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

## Pre-Audit Survey of the
## ARKANSAS SERVICE COMMISSION

## OIG Report Number 04-15

**Prepared by:**

**COTTON & COMPANY LLP**
**333 North Fairfax Street, Suite 401**
**Alexandria, Virginia 22314**

**This report was issued to Corporation management on August 9, 2004. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than February 9, 2005, and complete its corrective actions by August 9, 2005. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.**

Office of Inspector General
Corporation for National and Community Service
Audit Report 04-15

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

## OIG Summary

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), retained Cotton & Company LLP to perform a pre-audit survey of the Arkansas Service Commission (Commission). The objectives of the pre-audit survey were to evaluate: (1) the internal controls over grant management; (2) the pre-award selection process; (3) the administration of grant funds; and (4) the evaluation and oversight of subgrantees. The audit period included Program Years 2001–2002 and 2002–2003.

The Commission was awarded Corporation AmeriCorps Formula, Program Development and Training, and Administrative grants totaling $4,728,590 for Program Years 2001-2002 and 2002-2003. During the survey program years, the auditors noted the following:

- Established procedures were not in place to review invoices for accuracy and allowability;
- The Commission did not reconcile amounts reported on subgrantee Financial Status Reports (FSRs) to amounts claimed on invoices and to amounts paid by the Commission;
- The Commission did not have documentation to support the review and approval process it performed on renewal applicants, and it did not have documented procedures;
- The Commission notified subgrantees of two different record-retention periods;
- Subgrantee site visit monitoring procedures did not include verification of member time records to hours reported in WBRS; and
- Site visits were not adequately documented with regard to individuals interviewed, topics discussed, and recommendations made.

The auditors recommended performing limited procedures to address the survey findings.

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

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

**OFFICE OF INSPECTOR GENERAL**
**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE**
**PRE-AUDIT SURVEY OF THE**
**ARKANSAS SERVICE COMMISSION**

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April 23, 2004

Office of Inspector General
Corporation for National and Community Service

Cotton & Company LLP performed a pre-audit survey of the Arkansas Service Commission in accordance with terms of the January 20, 2004, statement of work by and between Cotton & Company and the Office of Inspector General (OIG), Corporation for National and Community Service.

The primary survey objectives were to evaluate the adequacy of the:

- internal controls over grant management;
- pre-award selection process;
- administration of grant funds; and
- evaluation and oversight of subgrantees.

We conducted our procedures in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States in 2003. We were not engaged to and did not conduct an audit of financial statements, the objective of which would be the expression of an opinion on the Commission's controls or on its compliance with laws and regulations. Accordingly, we do not express such an opinion. Further, our procedures were not sufficient to express an opinion on the Commission's internal controls or on its compliance with laws, regulations, contracts, and grants. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

This report is intended solely for the information and use of the OIG and is not intended to be, and should not be, used by anyone other than the OIG.

COTTON & COMPANY LLP

Alan Rosenthal, CPA
Partner

## SUMMARY OF RESULTS

We were engaged by the Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), to provide an assessment of systems and procedures in place at the Arkansas Service Commission to administer its AmeriCorps grants and monitor the fiscal activity of subgrantees. The primary objectives of this pre-audit survey were to evaluate the adequacy of the:

- internal controls over grant management;
- pre-award selection process;
- administration of grant funds; and
- evaluation and oversight of subgrantees.

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

- Established procedures were not in place to review subgrantee invoices for accuracy and allowability. While the Commission reviewed information submitted in the Web Based Reporting System (WBRS) for reasonableness and conducted site visits to validate claimed costs, it did not regularly use standardized procedures to ensure that claimed expenses at all subgrantees were supported and allowable.
- The Commission did not reconcile amounts reported on subgrantee Financial Status Reports (FSRs) to amounts claimed on invoices and to amounts paid by the Commission during Program Year 2001-2002. The Commission also failed to develop adequate supporting documentation.
- The Commission did not have documentation to support the review and approval process it performed on renewal applicants, and it did not have documented procedures.
- The Commission notified subgrantees of two different record-retention periods.
- Subgrantee site visit monitoring procedures did not include verifying member time records to hours reported in WBRS.
- Subgrantee site visits were not adequately documented with regard to individuals interviewed, topics discussed, and recommendations made.

