commission currently has six full-time staff consisting of an Executive Director, an Assistant Director, two Program Officers, one Communications Coordinator, and one Administrative staff person. The Commission's Program Officer monitors both program and fiscal activities for all AmeriCorps funds.

The Commission subgrants all of the Learn and Serve funds to the Education Service District No. 112. The Education Service District No. 112 is a link between local, public, and private schools with state and national resources. District No. 112 allocates funds to other districts and acts as an oversight, performing site visits and monitoring both program and fiscal activities to those districts.

As part of the State of Washington, the Commission is included in the state's annual OMB Circular A-133 audit. The AmeriCorps Program was considered a major program for the year ended June 30, 1998, and there were no questioned costs or findings identified at the Commission at this time or reported in other audit reports.

The Commission provided us with the following information regarding subgrantee audits:

Program Year	Total Amount of Corporation Funds Subgranted	Number of Subgrantees	Number of Subgrantees Subject To A-133 Audit Requirements
1999	$10,294,913	16	13
1998	7,624,119	15	12
1997	6,495,478	12	12
1996	5,551,017	9	9
1995	4,241,917	7	7

Determination of the number of subgrantees subject to an OMB Circular A-133 audit requirement is based on information received from the Commission and the dollar value of federal awards passed through the Commission during the program year. Other subgrantees could be subject to an OMB Circular A-133 audit if additional federal funds were received from other sources during the program year.

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 Washington 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 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 November 18, 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 Washington Commission and the Corporation for National and Community Service. The Commission's and the Corporation's responses to our findings and recommendations are included as Appendix C and Appendix D, respectively.

In its response, the Commission disagrees with a number of the report's findings and conclusions. In order to address certain of the concerns expressed in the Commission's response, we have revised the wording of the respective Findings and Recommendations. UKW's detailed assessment of the response is included as Appendix E.

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 Washington Commission has developed various procedures to meet this responsibility.

Based on the results of our testing, we believe the documentation maintained by the Commission to support the selection process is adequate, however, we identified the following area for improvement.

Some documentation was missing to support grant-making decisions.

The Commission provided us with the majority of the requested documentation to support the application award, renewal, and rejections. However, for our sample of six, the Commission was unable to provide us with evidence related to one applicant. Commission

staff stated that the applicant voluntarily withdrew from the process. However, no evidence exists to document this withdrawal.

In addition, our testing revealed one instance where the renewal package did not include the renewal application or grant review score sheets for a Learn and Serve grant. The Commission stated that because it was a three-year grant, its renewal application to the Corporation was an administrative procedure to receive funding for an existing subgrantee, and therefore did not require a complete grant review process.

We recommend that the Commission reinforce current policies and procedures requiring the maintenance of certain documentation to support the renewal or withdrawal of subgrantee applicants.

Administering Grant Funds

The Commission needs to enhance its procedures to adequately administer grant funds received from the Corporation. 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). 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 Reports review, including matching recalculation

Commission procedures indicate that subgrantee Financial Status Reports are reviewed and compared with invoices submitted for payments, and matching requirements are recalculated. However, no evidence exists to document that this review was performed. In addition, although the fiscal officer compares FSRs with invoices, Commission personnel do not compare the FSRs to the subgrantees' accounting system.

Although all subgrantees are on a reimbursement only basis, if subgrantee FSRs are not agreed to the subgrantees' accounting system, then there is an increased risk that subgrantees are incorrectly reporting amounts on their FSRs.

We recommend the Commission revise its current procedures to document the results of its review of subgrantee FSRs. In addition, the Commission should implement site visit monitoring procedures that require the reconciliation of the subgrantees' FSRs to the subgrantees' accounting system.

The Commission did not maintain all required FSRs.

AmeriCorps Provision #17 states "Commissions and Parent Organizations are required to submit quarterly Financial Status Reports and three Progress Reports to the Corporation. Commissions and Parent Organizations must submit these reports by the following dates and include three copies along with the original." It continues to state "AmeriCorps State programs and most AmeriCorps National sites that receive subgrants must submit at least four Financial Status Reports to their respective Commission or Parent Organization. In general, if a site has a Corporation-approved budget then the submission of an FSR for that site/sub-Grantee is required. Commissions/Parent Organizations are required to forward Financial Status Reports from programs and budgeted sites to the Corporation's Grants Office 30 days after the close of each calendar quarter. Annual Financial Reports shall be submitted within 90 days of completion and will compare actual expenditures to budgeted amounts using the line item categories in the grant budget form."

We identified several deficiencies during our testing of the Washington Commission's administration of grants. Specifically, eleven Financial Status Reports submitted by subgrantees, as well as FSRs submitted to the Corporation, were missing. In addition, we were unable to determine the accuracy of some FSRs submitted to the Washington Commission by subgrantees, as well as the accuracy of some FSRs submitted by the Commission to the Corporation because the Excel spreadsheets supporting the subgrantee compiled FSR were either missing or did not agree to the FSR submitted by the Commission to the Corporation.

While the new Web-Based Reporting System should alleviate the documentation and accuracy issues, we recommend that the Commission reemphasize the requirement that all Financial Status Reports submitted by subgrantees, as well as Financial Status Reports submitted by the Commission to the Corporation, be maintained and available for review. In addition, the Commission should ensure that data collection is accurate and timely.

Inability to determine the timeliness of the 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 if these documents are submitted timely in compliance with the grant agreement. As a result, subgrantee FSRs may be submitted untimely; however, the Commission has no basis to verify the FSRs' receipt date.

On October 1, 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 the FSRs.

Evaluating and Monitoring Grants

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.

The Commission's Program Officer monitors both program and fiscal activities for all AmeriCorps funds. The Commission also contracted a certified public accountant during 1999, to review AmeriCorps subgrantee audit reports, review and complete the Fiscal Monitoring Tool Program, and review three month's billing statements and supporting documentation for propriety.

As discussed in the Overview, the Commission subgrants all of the Learn and Serve funds to the Education Service District No. 112. District No. 112 allocates funds to other districts and acts as an oversight, performs site visits and monitors both program and fiscal activities to those districts. Since Learn and Serve funds are less than ten percent of the total awards received, the Commission monitors District No. 112 through oral discussion to ensure the adequacy of their monitoring procedures. As a result of our pre-audit survey discussions involving the maintenance of documentation, the Commission has implemented a procedure to maintain documentation to support these oral discussions.

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 Commission attempts to visit each subgrantee at least twice a year. When site visits are performed, the Commission uses a monitoring tool created by recommendations made by a former federal auditor and staff members at the Washington State Office of Financial Management.

