Office of the Inspector General
Corporation for National and Community Service

Pre-Audit Survey Report of the Michigan Community Service Commission

OIG Audit Report Number 00-25
January 21, 2000

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This report was issued to Corporation management on July 12, 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 January 8, 2001, and complete its corrective actions by July 12, 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
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SERVICE

Pre-Audit Survey Report of the Michigan Community Service Commission OIG Audit Report Number 00-25

OIG 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 Michigan Community Service Commission. Based on the limited survey procedures performed, UKW concluded 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 concluded that the Commission lacked adequate controls over fiscal administration of grants and to evaluate and monitor subgrantees. Their report includes recommendations for improvements by the Commission, oversight of their corrective actions by the Corporation for National Service, and a full-scope financial audit of the Commission for 1995 through the current program year.

Inspector General
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We have reviewed the report and work papers supporting its conclusions. We agree with the findings and recommendations presented.

Responses to the report by the Michigan Commission and the Corporation for National Service are included as appendices C and D, respectively. The Corporation's response indicates that it will require semiannual reports on the Commission's corrective actions. However, in its response, the Michigan Commission disagrees with a number of the report's findings and recommendations. UKW's evaluation of Commission's response is included as appendix E.

Notwithstanding this evaluation, however, the initial paragraph of the Commission's response also includes two statements that require further comment. First, the Commission states that it believes that the purpose of the pre-audit survey was to be a learning tool for state commissions and CNS. This is incorrect. OIG's September 24, 1999 pre-audit survey notification letter to the Michigan Commission stated that the emphasis of this survey will be to make a preliminary assessment of the fiscal procedures and internal controls at the Commission; the effectiveness of its monitoring of AmeriCorps State subgrantees and AmeriCorps Member service hours; the pre-award selection process; the use of training and technical assistance funds; and grant compliance.

Second, the Commission's response goes on to state, "...based on our experiences with the pre-audit process and the draft report, it appears that this pre-audit survey was by all standards, an audit and should be subject to the standards, rules and regulations of the A-133 process." CNS OIG does not classify the survey as an audit. It was designed to gather information on the extent of existing audit coverage for the Commission and its subgrantees, to assess the Commission's systems and management controls as described above, and to assess risk. The intent was to gather information on which to base future OIG audit work. Moreover, the requirements of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, do not apply directly to this OIG survey.[1] This survey was performed under the performance audit standards of *Government Audit Standards* issued by the Comptroller General of the United States as described in the Objectives, Scope and Methodology Section of the report and in Appendix A.

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[1] Nonetheless, the pre-audit survey design considers the requirements of the Single Audit Act and OMB Circular A-133. In compliance with the intent of the Single Audit Act and the requirements of the Circular, we perform procedures designed to determine the extent of audit coverage for the state commission and its subgrantees as well as the use of A-133 audit reports by the Commissions. The information gathered allows CNS OIG to determine the extent of audit work required, and to build on any audit work already performed at the state commissions and at subgrantees to avoid audit overload.

It is also important to note that CNS OIG authority to perform the surveys and subsequent audits is not limited by the Single Audit Act or Circular A-133's requirements. Circular A-133, Subpart B, Section 215 (a) provides

> *(a) Audit under this part in lieu of other audits. An audit made in accordance with this part shall be in lieu of any financial audit required under individual Federal awards. To the extent this audit meets a Federal agency's needs, it shall rely upon and use such audits. The provisions of this part neither limit the authority of Federal agencies, including their Inspectors General, or GAO to conduct or arrange for additional audits (e.g., financial audits, performance audits, evaluations, inspections, or reviews) nor authorize any auditee to constrain Federal agencies from carrying out additional audits. Any additional audits shall be planned in such a way as to build upon work performed by other auditors.*

Office of the Inspector General
Corporation for National and Community Service

Pre-Audit Survey Report of the
Michigan Community Service Commission

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UK &W Urbach Kahn & Werlin PC
CERTIFIED PUBLIC ACCOUNTANTS

Inspector General
Corporation for National and Community Service

At your request, Urbach Kahn and Werlin PC performed a pre-audit survey of the Michigan Community Service Commission. The primary purpose of this survey was to provide a preliminary assessment of:

- the adequacy of the pre-award selection process;
- the fiscal procedures at the Commission;
- the effectiveness of monitoring Michigan State subgrantees, including AmeriCorps Member activities and service hours; and
- the controls over the provision of training and technical assistance.

We were also asked to report on the recommended scope of additional audit procedures to be performed at the Michigan 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 did identify an area for improvement related to the lack of assessment of subgrantee applicants' Financial Systems during the selection process.
- 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.

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Based on our preliminary assessments, we recommend that the OIG perform a full-scope financial audit of the funds awarded to the Michigan 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 in place to address the conditions reported herein and that the Corporation consider these conditions in its oversight and monitoring of the Michigan 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 provide effective control and accountability for all grant and subgrant cash, real and personal property, and other assets.

OVERVIEW OF THE MICHIGAN COMMISSION

The Michigan Community Service Commission is headquartered in Lansing, Michigan. 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 $2,780,225 in 1995; $3,492,642 in 1996; $3,956,728 in 1997; $4,529,222 in 1998; and $4,683,631 in 1999. Additional information on the Commission's funding is presented in Appendix A.

The Commission currently has thirteen full-time staff consisting of an Executive Director, three Directors of Programs, Finance & Administration; and Outreach; four department analysts and five administrative support staff. The Michigan Job Commission provides fiscal oversight to the Commission.

As part of the State of Michigan, 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 September 30, 1998. The following two findings were identified related to the administration of the program: The Michigan Jobs Commission's internal control structure did not ensure that required quarterly FSRs were submitted to the Corporation on a timely basis, and MJC's internal control structure did not ensure that FSRs were received from all program subrecipients.

The Commission provided the following information regarding subgrantee A-133 audits:

Program Year	Total Amount of Corporation Funds Subgranted	Number of Subgrantees	Number of Subgrantees Subject To A-133 Audit Requirements
1999	$4,182,322	37	13
1998	4,140,892	28	15
1997	3,562,830	25	18
1996	3,009,517	20	17
1995	2,168,321	17	12

Determination of the number of subgrantees subject to OMB Circular A-133 audit requirements 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 Michigan State subgrantees, including AmeriCorps Member activities and service hours; and
- the controls over the provision of training and 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 January 21, 2000.