The findings and recommendations presented in this report describe these matters in detail.

Based on the results of our preliminary assessment, we recommend performance of limited procedures to address the issues identified herein for Program Years 2001-2002 and 2002-2003. The audit risk related to the Commission's systems for administering its AmeriCorps grants and its policies and procedures for monitoring the fiscal activity of subgrantees is at a minimum level for Program Years 2001-2002 and 2002-2003. At a minimum, we recommend that the Corporation follow up with the Commission to determine that appropriate corrective actions have been taken to address conditions reported herein. The Corporation should also consider these conditions in its future oversight and monitoring of the Commission.

## BACKGROUND

### Corporation for National and Community Service

The National and Community Service Trust Act of 1993, which amended the National and Community Service Act of 1990, established the Corporation for National and Community Service. The Corporation funds opportunities for Americans to engage in service that fosters civic responsibility, strengthens communities, and provides educational opportunities for those who make a substantial commitment to service.

The Corporation awards grants and cooperative agreements to State commissions, nonprofit entities, tribes, and territories to assist in creating full-time and part-time national and community service programs. Through these grants, AmeriCorps members perform service to meet educational, human, environmental, and public safety needs throughout the nation, especially addressing needs related to poverty. In return for their service, program participants may receive a living allowance and post-service educational benefits.

The Corporation awards approximately 75 percent of its AmeriCorps funds to State commissions. State commissions are responsible for developing and communicating a vision and ethic of service throughout their States.

Additionally, State commissions, acting as grantees, distribute funds to subgrantees to enable them to administer service programs. State commissions are responsible for monitoring subgrantee compliance with grant requirements. The commissions also are responsible for providing training and technical assistance for the service programs. State commissions are, however, prohibited from directly operating national service programs.

### Arkansas Service Commission

The Arkansas Service Commission operates within the Division of Volunteerism (DOV), which is housed under the Arkansas Department of Human Services (DHS). The DOV promotes and supports volunteerism in the private, nonprofit, and governmental sectors as a means of solving problems for all Arkansans. Before the creation of AmeriCorps, the Arkansas Commission received a $3.4 million Delta Service Corps grant in 1992; Delta Service Corps was a tri-state service project that became a model for AmeriCorps. As an entity within DHS, the Commission received management and infrastructure support, including human resources, financial

accounting, administrative assistance, and procurement from DHS's Office of Finance and Administration (OFA).

The Commission had five full-time employees, including an executive director, program officer,[1] PDAT coordinator, Promise Fellows/disabilities coordinator, and executive secretary. The Commission is annually subject to an OMB Circular A-133 audit performed for the State. Its grants have not, however, been selected as major programs and therefore have not been subjected to detailed testing.

The Commission provided the following information for Program Years 2001-2002 and 2002-2003.

| Program Year | Expenditures of Corporation Funding | Commission Matching Funds |
|---|---|---|
| 2001-2002 | $2,111,540 | $770,209 |
| 2002-2003 | $2,617,050 | $936,023 |

## OBJECTIVES, SCOPE, AND METHODOLOGY

We were engaged by the OIG to provide an assessment of systems and procedures in place at the Commission for administering its AmeriCorps grants and monitoring the fiscal activity of its subgrantees. The primary purposes of this pre-audit survey were to evaluate the adequacy of the:

- internal controls over grant management;
- pre-award selection process;
- administration of grant funds; and
- evaluation and oversight of subgrantees, (including fiscal monitoring of AmeriCorps State subgrantees), the monitoring of program accomplishments and other performance statistics, and the monitoring of AmeriCorps member eligibility and service-hour reporting.

Our survey included the following procedures:

- Reviewing applicable laws, regulations, grant provisions, the Corporation's *State Administrative Standards Instrument*, and other information to gain an understanding of legal, statutory, and programmatic requirements;
- Reviewing OMB Circular A-133 reports and grant agreements between the Corporation and the Commission for Program Years 2001-2002 and 2002-2003.