During our review of monitoring folders for subgrantees, we determined that certain information was excluded from the site visit documentation. Specifically, information relating to the names of the Members reviewed, identification of Members where exceptions

were identified, and the procedures followed to select the Members reviewed were not included. In addition, comments included on the checklists were general in nature. Therefore, we were unable to reperform procedures performed by Washington Commission personnel.

We recommend that the Commission revise written policies and procedures to require 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 to Commissions 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 subrecipient's fiscal year have met the audit requirements of this part for that fiscal year."

However, prior to 1999, the Commission did not document its review of subgrantee OMB Circular A-133 audits or other audit reports as part of the monitoring process. Therefore, we were unable to determine if the Commission routinely reviews these reports to determine if auditors have identified control weaknesses or instances of noncompliance related to the AmeriCorps program. We reviewed seventeen audit reports for six subgrantees and did not identify any findings. However, in its failure to review and consider audit results, the Commission has ignored information helpful in carrying out its oversight and monitoring responsibilities.

We recommend that the Commission formalize its policies and procedures for the review of A-133 reports, including procedures to determine which subgrantees fall under the audit requirements and follow up to determine that audits were performed, and findings, if any, resolved.

Providing Technical Assistance

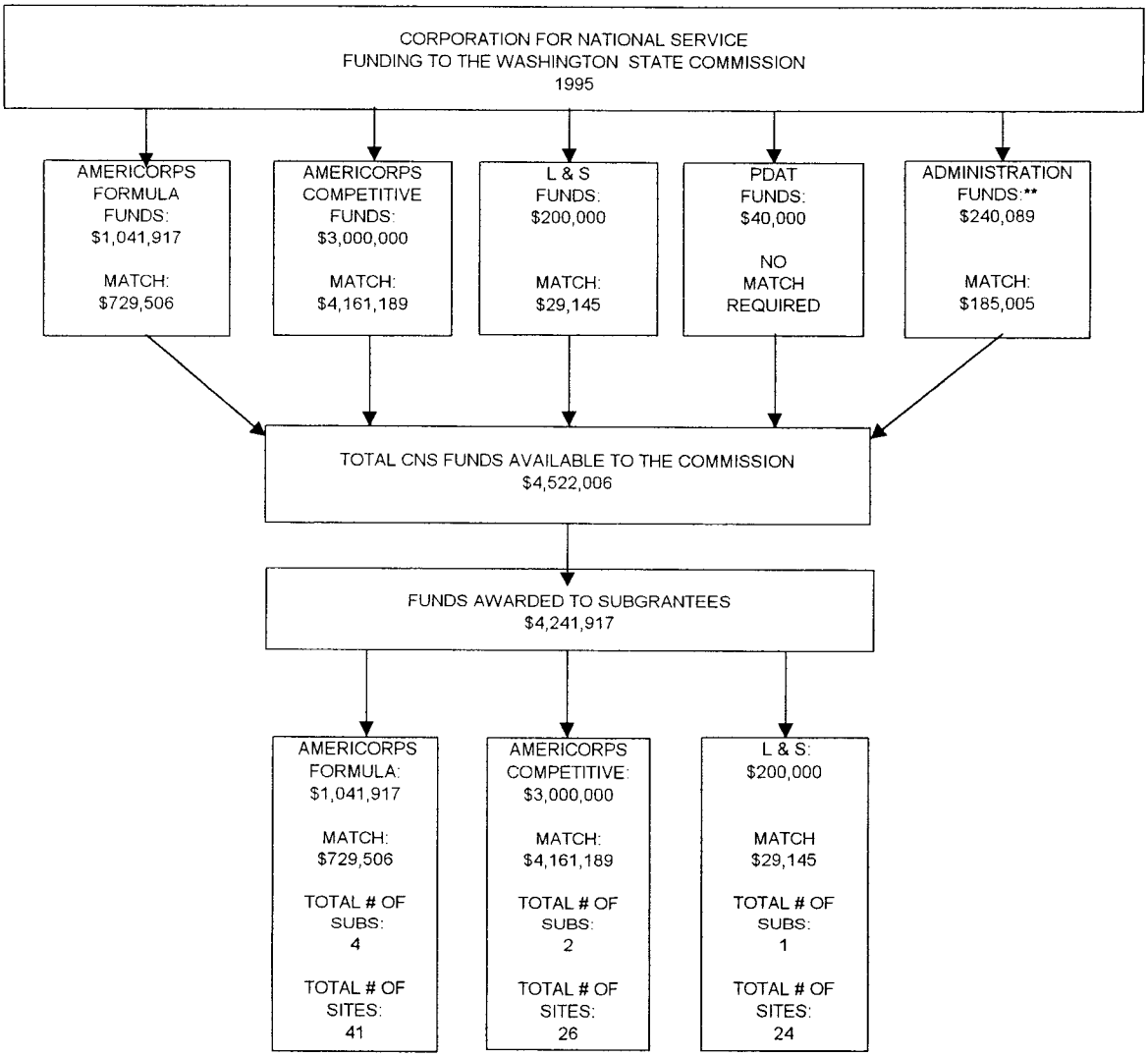
Annually, the Commission receives grant funds to provide technical assistance to its subgrantees. Procedures are in place at the Commission to (1) identify training needs of subgrantees through periodic staff meetings with the program directors and a needs assessment survey; (2) notify subgrantees of 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 Washington Commission on National and Community Service, and the United States Congress and is not intended to be and should not be used by anyone other than these specified parties.