Our procedures were performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. We were not engaged to, and did not, perform an audit of any financial statements, and the procedures described above are 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 Michigan 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.

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 Michigan Commission has developed various procedures to comply with this requirement. Commission procedures indicate that the Commission advertises the availability of funds by sending postcards to all applicants maintained in a Commission database, and advertisements on the Commission's web-site, and in Crane's Non-Profit Newsletter. A technical assistance conference call is then held to discuss application and Corporation guidelines. Interested applicants attend a face-to-face meeting with the Director of Programs to discuss fund management.

New applicants complete Intent to Apply forms, which provide limited information on the program: including number of potential members, program objectives, and specific information relating to the key contact person.

The Review Panel reviews each Intent to Apply form and completes peer review and team ranking sheets. Commission personnel categorize the forms according to recommendations and evaluate each applicant's strengths and weaknesses. Approved applicants then attend a one-day technical assistance session to gain information relating to the required comprehensive AmeriCorps applications.

Commission personnel review the AmeriCorps applications, as well as evaluate the financial systems in place at each subgrantee and results of recent audits. At the conclusion of the review, the Commission compiles their recommendations and submits them to the Corporation.

For renewal applicants, the Commission reviews quarterly progress reports, proposals for the future, as well as, the budget submission for the upcoming year.

While we believe the documentation maintained by the Commission to support the selection process is adequate, we have identified the following areas for improvement.

Lack of documentation to support the review of certain information during the renewal process.

The Commission did not document its review of quarterly progress reports and site visit reports during the renewal process of two subgrantees. Therefore, we were unable to determine whether the Commission reviewed these reports during the renewal of subgrantees.

We recommend that the Commission re-enforce current policies and procedures which require the review of these reports during 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, since 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 that Commission personnel request information from the applicants related to their financial systems or to otherwise assess an applicants' financial system. 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, prior to the 1999 program year.

Commission procedures require that subgrantee Financial Status Reports be reviewed, and matching requirements, recalculated. However, no evidence exists to document that this review was performed, prior to the 1999 program year. In addition, our testing of 15 subgrantees identified the following deficiencies:

- Fifteen instances where we were unable to determine whether the match was re-calculated by the Commission; and
- Several instances where FSRs submitted by subgrantees were not accurately prepared or completed.

We also determined that Commission personnel do not compare the FSRs to the subgrantees' accounting records or other supporting documentation during site visits.

Because of these conditions, errors on the FSRs may occur and remain undetected. 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 and the Commission lacks reasonable assurance that subgrantees are correctly reporting amounts on their FSRs.

We recommend the Commission continue to enforce current procedures which require the review of subgrantee FSRs, recalculation of matching requirements and documentation to support the results of this review. Also, the Commission should implement site visit monitoring procedures that require the reconciliation of the subgrantees' FSRs to the subgrantees' accounting records along with other supporting documentation (e.g. invoices).

Late submission of Financial Status Reports

AmeriCorps Provision 17 (i) states "AmeriCorps State programs and most AmeriCorps National sites that receive subgrants must submit at least four Financial Status Reports (SF 269 a) to their respective State Commission or Parent Organization." It continues to state "State Commissions and 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."

Our testing identified four instances where subgrantees did not submit FSRs to the Commission timely and in accordance with Corporation guidelines.

We recommend that the Commission enforce current policies and procedures requiring the submission of FSRs in accordance with Corporation guidelines.

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.

During November and December 1998, 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.

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."

During our testing of 15 FSRs, we identified three instances where FSRs were not maintained in the Commission subgrantee files. Our testing also identified six instances where we could not verify amounts reported to the Corporation by the Commission due to inadequate supporting documentation. Because of these missing FSRs, we were unable to determine the accuracy of prior quarter amounts reported (or carried forward) on FSRs submitted to the Michigan Commission by subgrantees, as well as the accuracy of FSRs submitted by the Commission to the Corporation.

We recommend that the Commission reemphasize the requirement that all FSRs submitted by subgrantees, as well as FSRs, and supporting documentation, submitted by the Commission to the Corporation, be maintained and available for review.

The Commission could not provide the dollar amount of the match for the administrative grant.

As noted in Appendix A, the Commission was unable to provide us with the dollar amount of the match for the administrative grant during 1995, 1996 and 1997. Commission personnel stated that awards during the first three years were not reported with match amounts since the grant award letter did not require it.

However, the Commission was able to provide the dollar amounts of the match during 1998 and 1999 grant years. As a result, no recommendation is required at this time related to the dollar amounts of matches for administrative grants.

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.

We identified the following area 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."

The Commission procedures call for site visits at least twice a year. However, during our review of monitoring files for subgrantees, we determined that certain information was excluded from the site visit documentation. Specifically, the names of the Member files reviewed, identification of Member files where exceptions were identified, and the procedures followed to select the Members reviewed were not included. Commission personnel also do not verify reported Member service hours to timesheets or other supporting documentation.

We also determined that the following information was not consistently maintained in the monitoring files:

- Findings and recommendations identified during site visits;
- Resolution and follow-up on identified findings; and
- Progress reports.

Since comments included on the checklists were general in nature, we were unable to reperform procedures performed by Michigan Commission personnel.

We recommend that the Commission revise its policies and procedures requiring specific information be included in the documentation for site visits (for example, sample sizes, exceptions, recommendations, and follow up on findings and recommendations). 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 specify minimum procedures to be performed, as well as minimum documentation requirements.