[1] The position of program officer was vacant during fieldwork.

- Obtaining information from Commission management to complete the flowcharts in Appendix A, which document the hierarchy of Corporation funding to the Commission for Program Years 2001-2002 and 2002-2003; and

- Conducting inquiries, observations, investigations, recalculations, evaluations, and examinations of a limited sample of source documents to meet the objectives and methodology specified in Appendix B.

As part of the procedures performed, we documented and tested internal controls in place at the Commission. We summarized the results of our work to develop the findings and recommendations presented in this report. We discussed all findings with Commission management during an exit conference on April 23, 2004. Additionally, we provided a draft of this report to the Commission and the Corporation. Commission and Corporation responses to our findings and recommendations have been included as Appendices C and D, respectively.

## RESULTS OF FIELDWORK

### Internal Controls

According to 45 CFR § 2541.200, the Commission must maintain financial management systems that provide for "[a]ccurate, current, and complete disclosure of the financial results of financially assisted activities." The Commission must also provide "[e]ffective control and accountability . . . for all grant and subgrant cash, real and personal property, and other assets."

As part of DHS, the Commission had documented controls, guidelines, and policies for accounting and human resource procedures that evidenced a commitment to competence and effective organizational structures. The OFA at DHS provided accounting support for the Commission. The OFA handled payments and recorded transactions in the accounting system when the Commission's executive director and DHS approved drawdown requests. The State accounting system allowed for detailed management of costs.

The Commission reviewed monthly invoices from subgrantees against budgeted amounts and made inquiries when it noted discrepancies. During subgrantee site visits, it performed procedures to reconcile a sample of invoices to supporting documentation.

**Issue: Established procedures were not in place to review subgrantee invoices for accuracy and allowability.**

Correspondence between the Commission and subgrantees provided evidence that WBRS information was used to review submitted invoices for reasonableness; however, no established procedures were in place to ensure that claimed expenses were supported and allowable for all subgrantees. Although the Commission reviewed supporting documents for a sample of costs during site visits, it did not perform site visits for all subgrantees during the program years under review. Claimed costs for these subgrantees were not validated.

We tested six subgrantee files. One subgrantee (Cotton Plant School District) claimed more than 5 percent of its total expenditures as administration expenses. The Commission did not notice the error and paid the full amount claimed, thus overpaying the subgrantee by $212.46. After reviewing several additional invoices from other subgrantees, this appeared to be an isolated incident. However, without periodic detailed reviews, errors such as this can occur.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, Section C(1), Basic Guidelines, states:

> To be allowable under Federal awards, costs must meet the following general criteria:
>
> > a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards. . . .
> >
> > j. Be adequately documented.

Additionally, 45 CFR§ 2540.110 limits the use of Corporation funds for administrative costs to 5 percent.

**Recommendation:** We recommend that the Commission document and enhance policies and procedures for reviewing monthly invoices. A standardized checklist would provide evidence and ensure the completeness of the review and provide evidence that the review was conducted. These procedures should include checking WBRS member information against member support costs claimed, recalculating administrative fees, and periodically requesting expense support to validate expenses for allowability and accuracy.

**Issue: The Commission did not reconcile amounts reported on subgrantee FSRs to amounts claimed on invoices and to amounts paid by the Commission during Program Year 2001-2002. The Commission also failed to develop adequate supporting documentation.**

The Commission started to reconcile amounts reported on subgrantee FSRs and Periodic Expenditure Reports (PERs), amounts claimed on subgrantee invoices, and amounts paid by the Commission to the subgrantees during the Program Year 2002-2003 closeout process. It had not, however, performed such reconciliations before that program year.

During our review of reconciliation worksheets prepared for Program Year 2002-2003, we found no documentation to explain discrepancies. According to the OFA account supervisor, follow-up was performed, but explanations were not documented. Upon further research, OFA was able to provide support for one of the two discrepancies.