Urbach Kahn & Werlin PC

Washington, DC
November 18, 1999

APPENDIX A – WASHINGTON COMMISSION FUNDING

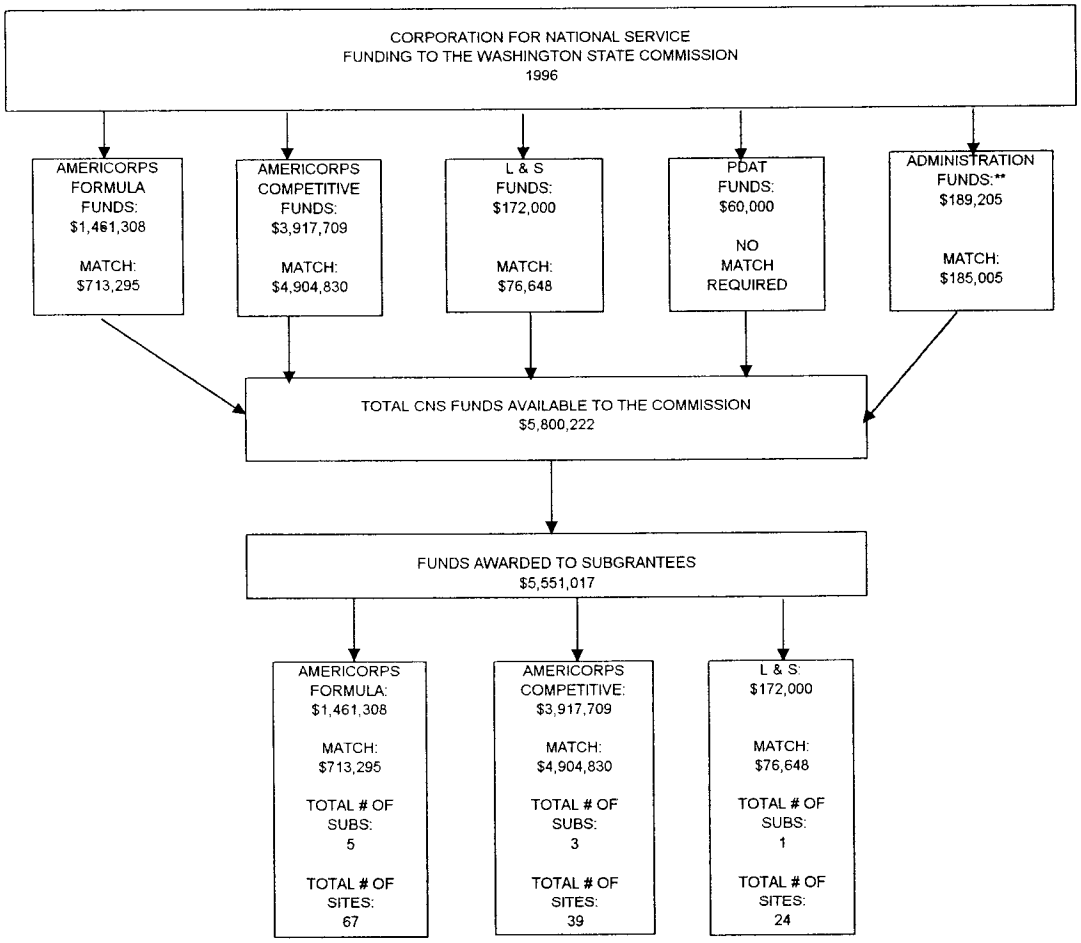


Total Carryovers for 1995 (Not included in the current year funding amounts above):

Administration: $ 53,659

** Disability funds included in grant award

APPENDIX A – WASHINGTON COMMISSION FUNDING

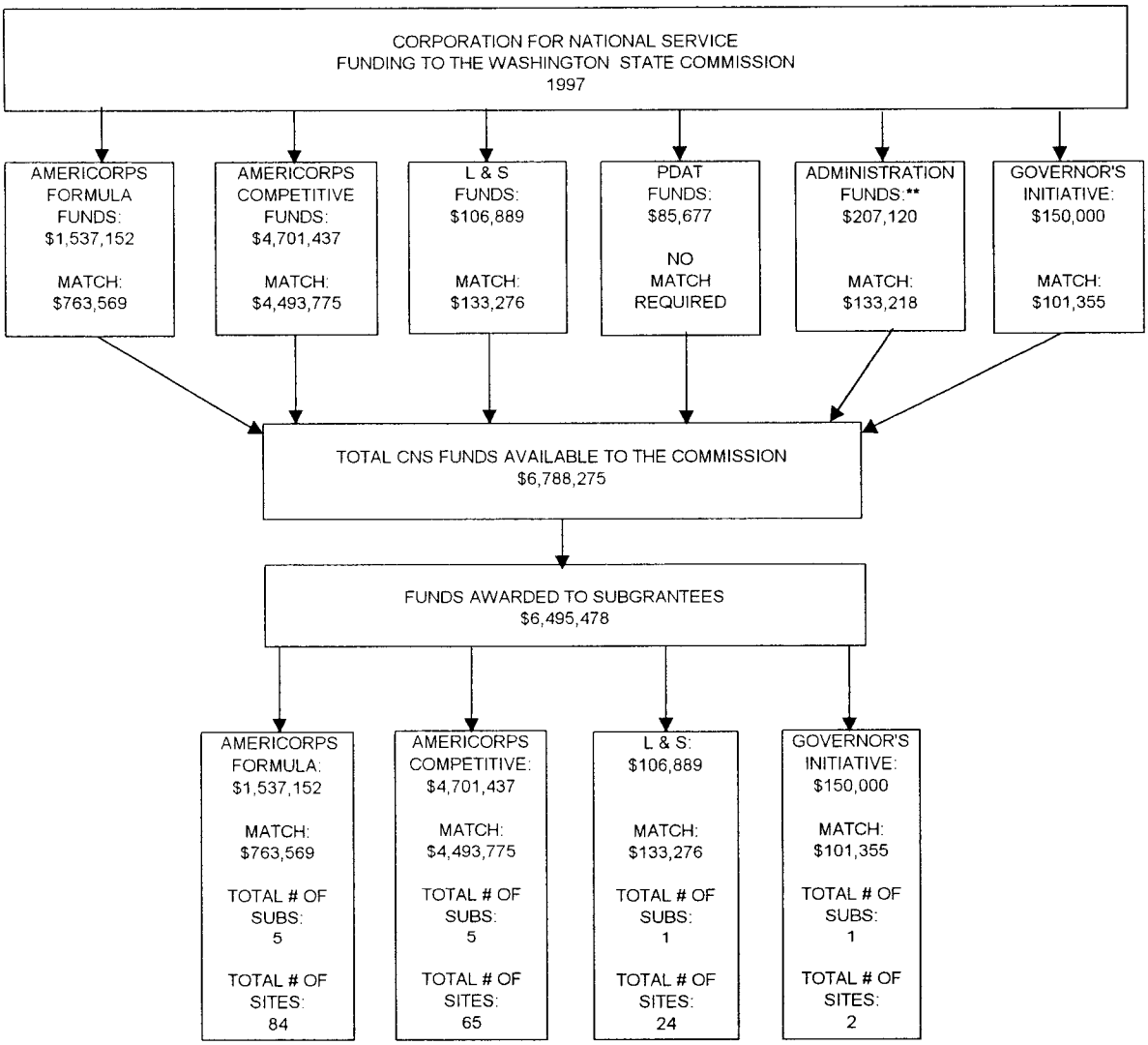


Total Carryovers for 1996 (Not included in the current year funding amounts above):