Providing Technical Assistance

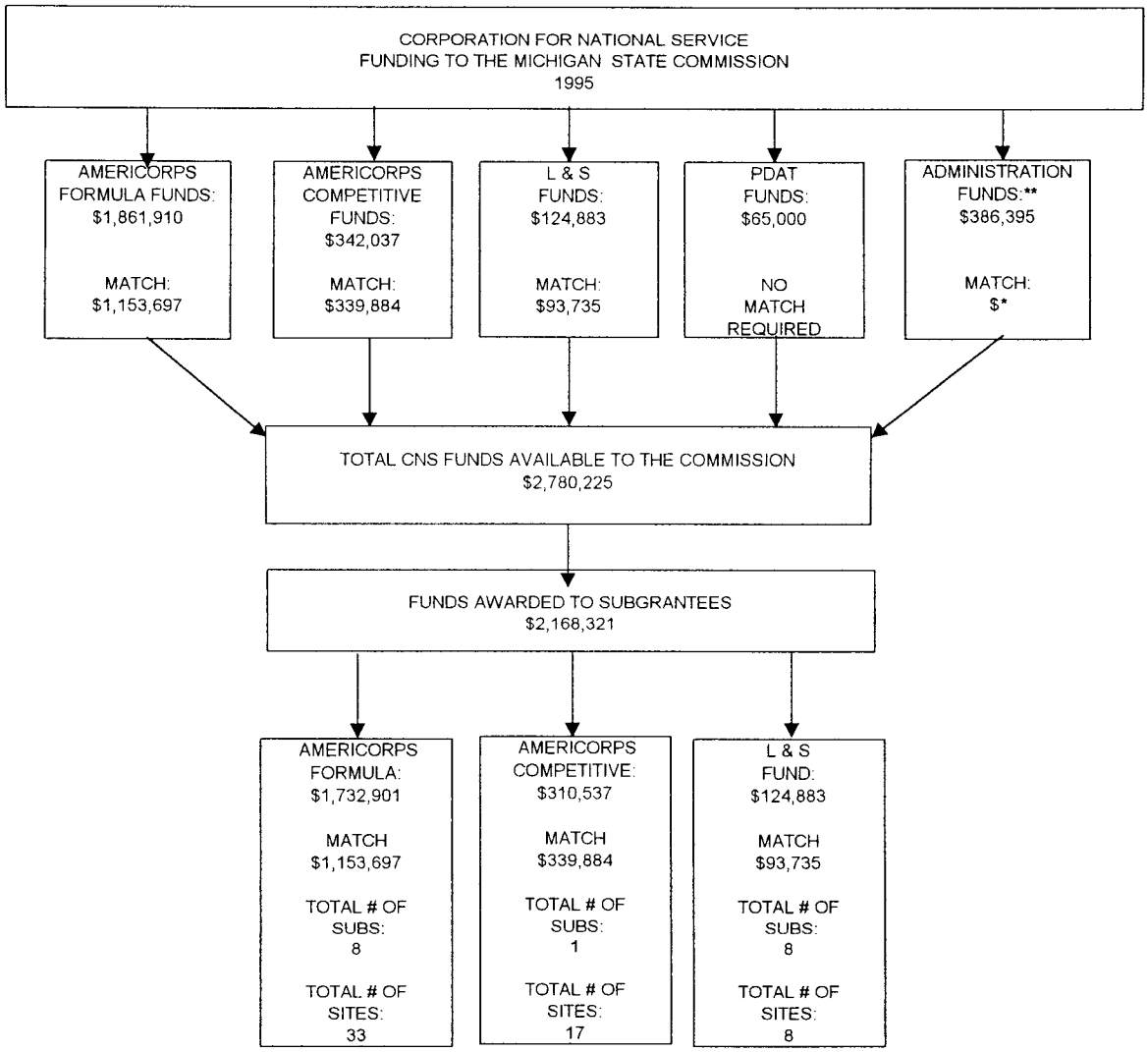
Annually, the Commission receives grant funds to provide technical assistance to its subgrantees. Procedures are in place at the Commission to (1) identify training needs of subgrantees through periodic staff meetings with the program directors and a needs assessment survey; (2) notify subgrantees of 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 the information and use of the Office of the Inspector General, management of the Corporation for National and Community Service, the Michigan Community Service Commission, 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
January 21, 2000

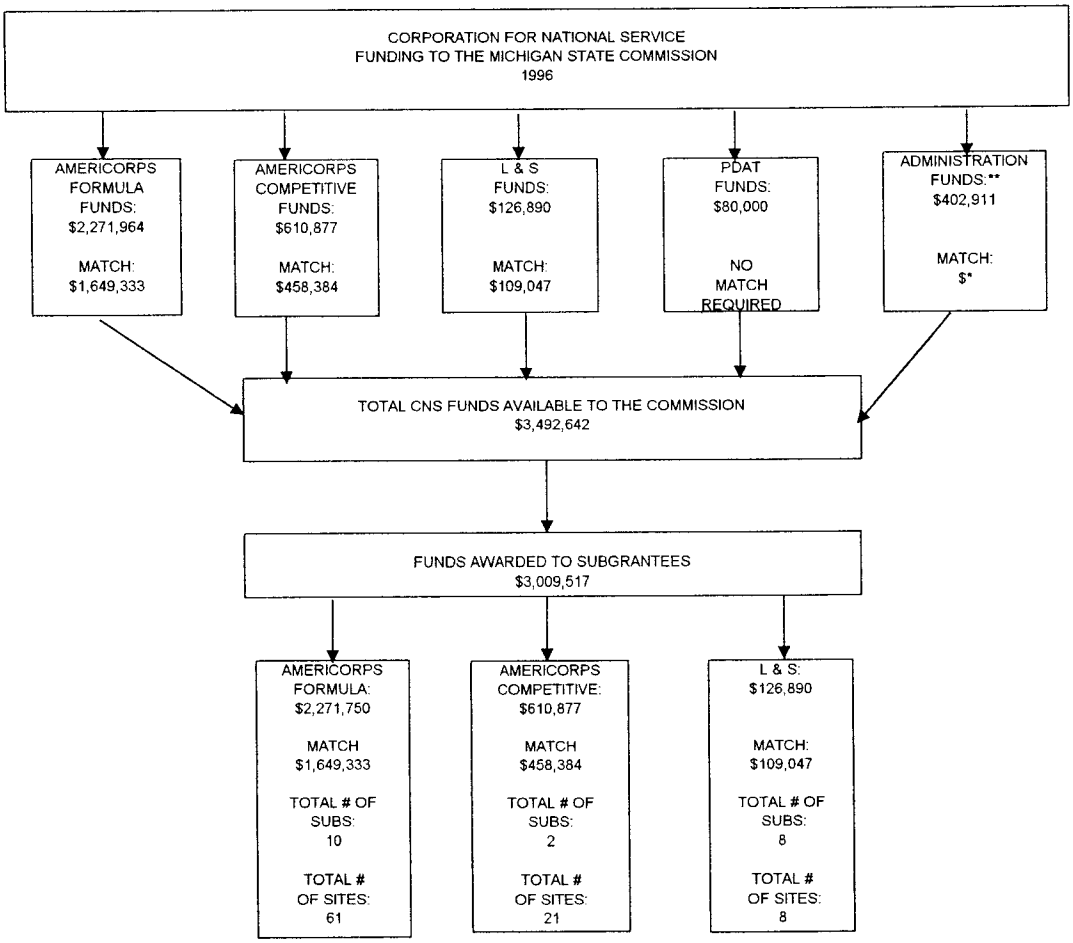
APPENDIX A – MICHIGAN COMMISSION FUNDING