Without adequate reconciliation efforts, the potential exists that payments made to a subgrantee could be different than amounts reported or claimed by the subgrantee. Also, amounts reported to the Corporation may not be accurate.

OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments,* Attachment, Paragraph (3)(b), states that continuing Federal awards must be reconciled at least annually, and program performance and financial reports must be evaluated. The Circular requires the following items to be reviewed:

> (1) A comparison of the recipient's work plan to its progress reports and project outputs,
>
> (2) The Financial Status Report (SF-269),
>
> (3) Request(s) for payment,
>
> (4) Compliance with any matching, level of effort or maintenance of effort requirement, and
>
> (5) A review of federally-owned property.

**Recommendation:** We recommend that the Commission develop a formal policy to ensure that costs claimed by subgrantees on FSRs and PERs are reconciled to monthly invoices and OFA payment records. The policy should include procedures requiring that any differences be investigated and resolved, with explanations fully documented.

**Selecting Subgrantees**

As stated in 45 CFR § 2550.80(b), each State commission must "[a]dminister a competitive process to select national service programs to be included in any application to the Corporation for funding."

The Commission advertises fund availability by:

- Placing advertisements in the only statewide newspaper;
- Sending postcards to the subgrantees on the Commission's mailing list and to those that have expressed an interest in the program;
- Sending announcements to local DHS offices; and
- Posting a notice of fund availability on the Commission's web site.

It also conducts applicant workshops to provide assistance to organizations interested in applying.

The Commission conducts pre-award financial and programmatic risk assessments of potential subgrantees throughout the evaluation phases. New applications undergo a rigorous review by three committees comprised of peer, grant, and staff reviewers. Conflict-of-interest statements are required for all reviewers. Peer reviewers, who are experts in specific areas, are asked to perform standardized reviews of applicants in their areas of expertise. Commission staff also perform reviews of all applications. Grant reviewers are commissioners who perform the standardized review and conduct budget reviews for all applicants. The commissioners have final funding decision authority.

Commission staff review renewal applications and provide recommendations to the commissioners, who have the final approval authority.

**Issue: The Commission did not have documentation to support the review and approval process it performed on renewal applicants, and it did not have documented procedures.**

The Commission could not demonstrate that it incorporated past evaluations, such as Site Visit Monitoring Instruments and Quarterly Progress Reports, in the grant renewal process. Past evaluations would have helped the Commission review past accomplishments, objectives, and performance measures. While Commission representatives stated that they reviewed these documents, evidence was not available to support the claim that these review procedures were performed.

Without documentation supporting the claim that the Commission considered past performance in its funding decision, the possibility exists that performance was not considered, and that subgrantees with poor performance may have been renewed for another program year.

As stated in 45 CFR § 2517.500, a State commission must evaluate the quality of program leadership, past performance of the program, and the extent to which the program builds on existing programs when reviewing an application for a subgrant.

**Recommendation:** We recommend that the Commission develop a standardized renewal form, such as a checklist, that documents the full evaluation process performed, including a review of past monitoring results, and the outcome of those processes.

## Administering Grant Funds

According to 45 CFR § 2550.80(d), State commissions "will be responsible for administering the grants and overseeing and monitoring the performance and progress of funded programs."

The Commission reviews PERs to ensure that subgrantees claim matching contributions in accordance with the budget. During site visits, the Commission reviews program matching files and conducts sample testing to verify allowability and proper valuation of the matching amounts previously reported. Before grant closeout, the Commission reviews a subgrantee's final PER and confirms that the subgrantee is in compliance with matching requirements.

The Commission has procedures in place to ensure that reports are received in a timely manner, including sending reminder e-mails. It has also established subgrantee reporting deadlines earlier in the month to allow the Commission to submit its reports in a timely manner. Subgrantees report both financial and programmatic results in WBRS. The Commission reviews subgrantee progress reports and sends review results back to the subgrantee.

**Issue: The Commission notified subgrantees of two different record-retention periods.**

The Commission's executive director indicated that the Commission required subgrantees to meet the Corporation's retention period of three years from submission of the final FSR. We noted during our review, however, that subgrantee grant agreements required subgrantees to retain grant documentation for a period of five years from grant expiration.