Administration:	$ 101,085
PDAT:	24,683
AmeriCorps:	316,910

** Disability funds included in grant award

APPENDIX A – WASHINGTON COMMISSION FUNDING

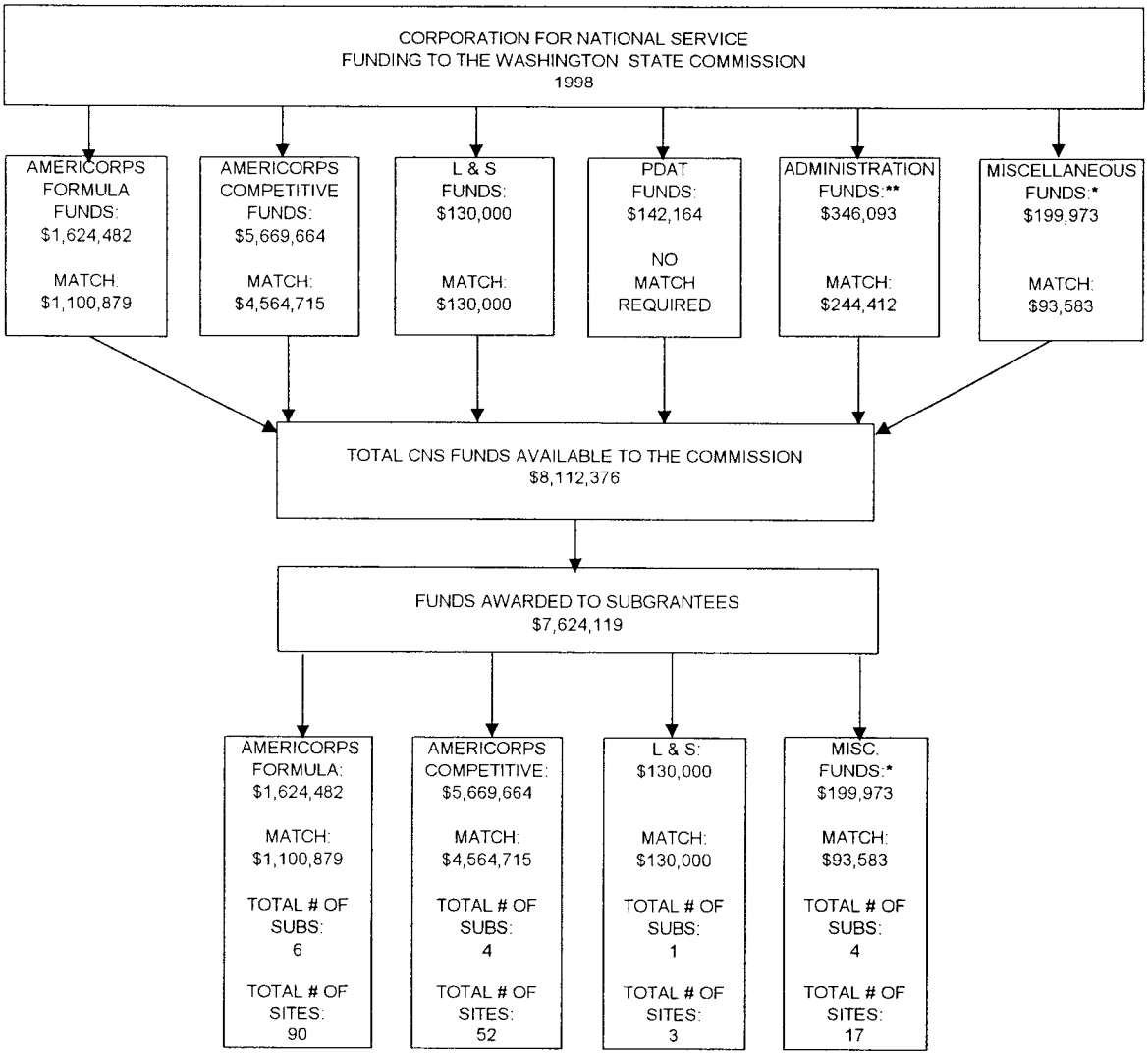


Total Carryovers for 1997 (Not included in the current year funding amounts above):

Administration:	$	60,040
PDAT:		78,466
AmeriCorps:		245,534

** Disability funds included in grant award

APPENDIX A – WASHINGTON COMMISSION FUNDING

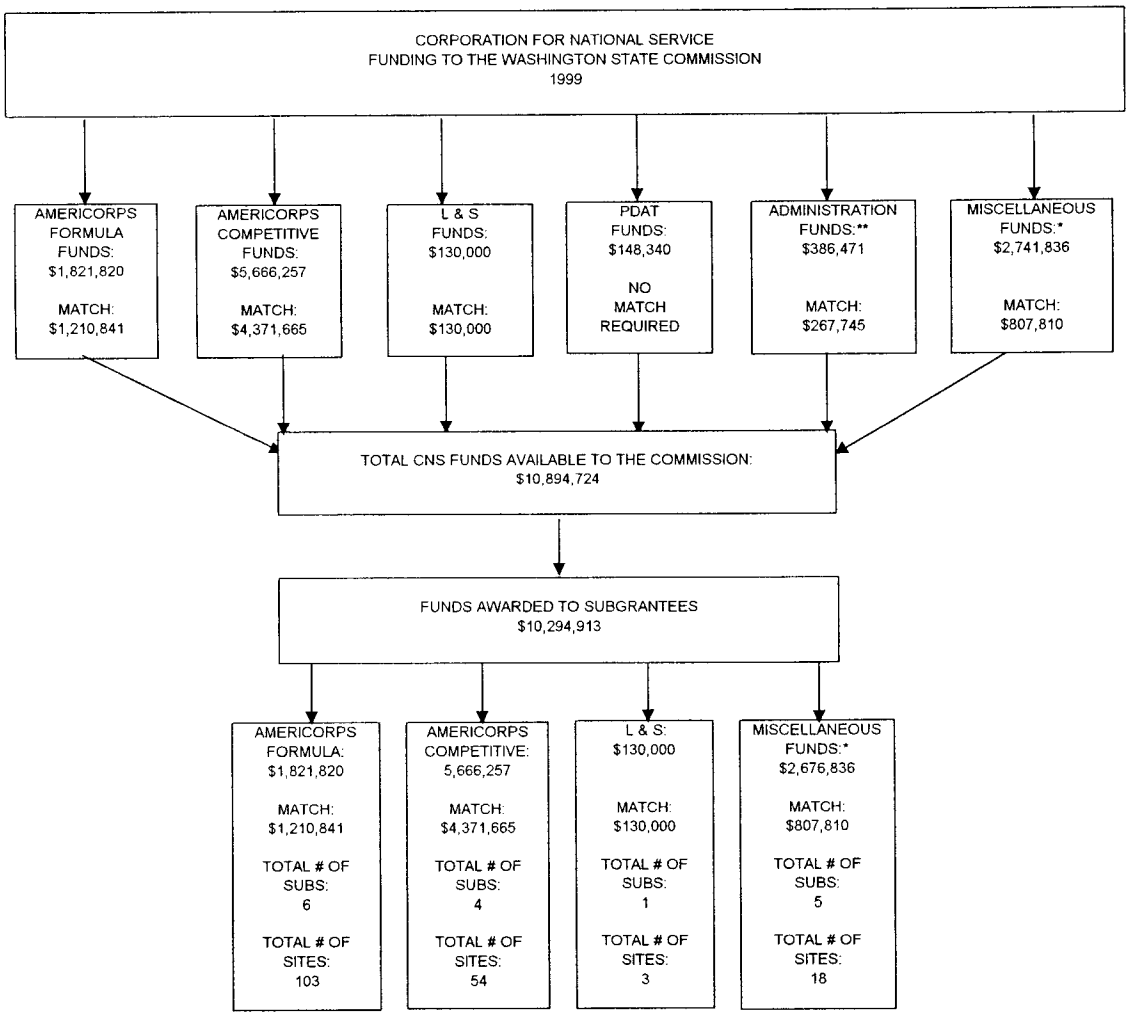


Total Carryovers for 1998 (Not included in the current year funding amounts above):