Total Carryovers for 1995 (Not included in the current year funding amounts above):
Administration: $ 71,151.00
AmeriCorps: -

* Information not received from the Commission
** Disability funds included in grant award

APPENDIX A – MICHIGAN COMMISSION FUNDING

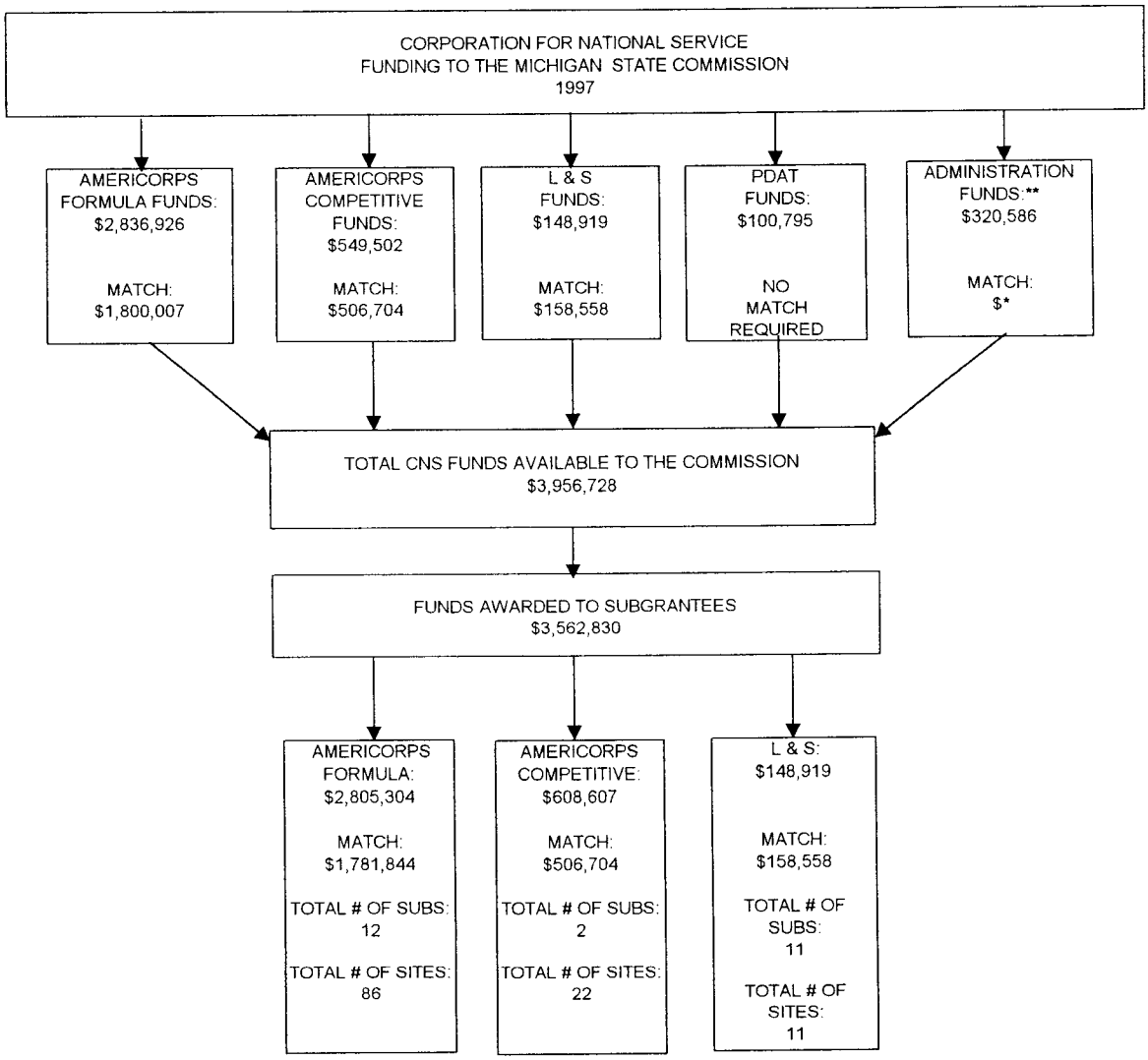


Total Carryovers for 1996 (Not included in the current year funding amounts above):

PDAT:	$ 57,482.00
AmeriCorps:	$ 166,013.00
Administration	$ 100,000.00

* Information not received from the Commission
** Disability funds included in grant award