The Commission was unaware that the record-retention period outlined in the subgrantee grant agreement differed from that communicated to subgrantees at orientation and during program meetings. Although the five years from the grant expiration is likely longer than the three-year retention period, subgrantees may fail to meet the Corporation's required retention period. In instances where grants are not timely closed-out the three-year retention period may exceed the state's five-year requirement.

Retention and access requirements for records are outlined in 45 CFR § 2541.420, which states that records must be retained for three years from the day when the grantee submits its final expenditure report.

**Recommendation:** To meet both Corporation and State record-retention requirements, we recommend that the Commission require subgrantees to retain documents for the longer period.

## Evaluating and Monitoring Grants

As stated in 45 CFR § 2550.80(e), a Commission, "in concert with the Corporation, shall be responsible for implementing comprehensive, non-duplicative evaluation and monitoring systems."

Commission personnel review the Quarterly Progress Reports and prepare feedback letters summarizing review results with regard to each section of programmatic information.

The Commission performs formal site visits of new subgrantees in the first program year and also performs site visits of large-dollar subgrantees, subgrantees with small staffs, and subgrantees with recruitment and retention issues. The Commission usually performs site visits every other year for subgrantees that report results and financial information promptly and that have been found to be in compliance with Corporation and Commission requirements during the first-year visit.

During site visits, the Commission uses a standard Site Visit Monitoring Instrument, and Commission staff review results and verify reported program accomplishments. As part of the site visit's Financial Compliance review, the financial analyst evaluates the subgrantee's accounting systems, records, and support for grant expenditures. After the monitoring visit, the Commission provides a site visit feedback report outlining program strengths and weaknesses. If any noncompliance findings are identified, the Commission follows up to resolve these findings.

Also, DHS's Audit Section reviews OMB Circular A-133 reports for audits performed on subgrantees. DHS reports any applicable issued noted to the Commission.

**Issue: Subgrantee site visit monitoring procedures did not include a verification and reconciliation of member time records to hours reported in WBRS.**

When completing the Subgrantee Site Visit Monitoring Instrument, Commission reviewers verify the accuracy of member information by reviewing member files and conducting member interviews. Subgrantee monitoring procedures do not, however, include a requirement to reconcile member information in the site files to WBRS.

For example, to verify member service hours, the site monitoring instrument used by the Commission requires reviewers to examine time logs to ensure that they correctly record service hours, and that time logs are signed by the supervisor and the member. The instrument does not include a step to reconcile information from the time logs to WBRS. Without this step, members who fail to complete the minimum number of service hours may improperly receive education awards.

**Recommendation:** We recommend that the Commission modify its existing Site Visit Monitoring Instrument to include procedures for ensuring the accuracy of member information in WBRS.

**Issue: Subgrantee site visits were not adequately documented with regard to individuals interviewed, topics discussed, and recommendations made.**

The Commission's policies and procedures require interviews with members, supervisors, and program partners to determine if member activities are in accordance with the grant provisions. The Site Visit Monitoring Instrument used by the Commission did not fully and clearly

document monitoring efforts performed in this regard. Site visit interviews and topics of discussion were not documented and it was unclear who had provided comments and what their official positions were in the program.

Without this additional documentation, future users of the monitoring instrument will be unable to determine if interviews were conducted, and what information was gathered. For example, we could not ensure that discussions were held on key topics, such as prohibited activities and training support.

According to 45 CFR § 2541.400(a):

> Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grant monitoring must cover each program, function or activity.