Administration:	$	51,597
PDAT:		42,000
AmeriCorps:		1,549,131
Governor's Initiative		15,950
Disability:		94,478

* Misc. funds included Governor's Initiative ~ $145,637and ED Award Only ~ $54,336
** Disability funds included in grant award

APPENDIX A – WASHINGTON COMMISSION FUNDING



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

Administration:	$	-
AmeriCorps:		493,264
PDAT:		18,000
Disability:		94,478

* Miscellaneous funds consist of America Reads ~ $2,615,000; ED Award Only ~ $61,836; and the AmeriCorps Promise Fellowship ~ $65,000 which was not

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.

STATE OF WASHINGTON
WASHINGTON COMMISSION FOR NATIONAL AND COMMUNITY SERVICE
515 15th Ave. SE • Post Office Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0656 • FAX (360) 902-0414

March 29, 2000

Luise Jordan, Inspector General
Corporation for National Service
1201 New York Avenue, NW
Washington, D.C. 20525

Dear Ms. Jordan:

Re. Draft Report of the Pre-Audit Survey of the Washington Commission for National and Community Service

We have carefully reviewed the above subject report and disagree with two unfounded negative findings outlined in the *Results in Brief in the Pre-Audit Survey Report of the Washington Commission for National and Community Service*. Other concerns will also be identified later in this response. It was our understanding that this was a pre-audit survey, but the results that are displayed appear to be part of an actual audit. However, we are very interested in improving operations and have already implemented two minor suggestions contained in this draft pre-audit survey. In addition, we have already implemented the minor suggestions made by Urbach Kahn and Werlin (referred to as UKW) as part of their site visit in November, 1999.

Brief Response to *"Results in Brief"* from the *Pre-Audit Survey Report of the Washington Commission on National and Community Service* (Page 1):

- The Commission was surprised to find in this pre-audit draft report that we had an inadequate process for the fiscal administration of grants and that we had inadequate controls in place to evaluate and monitor subgrantees. In conversations at the exit conference conducted on November 18, 1999 and in subsequent written non-material findings provided at the exit conference by the Senior Partner of UKW, these items were not addressed.

- The Senior Partner has stated that the preliminary assessments relating to the fiscal administration and evaluation and monitoring of grants, based on his personal examination of the Commission, were **not** his findings (conference call of March 14, 2000 – 11am PDT). Staff of UKW, whom we have consulted with since this report was issued, have indicated that the Washington Commission was one of the better operated Commissions they have reviewed.

Luise Jordan, Inspector General
March 29, 2000

- Moreover, statements are made in the OIG draft audit report that were not characterized during the assessment by senior audit staff conducting the pre-audit survey back in November 1999.

We have submitted your draft report for review by the Washington State Auditor and Office of Financial Management, both of whose staff have also reviewed our response.

The specific responses to items made in your draft report are as follows:

Page 1 "The Commission does not have an adequate process in place for the fiscal Administration of grants."

This statement comes as a surprise since it was not formally addressed during the on-site review process, or at the exit conference on November 18, 1999 when the Results and Procedures Performed Up-To-Date and the Audit Survey – Preliminary Findings were initially offered, and is inserted on pages 8-16 of this letter.

A recent state audit of the Commission did not identify any fiscal management inadequacy in the administration of grants. The Commission is located within the Washington State Office of Financial Management that oversees the fiscal management of state agencies, and utilizes its systems for managing the AmeriCorps programs in the state.

Page 1 "The Commission does not have adequate controls in place to evaluate and monitor subgrantees."

The Commission recognizes the importance of the monitoring and evaluation functions, and continues to enhance these important responsibilities. The monitoring system has been significantly improved over the years and is the subject of ongoing continuous improvement, and as such, currently meets the overall program requirements. Given this perspective, the above statement was unexpected in light of not being mentioned during the on-site review, the exit conference on November 18, 1999, or in the Audit Survey – Preliminary Findings, on pages 8 through 16 of this letter.

UKW's staff was allowed to review monitoring and evaluation reports completed after site visits, as well as quarterly or semi-annual progress and financial status reports. A Program Monitoring tool was in fact developed with collaboration from a former federal auditor with the Office of Financial Management during the first year of the Commission. It has been updated over the years, but has remained relatively the same. This statement makes it appear that we have "no system or controls" in place to meet the monitoring requirements, when in fact we do have such a system. The Urbach team did recommend

Luise Jordan, Inspector General
March 29, 2000

that we identify the names of those members' files we review. In response to this recommendation, a form was developed to record member identity numerically in order to protect the privacy of the member and to comply with privacy statutes and regulations. This form was included as Attachment 2 to the Commission's response to the Audit Survey – Preliminary Findings sent December 16, 1999, which is inserted in this response letter on pages 17 through 26.

Page 2 "...we recommend that the OIG perform a full-scope financial audit" (1st paragraph)

The Commission is open to audits of our records. However, it needs to be stated that the Commission is subject to annual state-mandated audits and has recently been audited as a major program under a single audit as defined by OMB Circular A-133.

Page 5 "..the Commission was unable to provide us with a rejection letter for one subgrantee and documentation to support the renewal/funding of another subgrantee for the third year of a three-year grant."

The Commission had mentioned on several occasions and in our response to the Audit Survey – Preliminary Findings (see pages 17 through 20 of this response), that this grantee voluntarily withdrew from the grant competition prior to being considered for a grant. Therefore, it was never considered as a valid applicant for funding.

Regarding the issue of the Commission's inability to provide documentation to support renewal/funding of another subgrantee for the third year of a three-year grant, this was addressed in the Commission's response to the Audit Survey – Preliminary Findings (see pages 17 through 20 of this response). The grantee in question (Puget Sound Educational Service District – Learn and Serve-CBO grantee) was in the last year of a 3-year grant cycle awarded by CNS, and as such, not required to conduct a renewal process. The Commission has on file a contract amendment for the Puget Sound ESD with the funding amount stated.