APPENDIX A – MICHIGAN COMMISSION FUNDING

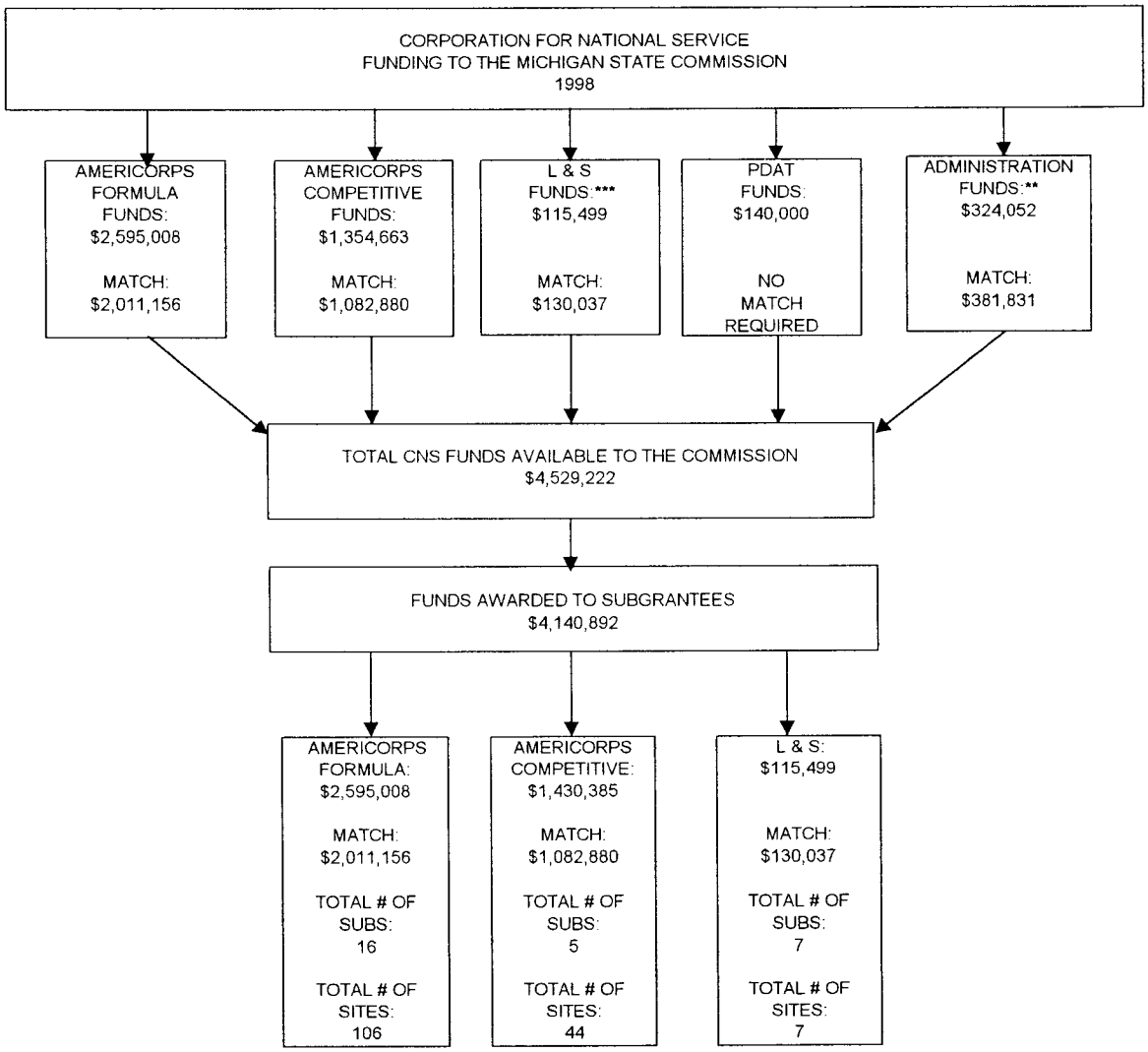


Total Carryovers for 1997 (Not included in the current year funding amounts above):

PDAT:	$	20,000
AmeriCorps:	$	107,676
Administration:	$	90,000

* Information not received from the Commission
** Disability funds included in grant award

APPENDIX A – MICHIGAN COMMISSION FUNDING



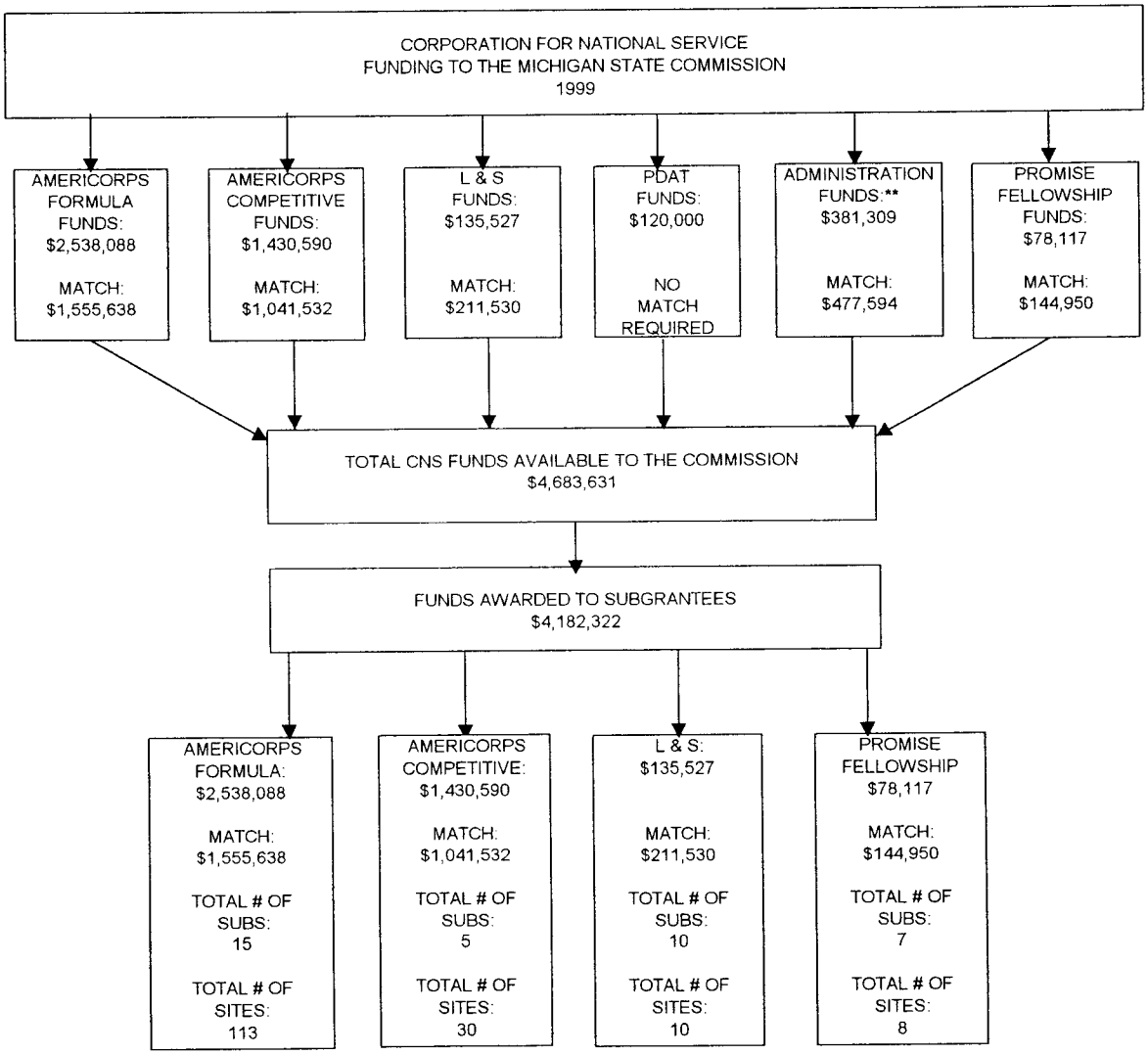
Total Carryovers for 1998 (Not included in the current year funding amounts above):

PDAT:	$	30,000
AmeriCorps:	$	75,722

** Disability funds included in grant award

*** Learn & Serve amount represents funds from 1997. A no cost extension was awarded for the 1998 program year and the funds were used to renew the subgrantee from the prior year.