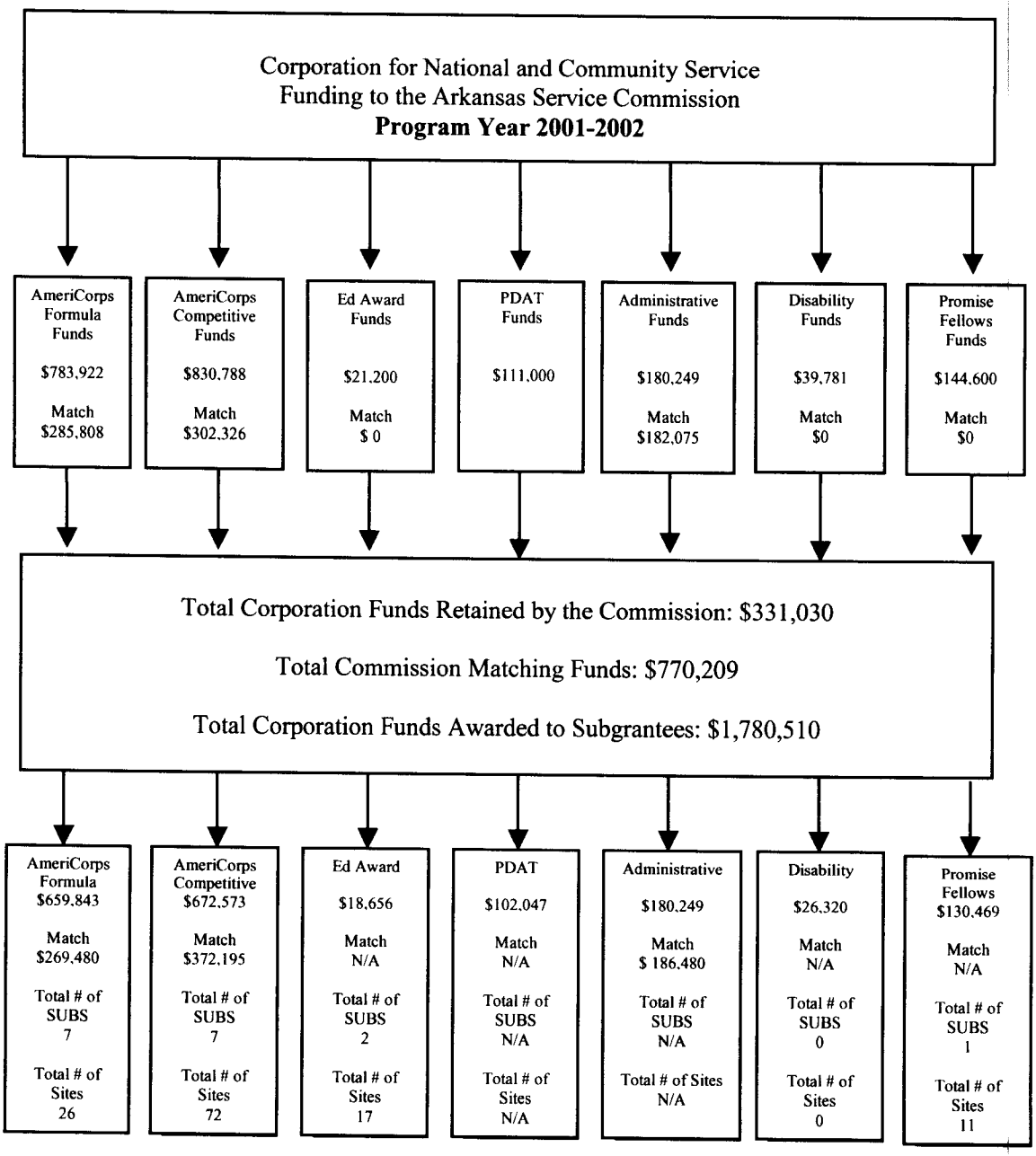
Additionally, Section 4.3 of the *Reference Manual for Commission Executive Directors* states that "the commission must evaluate whether the subgrantees comply with legal, reporting, financial management and grant requirements and ensure follow through on issues."

**Recommendation:** We recommend that the Commission document additional details of interviews in the Site Visit Monitoring Instrument, including interview content and the names of members, supervisors, and program partners who have been interviewed.