Page 6 "Commission personnel do not compare the FSR's to the subgrantees' accounting systems or other supporting documentation during site visits (2nd Paragraph)"

The subgrantee's accounting systems are often identified in their program applications and are initially reviewed prior to start-up. Unlike quarterly (now semi-annual) submissions of FSRs, *site visit* evaluations do not necessarily fall within these same particular timelines. Site visits can happen throughout a program year (normally twice per program), and are often prioritized by how new a grant program is, changes in

Luise Jordan, Inspector General
March 29, 2000

program staff, or if there are identified concerns from progress reports, FSRs, or other communication with Commission staff. The Commission staff has always reviewed fiscal systems, meeting match requirements, and program expense activity during site visits with the programs' accounting staff, which is made easier now with WBRS. Sometimes these site evaluations are done separately from program evaluations. Reconciliation is also conducted on all invoices for payment in the Commission office to determine that the required match is documented and those items requesting reimbursement are allowed in the budget. This process was discussed in detail with staff from UKW. Accounting systems were analyzed more in depth from a fiscal audit review conducted on grantees in the 1998-99 Program Year.

It is our understanding that Commissions do not have to do site checks or on-site reviews to verify FSRs or other system issues per OMB Circular A-102 for States and A-110 for nonprofits. The Commission relies on independent A-133 audits that cover most of our AmeriCorps grantees. The Reference Manual for State Commissions, used as a citation for requirements, is an informal desk aide published by an independent contractor for the Corporation. It was not adopted by reference by CNS regulations or grant provisions. We utilize the uniform standard OMB provisions for state administration along with statutory and regulatory AmeriCorps directives, to administer grants.

Page 6 "Although all subgrantees are on a reimbursement only basis, if subgrantee FSRs are not agreed to the subgrantee's accounting system, then 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 FSRs (3rd paragraph)."

The Commission requires invoicing on a cost reimbursement basis. Commission staff reviews and validates all invoices and supporting documents from subgrantees prior to being submitted for reimbursement, and this information is utilized to verify the accuracy of all FSRs prior to submission to the Corporation for National Service. Nearly all of the Commission's subgrantees utilize a Grantee Expense Form (or something very comparable) developed in conjunction with the WA State Office of Financial Management that shows a running balance of not only expenditures of the CNS funding, but also Grantee share of funding in their accounting systems. Subgrantee accounting systems differ, but this is often due to the fact that some programs are based in large state agencies, and some are in non-profit organizations. The running balance of their budget is reflected in the quarterly FSRs submitted. This process has now become more uniform with the electronic Periodic Expense Form on WBRS. Please note that WA State goes beyond the minimums to exercise oversight on these funds. States are encouraged to advance funds to responsible grantees. Because of our invoicing and reimbursement requirements, we exceed the minimum OMB requirements.

Luise Jordan, Inspector General
March 29, 2000

Page 6 "Inability to determine the timeliness of the receipt of the FSRs "

All FSRs come in to the Commission before final submission to the Corporation for each reporting period. FSRs were submitted on time by the Commission to the CNS by the required deadline for each reporting period. The Commission would prefer the subgrantee FSRs be submitted to us by the designated deadlines set by the Commission for early submittal to CNS, but we also prefer to see FSRs turned in accurately. Permission is sometimes granted for extensions. This is because many AmeriCorps programs, especially in state agencies, do not utilize the federal fiscal reporting cycle set forth by CNS, so expenditure information is difficult to compile in some billing periods. This means they modify their billing processes to ensure that information stated in their FSRs is accurate. While there might be a reason to bring this item up in the report the next paragraph discounts the need for this type of documentation and no recommendation is required.

As stated in the report, WBRS will automatically record date of receipt of FSRs.

Page 7 "several Financial Status Reports submitted by subgrantees, as well as FSRs submitted to the Corporation, were missing".... "In addition, we were unable to determine the accuracy of some FSRs submitted to the Washington Commission by subgrantees, as well as the accuracy of some FSRs submitted by the Commission to the Corporation...(2nd Paragraph)"

Commission staff found FSRs for UKW staff and provided additional information as required. The statement that several FSRs were missing is incorrect. FSRs for each AmeriCorps grantee are not missing. Those FSRs in question (from the Audit Survey-Preliminary Findings) are attached to this response as Exhibit A. For the Learn and Serve-CBO grant at Puget Sound ESD, the FSRs on file for them accurately reflect the expenditures of the grant during the grant period. Program staff at the subgrantee changed several times during this grant. During those transitions, FSRs were not submitted on a timely basis, but the subgrantee followed up FSRs to cover all periods that were missed. Monitoring and evaluation of Learn and Serve-CBO grantees has been strengthened over the years to address these issues.

FSRs are filed by Program Year and by quarter, and according to Commission records, are accounted for in our files. The confusion, as stated in the Commission's response to the Audit Survey – Preliminary Findings (see pages 20-25 of this response), is the different reporting periods from the different grants – either quarterly or semi-annual. Other issues arose and were explained to UKW staff during the interview, for example,

Luise Jordan, Inspector General
March 29, 2000

Disability Funds were reported as part of the state's Administrative Grant at one time. Better understanding over the years on the reporting timelines of the various grants, has alleviated FSRs submitted with data encompassing a larger period of time.

The Commission believes its existing procedures to test the accuracy of FSRs is adequate. We review the supporting documentation (invoices and attached statements and periodic expense forms) as it relates to reimbursements. This information, in turn, is used to verify the accuracy of the data contained in the FSRs. All questions regarding the accuracy of some FSRs submitted by the Commission to CNS were responded to in the Commission's response to the Audit Survey-Preliminary Findings (see pages 20-25 of this response). It has been shown and footnoted why some FSRs were not accurate for the particular reporting period stated. Many of the reasons included the following: Programs were funded under two (or more) separate state contracts showing different streams of funding (CNS, Defense Conversion Assistance Program carryover, and State funding for example); One program year required reporting of aggregate numbers, the other year it *did not* on FSRs. As a result, Programs reconciled FSRs later to reflect more accurate final expenditures in CNS and Grantee shares. This last point also relates to the fact that the Commission likes to see FSRs reconciled accurately, which is sometimes after the 30 days after the reporting cycle ends. All of these extensions are approved with permission from the Grants Office at CNS. Like CNS, the Commission wants to see accurate data on the final carryover, since that can impact the new grant awards.