APPENDIX A – MICHIGAN COMMISSION FUNDING



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

Administration $ 145,549

** 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 items, 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 the oversight of subgrantees and their 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 MICHIGAN

JOHN ENGLER, Governor

MICHIGAN COMMUNITY SERVICE COMMISSION

Chairperson
Michelle Engler

Executive Director
Kyle Caldwell

111 S. Capitol Ave.
George W. Romney Bldg., 4th Floor
Lansing, Michigan 48913
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June 1, 2000

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

Re: Draft Report of the Pre-Audit Survey of the Michigan Community Service Commission.

Dear Ms. Jordan:

The Michigan Community Service Commission (MCSC) and the Internal Auditor from the Michigan Department of Career Development (MDCD) have reviewed the draft report of the Pre-Audit Survey referenced above and disagree with two statements outlined in the **Results in Brief in the Pre-Audit Survey Report of the Michigan Community Service Commission** and contest the overall pre-audit survey process. It was our understanding that a pre-audit survey was to be a learning tool for state commissions and the Corporation for National Service (CNS) and used to help find systems and procedures that may need to be strengthened. In fact, at the entrance meeting, the auditors from Urbach, Kahn and Werlin P.C. stated that this process was to find common areas of weakness from the commissions across the nation for CNS to develop training for the grantees and state commissions. However, based upon our experiences with the pre-audit survey process and the draft report, it appears that this pre-audit survey was by all standards, an audit and should be subject to all the standards, rules and regulations of the A-133 Single Audit Act.

One of the large areas of concern that the MCSC has with the pre-audit survey was the brief time the auditors spent on site. The auditors from Urbach, Kahn and Werlin P.C. were on site for fewer than three full days. It is difficult to understand how a firm would be able to review a six-year period involving five funding sources in only three days. This is especially troubling as the Office of Auditor General for the State of Michigan took more than one full month to perform a two-year audit limited to our Michigan's AmeriCorps program. The MCSC feels that many of

the broad and unfounded findings noted in the draft report could have been addressed during the pre-audit survey visit had representatives from Urbach, Kahn and Werlin P.C. taken sufficient time to obtain the documentation requested.

Brief Response to "Results in Brief' from the Pre-Audit Survey Report of the Michigan Community Service Commission (Page1):

The MCSC was surprised to find the statement in the draft report stating that we do not have adequate controls in place for the fiscal administration of grants nor have adequate controls in place to evaluate and monitor subgrantees. This item was not discussed in either the exit meeting or in the pre-audit survey report finding letters. In fact, many if not all of the minor findings in the report are based on documents that are more than three years old.

That leads to a second area of concern involving the broad, inaccurate and exaggerated wording of the pre-audit survey findings. Page 1 refers to the fiscal and monitoring systems being inadequate while the evidence used to support these statements is from several years past. These findings do not represent the effectiveness and integrity of the MCSC's current systems. The auditors noted that MCSC's systems are currently adequate in their exit interview, but neglected to include that information in the written report. This response includes evidence of this disparity which should be noted in the final report.

The specific responses to items made in the draft:

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

This issue was not discussed during the on site review, the exit conference on January 21, 2000, nor in the follow up conversations and the Audit Survey - Preliminary Findings letters that the MCSC received and to which the MCSC provided a written response (Attachment A).

The MCSC just completed an extensive major audit of its AmeriCorps program for the fiscal years 1996-1997 and 1997-1998 conducted by the State of Michigan Department of Auditor General. During this audit, there were no major findings and the audit did not identify any fiscal management inadequacies in the administration of grants. The MCSC's systems, controls, and procedures are largely based upon similar systems in place at the Department of Career Development's Office of Workforce Development. These systems have been in place for many years and in addition, the MCSC is located in a major state department that has experience in successfully and prudently handling well over $520 million dollars in federal funds each year.

Based upon the few pre-audit survey findings that were not cleared up during the period of the survey and the time frame between the survey and the draft report, the statements are not supported by the facts.

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

The MCSC continues to improve and strengthen its subgrantee monitoring processes. Many of the suggestions proposed by the auditors have, in fact, been addressed and incorporated into our monitoring policies. The MCSC feels that monitoring of its subgrantees is one of its most important responsibilities and has increased staff size to ensure that program monitoring is of the highest quality and our greatest priority.

The statement above is not supportable based upon the one remaining issue in the draft report regarding program monitoring. In addition, no where in the draft report are the changes to the processes and policies addressed. If in fact the revised policies, which address all the concerns of the monitoring issue, had been included in the draft report, the only issue identified for program monitoring would be addressed.

Page 6 "Lack of documentation to support the review of certain information during the renewal process."

All previous information collected on subgrantees, including progress reports and site visits, is used during the review process. The program officer and the Director of Programs are part of the review team and any areas of concern with any returning subgrantee are addressed as part of their continuous improvement plan. However, the MCSC did not in the past utilize a checklist during the review process. MCSC is in the process of creating a checklist that will document the review for audit purposes. It should be noted that the MCSC immediately addresses all concerns and issues that arise from the progress reports and or site visits. These are also well documented in grantee files and therefore, any issues with regard to subgrantees are normally handled prior to the new grant renewal period.

Page 6 "Lack of assessment of subgrantee applicant's Financial Systems during the selection process."