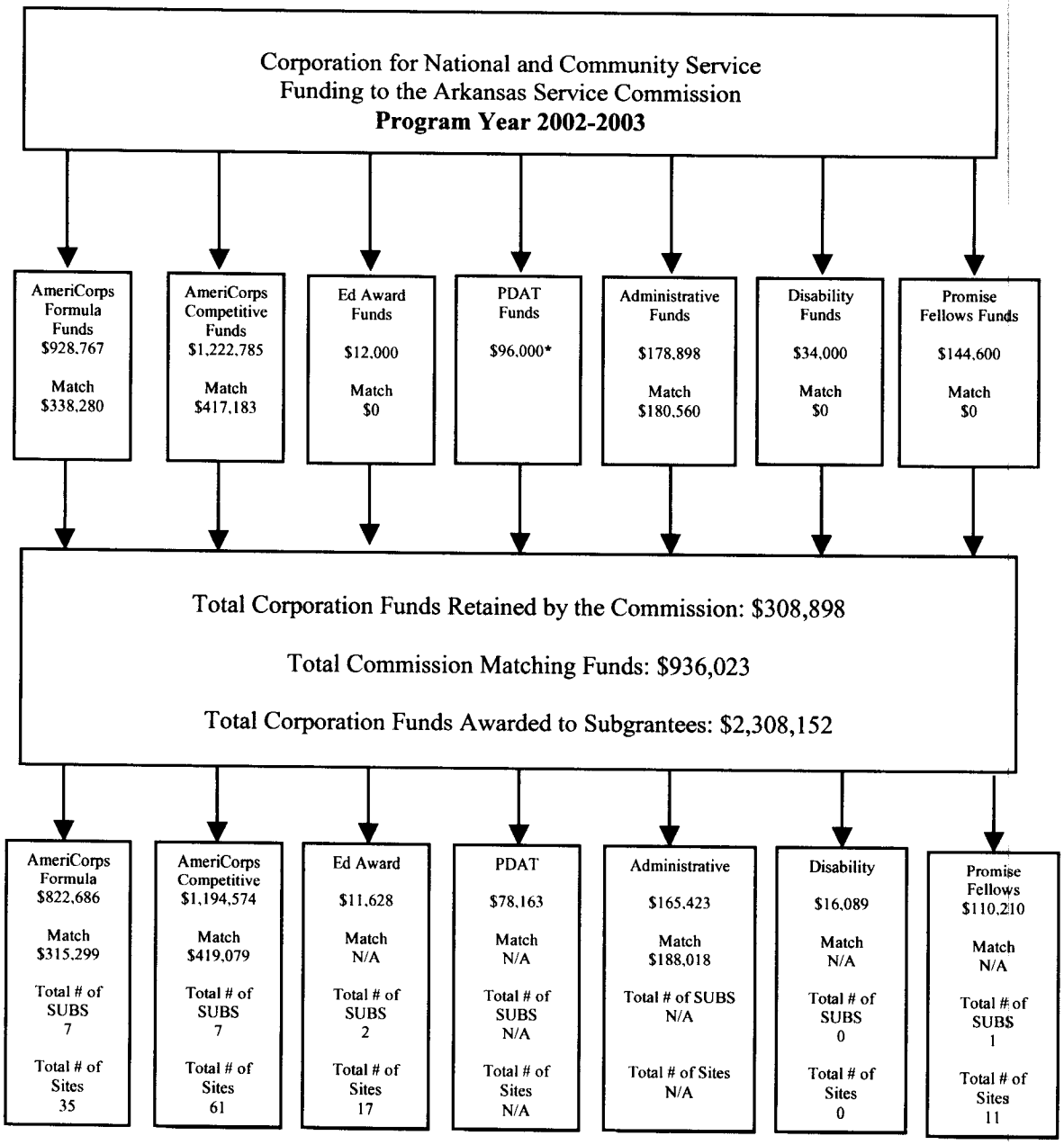
# APPENDIX A

# FUNDING HIERARCHY FLOWCHARTS

**Office of Inspector General**
**Corporation for National and Community Service**
**State Commission Pre-Audit Survey: Arkansas**
**Funding Hierarchy Flowchart**



**Office of Inspector General**
**Corporation for National and Community Service**
**State Commission Pre-Audit Survey: Arkansas**
**Funding Hierarchy Flowchart**




* The Commission received an additional $7,551 of carryover funding from 2001-2002, which is not included in the amount above.