Page 8 "The evaluating and monitoring system for subgrantees needs to be improved at the Commission"

The Commission strives to improve on the way it evaluates and monitors subgrantees. The recommendation made by UKW relating to this issue has been addressed on page 2 of this letter, which responded to the Audit Survey – Preliminary Findings. The handout, inserted on pages 8 and 9 of this letter, was delivered at the exit conference on November 18, 1999 by UKW and only requested that we identify by name the members who we interview so a reconstruction of the interviews could be initiated. Our response to this recommendation, included on pages 18, 19, and 26 of this letter, included a procedure to numerically identify the members who we interviewed, while insuring the privacy of the individual member. Since the new information contained in this draft report was received, the Commission has enhanced its existing monitoring tool by developing written procedures that address sample size, exceptions, recommendations, and follow up requirements. The Commission is willing to address these issues prior to receiving direct guidance from CNS regarding these requirements. This is included as Exhibit B (Monitoring Policies and Procedures).

Luise Jordan, Inspector General
March 29, 2000

Page 8 "The monitoring tool, currently in place at the Washington Commission, was created by Delaware, California, New Jersey, Washington and North Carolina Commissions. It was created under the guidelines established by the Corporation, as well as guidelines and recommendations received from a CNS contractor."

This monitoring tool was not formally adopted by the Corporation either in regulation or in grant provision. In the Commission's monitoring function, we attempt to define our responsibilities that do not contradict to what a formal audit would entail. However, in the Commission's monitoring role, it is cognizant of the audit responsibility in defining sample size and sampling techniques. With this understanding, the Commission will be diligent in minimizing potential conflicts between audit responsibilities and monitoring responsibilities.

The monitoring tool currently in place at the WA Commission was not created under guidelines established by the Corporation, but by recommendations from a former federal auditor and staff member at the WA State Office of Financial Management. We did not work with the other states identified in the report to develop this tool. Our monitoring tool has been updated over the years as new information has been brought to our attention. The other states listed may use similar monitoring tools, but the process in WA is truly original. We have not worked with a CNS contractor on this process at all.

Page 9 "Lack of documentation of review of OMB Circulator A-133 Reports or other audit reports from subgrantees"

The Commission technically goes beyond expected state requirements and collects all audits from subgrantees that must meet this requirement. Rather than just receiving a letter from grantees documenting any questioned cost findings in an OMB Circular A-133 audit, the Commission receives the complete audit and reviews the entire report.

The Draft Report of the Pre-Audit Survey of the Washington Commission for National and Community Service states that "in its failure to review and consider audit results, the Commission ignores..." In the review of seventeen audit reports by Urbach auditors, no findings were found. The Commission is very concerned that this type of statement is made when no proof was offered that reports were not reviewed. The Commission has on file every A-133 audit performed on all subgrantees. Commission staff conscientiously reviews each audit report and will take appropriate action if exceptions or recommendations are found in the audit.

Luise Jordan, Inspector General
March 29, 2000

> We were surprised the issue was not raised in the exit conference on November 18, 1999, since it appeared as a major issue in this final draft report. Given the recommendation found in this draft report, the Commission has initiated a documentation procedure, Exhibit C (Review Procedures for A-133 and other audits), to provide written documentation that these reports were reviewed and any required follow up completed.

Obviously, we have a difference of opinion in how the information in this draft report characterizes the operations of the Commission. The Office of the Inspector General's Pre-Audit Survey Report of the Washington Commission for National and Community Service differs significantly from the pre-audit survey preliminary findings of November 18, 1999 issued by UKW. We have an excellent record of implementing our programs throughout the state and have enabled thousands of Americans to make valuable contributions to serve residents in Washington State and throughout the nation.

Sincerely,

William C. Basl

William C. Basl
Executive Director

Enclosures (3)

MEMORANDUM

AmeriCorps National Service

CORPORATION FOR NATIONAL SERVICE

TO: Luise S. Jordan

THRU: Anthony Musick

FROM: Deborah R. Jospin
Bruce H. Cline

DATE: March 10, 2000

SUBJECT: Response to the Draft Audit Report 00-10, *Pre-Audit Survey of the Washington Commission on National Community Service*

We have reviewed the draft report on your pre-audit survey of the Washington Commission on National and Community Service. Given the nature of the report, this response serves as our proposed management decision. We note that your preliminary assessment recommends a full scope audit at the Commission for program years 1995-96 through the current program year. The draft audit report includes a recommendation to the Corporation. We are providing the following response to that recommendation. The Inspector General recommended:

> "Additionally, we (the Inspector General) 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 Washington Commission."

Some of the conditions cited in the "results in brief" section of the report include concerns related to an adequate process for the fiscal administration of grants and adequate controls to evaluate and monitor subgrantees.

Given our limited program administration resources, we developed a plan to assess State Commission administration functions. Over a three-year period, we will be reviewing each of the state commissions. As part of our review of Washington, we will determine whether the Commission has put appropriate corrective actions in place for conditions noted in the pre-audit survey that your office has issued.

In addition to this scheduled review, we will also request that the Washington Commission provide semi-annual reports on their actions to correct conditions cited in the OIG pre-audit survey.

1201 New York Avenue, NW
Washington, DC 20525
Telephone 202-606-5000

Getting Things Done.
AmeriCorps, National Service
Learn and Serve America
National Senior Service Corps

Inspector General
Corporation for National Service

RE: Washington Commission Response to the Pre-Audit Survey Report

At your request, we have reviewed the Washington Commission's response to our Pre-Audit Survey Report. Below please find a summary of the Commission's response, along with our response.

Bullet #1: The Commission was surprised with conclusions made in the Results In Brief section since these items were not addressed in conversations at the exit conference and in subsequent written non-material findings provided at the exit conference.

UKW's response: As documented in our exit conference agenda dated November 18, 1999, UKW stated that the Commission needed to enhance its documentation supporting monitoring procedures performed during site visits and the Commission needed to enhance its controls over the administration process.

Bullet #2: UKW staff has indicated that the Washington Commission was one of the better-operated Commissions they reviewed.

UKW response: UKW agrees. We have revised the conclusion to delete the word inadequate.

Bullet #3: Statements are made in the OIG draft audit report which were not characterized during the assessment by senior audit staff conducting the pre-audit survey back in November 1999.

UKW's response: UKW provided Washington Commission staff a copy of our exception summary along with our finding write-ups. Commission personnel were made aware of all findings, except for the lack of FSR review and lack of review of OMB Circular A-133 audit report findings. In addition, UKW stated in the A-133 finding "...prior to 1999, the Commission did not document its review of subgrantee OMB Circular A-133 or other audit reports..." UKW also explained to Commission personnel during a telephone conference on March 14, 2000, that the Commission could add procedures to its monitoring checklist to document its review of the A-133 reports.

Page 2, 1st comment: UKW's conclusion that the Commission does not have an adequate process in place for the fiscal administration of grants came as a surprise since a recent state audit of the Commission did not identify any fiscal management inadequacy in the administration of grants.