All applicants successfully completing the original screening processes are required, as part of their submission, to supply their most recent audit and include a completed Financial Management Survey prior to the selection of new grants. The Director of Finance and Administration reviews all documents to determine the financial capability of the subgrantee. This process has been in place for the last two grant years. The lack of a checklist that the auditors could see that showed the documents were reviewed prior to the grant award was, to our knowledge, the only issue. The documents listed above are included with the subgrantee files. As with all review documents, these will be included on the checklist for audit purposes. In addition, the MCSC does not make it a practice to require returning subgrantees to fill out this checklist every year.

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As a returning grantee, we have been monitoring their financial systems during the previous grant year. As the majority of MCSC subgrantees are returning grantees, financial management checklists will only be included in a small percentage of the files.

Page 7 "Lack of evidence of Financial Status Report review, including matching recalculation."

"Fifteen instances where we were unable to determine whether the match was re-calculated by the commission; and"

The MCSC does in fact review the match of each of its subgrantees. Prior to issuing payments to our subgrantees, a Cash Request Checklist (Attachment B) is filled out that verifies match amounts and the percentage of administration being charged to the grant. If it is determined that a subgrantee is not meeting their match, grantees are asked to submit a written response with a plan for bringing the match up the required level. The MCSC has been using this checklist for over two years now and it has become a very useful tool in verifying that our subgrantees meet their required match. In addition, MCSC utilizes the monthly expenditure form on the Web Based Reporting System (WBRS) to verify match compliance. Again, this was clearly explained to the auditors at our on-site exit interviews and in a written follow-up (See attachment A).

"Several instance where FSRs submitted by subgrantees were not accurately prepared or completed."

Based upon documentation received during the exit meeting, there were only two instances where the FSRs were possibly not accurate. In one instance, the total federal funds available for the University of Michigan did not match up with the two years of subgrants. It was explained to the auditor that this was a result of the program's status as a competitive funded AmeriCorps program and the result of carry over funds. The program would show the actual amount of Federal Funds available (1st Year grant - unspent 1st year + 2nd Year grant funds). Based upon this formula, our two years of grants may total $800,000, but if $100,000 was the amount of the carryover, the subgrantee could show $700,000 in total federal funds available. (400,000 - 100,000 + 400,000 = $700,000 in Federal Funds available, the two grant years = $800,000). This was explained to the auditor on site, and is something that was out of the control of the MCSC during the cumulative period of subgrants from CNS.

The second instance was from a small Learn & Serve grant from 1998 that did not total properly. The Commission has since changed its reporting systems and all FSRs are now keyed into a computerized spreadsheet by our department's federal accountants who check and compare the numbers reported. Any discrepancies are then worked out with the subgrantee prior to our submission of the aggregate FSR report.

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In addition, the finding stated, "We also determined that Commission personnel do not compare the FSRs to the subgrantees' accounting records or other supporting documentation during site visits."

This statement is false. In fact, during the last two years the MCSC has utilized an impartial contractor to perform a complete fiscal site visit on all of its AmeriCorps subgrantees. This visit included a complete review and audit of one month's expenditures. The contractor reviewed all expenses to make sure that it was authorized and reported correctly. In addition, the contractor verified that all documentation tied correctly into other reports. For example, the contractor looked at all expenses and internal accounting records to verify that the monthly expenditure report was correct and also compared the reports to the most recent FSR completed. This information was reported to the auditors during the on-site visit. The subgrantee on-site fiscal audit program worked exceptionally well and the MCSC plans on expanding this process to all of its grant programs in the future.

Page 7 "Late submission of Financial Status Reports."

This has been, and will continue to be, one of the most difficult aspects of the CNS grant management process for commissions. The MCSC has been working very hard to help its subgrantees report on time. One of the tools that we have started to use is the Cash Request Checklist. All payments to subgrantees are held pending receipt of any missing documentation. We will continue to look at new processes that will assist us in meeting the required FSR submission deadlines. Our last FSR submission for the AmeriCorps grant included 21 out of 22 FSR's (or 95%) submitted on time. The last FSR was submitted two weeks after the due date and the MCSC is working with the program to help them meet future deadlines.

Page 8 "Inability to determine the timeliness of the receipt of FSRs."

The MCSC has updated its policies to ensure that all documentation received from subgrantees is date stamped upon receipt.

Page 8 "The Commission did not maintain all required FSRs."

Again, this is an inaccurate statement. The MCSC does in fact maintain copies of all FSRs submitted by its subgrantees. In fact, original and duplicate FSRs are maintained in two different locations- in the program files, and in the office of the Director of Finance and Administration. The finding identified three instances where FSRs were not maintained. The FSRs in question were found and copies were given to the auditors after the exit meeting and prior to the auditors leaving the site. Based upon subsequent conversations with the auditors, it was determined that they did not have the FSRs. The MCSC offered to fax copies of the FSRs in question to the auditors as part of the follow

up letters, but we were informed that it was unnecessary in that no matter what documentation was provided at that point, it would not change the finding. The MCSC can supply any of the missing FSRs and we feel that this finding may have been caused, in part, by the short time frame that the auditors were on site. The MCSC administrative assistant for Finance and Administration was able to produce the FSRs within a very short time frame after we were supplied the list of the missing documentation.

Page 9 "The Commission could not provide the dollar amount of the match for the administrative grant."

This item was never addressed in the exit meeting nor in subsequent conversations. The auditor called and asked for this information on the afternoon that the report was being forwarded to CNS's Inspector General. The Director of Finance and Administration supplied the last two years of match and informed the auditor that since the match was not reported on the FSRs, the actual numbers were available but not readily available. The auditor was informed that due to a change in accounting systems at the State of Michigan and the fact that accounting records from these periods had been sent to archives, it would take at least a week to order the files and obtain the amount of match funds for the periods in question. At no time did we indicate that the MCSC could or would not be able to produce the amount of match for the period. Since the report was going over to the Inspector General's office that day, there was not enough time to obtain the required information. If this item had been addressed during the exit meeting, the MCSC would have had plenty of time to determine the amount of match during those years.

Page 9 "The evaluating and monitoring system for the subgrantees needs to be improved at the Commission."