UKW's response: Our testing identified several instances where subgrantees did not submit FSRs timely to the Commission; several instances where the Commission did not submit FSRs to the Corporation timely; several instances where FSRs were not maintained in the Commission subgrantee files; several instances where FSRs were not maintained for the grant year; and several instances where FSRs were not prepared on a semi-annual basis as required. All of these issues were discussed with Washington personnel and while they sent us a letter dated December 16, 1999, the Commission did not provide UKW with any additional information to clear these exceptions.

2nd page, 2nd comment: As previously discussed, the Commission does not like the conclusion made that the Commission does not have adequate controls in place to evaluate and monitor subgrantees. They believe that this statement makes it appear that they have "no system or controls" in place to meet the monitoring requirements when they do have a system.

UKW's response: As discussed during the exit conference, UKW stated that the Commission needed to enhance its documentation of monitoring procedures performed during site visits. UKW was unable to determine the validity of the procedures performed or the number of Member files tested. We also recommended that they document procedures performed on Member service hours. We revised the conclusion to delete the term "inadequate".

3rd page, 1st comment: While the Commission states they are open to audits of their records, they wanted it to be stated that the Commission is subject to annual state-mandated audits and has recently been audited as a major program under a single audit as defined by OMB Circular A-133.

UKW's response: In addition to our recommendation that the OIG perform a full scope financial audit, we also stated "the financial audit should consider coverage provided by the State's Single Audit and similar audits of subgrantees. However, the AmeriCorps program was only tested as a major program during 1998 and the scope of our work was 1995 through 1998. In addition, no audit has ever been performed on the other Corporation funded programs.

3rd page, 2nd comment: Related to our selection of subgrantee finding that "The Commission was unable to provide us with evidence related to one applicant. Commission staff stated that the applicant voluntarily withdrew from the process. However, no evidence exists to document this withdrawal."

The Commission continues to state that the grantee voluntarily withdrew from the grant competition prior to being considered for a grant. Therefore, it was never considered a valid applicant for funding. Since no documentation exists to support this withdrawal, UKW would like to leave wording as is. With regard to inadequate documentation related to one applicant, they continue to state that this grantee was in the last year of a 3-year grant cycle and as such,

the Commission was not required to conduct a renewal process.

Even though this was a three-year grant, the grantee is required to apply for new funding on an annual basis. As a result, we believe the Commission should evaluate subgrantees on a yearly basis to ensure the program is still achieving its goals and remains eligible to receive funding, and this review should be documented.

3rd page, 3rd comment: Relates to the fact that Commission personnel do not compare the FSRs to the subgrantees' accounting systems or other supporting documentation during site visits. They state that subgrantees' accounting systems are often identified in their program applications and are initially reviewed prior to start-up. Until quarterly or semi-annual submissions of FSRs, site visit evaluations do not necessarily fall within these same particular timelines. They further state that reconciliation is conducted on all invoices for payment in the Commission Office to determine that the required match is documented and those items requesting reimbursement are allowed in the budget.

They continue to state that "it is our understanding that Commissions do not have to do site checks or on-site reviews to verify FSRs or other system issues per OMB Circular A-102 for States and A-110 for non-profits. The Commission relies on independent A-133 audits that cover most of our AmeriCorps grantees.

UKW's response: While it may not be explicitly required, certain Commissions have already implemented procedures to verify FSRs to the subgrantees' accounting systems. We believe this is a good internal control procedure, which should be implemented by all Commissions.

However, UKW revised the wording of the finding to state:

Commission procedures indicate that subgrantee Financial Status Reports are reviewed and compared with invoices submitted for payments, and matching requirements are recalculated. However, no evidence exists to document that this review as performed. In addition, although the fiscal officer compares FSRs with invoices, Commission personnel do not compare the FSRs to the subgrantees accounting systems.

Although all subgrantees are on a reimbursement only basis, if subgrantee FSRs are not agreed to the subgrantees' accounting system, then there is an increased risk that subgrantees are incorrectly reporting amounts on their FSRs.

We recommend the Commission revise its current procedures to document the results of its review of subgrantee FSRs. In addition, the Commission should implement site visit monitoring procedures that require the reconciliation of the subgrantees' FSRs to the subgrantees' accounting system.

4th page: Relates to our statement that "Although all subgrantees are on a reimbursement basis." The Commission stated, "The Commission requires invoicing on a cost reimbursement basis. Commission staff review and validate all invoices and supporting documents from subgrantees prior to being submitted for reimbursement. This information is utilized to verify the accuracy of all FSRs prior to submission to the Corporation for National Service."

UKW's response: The re-wording discussed above resolves this comment.

5th page, 1st comment: The Commission did not understand the need to report the inability to determine the timeliness of the receipt of the FSR since no recommendation was made.

UKW's response: UKW included it in the report since we were engaged to review the 1995 through 1998 program years and WBRS was not implemented until October 1999.

5th page, 2nd comment: The Commission claims they gave us all the FSRs we requested.

UKW's response: During our exit conference, UKW provided Commission personnel with a copy of our exception summary outlining which FSRs were missing. While the Commission sent UKW a letter dated December 16, 1999 responding to our summary, they did not provide additional documentation which would resolve the exceptions.

In response to the missing FSR issue, the Commission included copies of the FSRs' submitted by the Neutral Zone subgrantee for the first two quarters in 1995. However, UKW's issue was not that the FSRs were missing, but that the Excel spreadsheet supporting amounts reported by the Commission to the Corporation was missing.

Page 6: Relates to our evaluating and monitoring finding. As a result of our review, the Commission implemented new procedures which they included as Exhibit B.

UKW's response: UKW was engaged to review 1995 through 1998. These procedures were not implemented until 2000.

Page 7, 1st comment: The Commission stated that the monitoring tool currently in place at the WA Commission was not created under guidelines established by the Corporation, but by recommendations from a former federal auditor and staff member at the WA office of Financial Management. We did not work with the other states identified in the report to develop this tool.

UKW's response: UKW erroneously received this information and included it in the draft report. UKW revised the wording of the report to state that the monitoring tool was created by recommendations made by a former federal auditor and staff member at the Washington State Office of Financial Management.

Page 7, 2nd comment: The finding relates to a lack of documentation of review of OMB Circular A-133 reports and other audit reports from subgrantees. The Commission believes it "goes beyond expected state requirements and collects all audits from subgrantees that must meet this requirement. Rather than just receiving a letter from grantees documenting any questioned cost findings in an OMB Circular A-133 audit the Commission receives the complete audit and reviews the entire report."

The Commission also stated that "The Commission is very concerned that this type of statement is made when no proof was offered that reports were not reviewed."

UKW's response: While UKW does not dispute that the Commission obtains the audit reports, the Commission does not document its review of the reports and what corrective actions were taken on findings, if identified.