This finding maintained that the MCSC did not include certain information from site visit documentation, specifically names of the members reviewed, identification of member files where exceptions were identified, and the procedures followed to select the members reviewed. Because of the Freedom of Information Act and the privacy laws at the state and federal levels, the MCSC did not previously include member names in the site visit documentation. However, as a result of the Auditor General's audit of the Michigan's AmeriCorps program, we have changed our procedures to include the information listed above. In addition, we have developed a process for randomly selecting members for review to ensure that a representative sample of the program is examined. A copy of the new site visit procedures and instructions are included as Attachment C. These new procedures went into effect during the grant year of 1999-2000.

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Based on all of the above, the MCSC expects that several changes will be incorporated in the final report. If you have any questions on our response to the Draft Report of the Pre-Audit Survey of the Michigan Community Service Commission, please contact either of us at (517) 335-4295.

Sincerely,

Kyle Caldwell, Executive Director
Michigan Community Service Commission

Garreth C. Gross, Director of Finance and Admin.
Michigan Community Service Commission

Attachments (3)
cc: Deb LaPine, MDCD
Larry Misiewicz, MDCD

CORPORATION
FOR NATIONAL
SERVICE

MEMORANDUM

TO: Luise S. Jordan

THRU: Anthony Musick

FROM: Deborah R. Jospin
Bruce H. Cline

DATE: May 15, 2000

SUBJECT: Response to the Draft Audit Report 00-25 Pre-Audit Survey of the Michigan Community Service Commission

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We have reviewed the draft report on your pre-audit survey of the Michigan Commission. Given the nature of the report, this response serves as our proposed management decision. We note that your preliminary assessment recommend a full-scope financial audit at the Michigan Commission for 1995 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 Michigan 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 Michigan Commission."

Some of the conditions cited in the "results in brief" section of the report include concerns related to the lack of assessment of subgrantee applicants' financial systems during the selection process. It was also noted that the Commission does not have adequate controls in place for the fiscal administration of grants or similarly, there are inadequate 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 follow-up with Michigan, 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 Michigan Commission provide semi-annual reports on their actions to correct conditions cited in the OIG pre-audit survey.

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CERTIFIED PUBLIC ACCOUNTANTS

Inspector General
Corporation for National Service

RE: Michigan Community Service Commission's Response to Pre-Audit Survey Report

We have reviewed the Michigan Commission's response to the Pre-Audit Survey Report. This letter summarizes their response and our evaluation to their comments.

UKW strongly disagrees with two comments made by the Commission in its response. First, UKW did discuss all findings and missing documentation issues during our exit conference with Commission management on January 21, 2000. We also forwarded our finding write-ups to the Commission on April 2, 2000 which restated documentation and other problems discussed at the exit conference. While the Commission responded on April 11, 2000, they did not provide additional documentation to resolve these issues.

Secondly, we were able to complete our fieldwork in an efficient manner based on a significant amount of procedures performed prior to the on-site fieldwork. UKW requested the Commission complete a grant roster and internal control questionnaire prior to our arrival. This allowed UKW to select our sample and allowed the Commission ample time to accumulate the necessary documentation prior to our team's arrival at the Commission.

The time spent by UKW on site at the Commission in no way compromised the quality of our work. In addition, the OIG subsequently reviewed and approved our workpapers.

Below please find our responses to certain comments made by the Commission, detailed in Appendix C.

Page 2, 1st paragraph: The deficiencies identified in the fiscal administration of grants and controls surrounding the evaluation and monitoring of subgrantees were discussed with the Commission during our exit conference as well as in our April 2, 2000 e-mail transmission of finding write-ups to the Commission.

Page 2, 3rd paragraph: UKW disagrees with the Commission statement that this issue was not discussed during our on-site review. UKW's exit conference agenda stated..."There is no documentation of subgrantee FSR review by the Commission, including documentation of matching recalculation or review subgrantee level... In addition, subgrantee FSRs are not tied to the subgrantee financial

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An Independent Member of Urbach Hacker Young International

systems during site visits". UKW also provided Michigan Commission personnel a copy of our exception summary prior to our departure. Our finding write-up also stated "Controls over the administration of grants needs to be improved at the Michigan Community Service Commission.

In the Commission's April 11, 2000 letter to UKW, the Commission asserted that they provided us with copies of all missing FSRs prior to our departure. However, UKW never received these FSRs. As a result, UKW does not believe any changes to the report are warranted at this time.

Page 3, 1st paragraph: As a result of the deficiencies identified during our review, we believe the statement in the results in brief section is warranted.

Page 3, 3rd paragraph: No response is needed by UKW.

Page 3, 4th paragraph: While the Commission asserted that personnel reviewed the financial capabilities of each applicant during the past two grant years, no documentation exists to support that this review was actually performed. In response to our finding, the Commission has added procedures to their selection checklist to be used in future program years. However, in the Commission's response, they stated that the MCSC does not make it a practice to require returning subgrantees to fill out this checklist every year. Since financial systems can change from year to year, UKW believes Commissions should evaluate the financial systems for all successful subgrantees, including renewal applicants. In addition, UKW was engaged to review and report on the procedures in place during the 1995 through 1998 program years, and only extremely limited testing was performed on the 1999 program year. Therefore, UKW does not believe any changes should be made to the report at this time.

Page 4, 1st comment: The checklist mentioned in the response was only in effect for the past two years (1998 and 1999). Our review covered the 1995 through 1999 years. UKW will revise the report to state that prior to 1998, the Commission did not document its recalculation of matching requirements.

Page 4,	2nd comment:	No response is needed by UKW.
Page 5,	1st paragraph:	As discussed above our review covered the 1995 through 1998 program years. The independent contractor was only engaged during the 1998 and 1999 program years.
Page 5,	2nd paragraph:	No response is needed by UKW.
Page 5,	3rd paragraph:	No response is needed by UKW.
Page 5,	4th paragraph:	UKW did not receive the FSRs in question while we were on-site. On April 2, 2000, UKW transmitted an e-mail to the Director of Finance summarizing our findings, which included the issue of missing FSRs. The Commission did not include these FSRs in their April 11, 2000 letter to UKW. Therefore, UKW does not believe any changes are warranted at this time.
Page 6,	1st comment:	UKW originally requested this information prior to our fieldwork, when we requested that the Commission complete the grant roster. Subsequent to the completion of our fieldwork, we requested the information for a second time and were told that this information was not readily available and would take a while to accumulate the necessary information as stated in our report. Therefore, we do not believe any changes to the report are warranted at this time.
Page 6,	2nd comment:	No response is needed by UKW.