# APPENDIX B

## DETAILED ENGAGEMENT OBJECTIVES AND METHODOLOGY

**Office of Inspector General**
**Corporation for National and Community Service**
**State Commission Pre-Audit Survey: Arkansas**
**Detailed Engagement Objectives and Methodology**

## INTERNAL CONTROL

Our objective was to assess the adequacy of financial systems and documentation maintained by the Commission to provide reasonable assurance that transactions were properly recorded and accounted for to: (1) permit preparation of reliable financial statements and Federal reports; (2) maintain accountability over assets; and, (3) demonstrate compliance with laws, regulations, and other compliance requirements.

To achieve these objectives, we reviewed promulgated guidance as well as identified internal control objectives and characteristics related to the Commission's ability to ensure compliance with Federal laws, regulations, and program compliance. Through inquiry, observation, and inspection of documents, we documented and tested the Commission's controls related to the control environment. We also reviewed operating procedures in place regarding allowable costs, eligibility, matching, period of availability of Corporation funds, procurement, suspension, debarment, program income, subgrantee monitoring, and Commission reporting to the Corporation.

## SELECTING SUBGRANTEES

Our objective was to determine if the Commission had an open, competitive process to select national service subgrantees. We examined policies and procedures related to assessing the adequacy of potential subgrantee financial systems, subgrantee controls to administer a Federal grant program, and processes for preventing conflicts of interest in the selection process at the Commission. We also determined if the Commission's systems and controls related to selecting subgrantees were functioning as designed.

To achieve these 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 interviewed key Commission management and documented procedures performed by the Commission to select subgrantees.

The Commission did not have formalized procedures related to approving renewal applicants; thus, we reviewed documentation of this process to determine what procedures appear to have been performed. This included reviewing risk assessment tools, reviewer packages, correspondence, memoranda, e-mails, and scoring tools.

We also conducted tests to determine if the Commission's systems and controls for selecting subgrantees were functioning as designed. Our testing methodology included selecting a judgmental sample of subgrantee selection files and reviewing file documentation for evidence

of selection criteria, as defined by Commission interviews, available documentation, and known best practices.

## ADMINISTERING GRANT FUNDS

Our objectives were to:

- Assess the adequacy of systems and controls used by the Commission to maintain appropriate financial management systems to disburse funds and track Commission and program expenses in accordance with legal and grant requirements.

- Determine if the Commission's organizational structure, staffing level, and staffing mix were conducive to effective grant administration.

- Determine if the Commission provided adequate guidance to subgrantees related to maintenance of financial systems, records, supporting documentation, and reporting of subgrantee activity.

- Assess the adequacy of financial systems and Commission documentation to support oversight of subgrantees and required reporting to the Corporation, such as FSRs, enrollment and exit forms, change of status forms, and audit reports.

- Determine if the Commission had procedures in place to verify the accuracy and timeliness of reports submitted by subgrantees.

To achieve the above objectives, we interviewed key Commission management and DHS OFA management. We also documented their policies and procedures to administer grant funds. Furthermore, we gained an understanding of manual and automated systems used by Commission and OFA personnel to administer grant funds through inquiry, observation, and system walkthroughs.

We obtained and reviewed the State's official policies and procedures related to administering grant funds. Commission procedures have not been formalized; we reviewed the documentation that was provided to determine what procedures appeared to be in place.

We then reviewed support for the Commission's subgrantee drawdown process. We also observed the Commission's procedures for reviewing the allowability of subgrantee expenditures, reviewed its assessment of match and administrative expenses claimed by a subgrantee on a Corporation grant, and reviewed the Commission's procedures for verification of program members and staff hours charged to grants.

We reviewed OFA's accounting posting modules for recording subgrantee pass-through transactions and the Commission's direct Corporation grant expenditures. We also observed the

flow of financial information through OFA's accounting system. We further compared these procedures to OFA's policies and procedures.

We reviewed FSRs and progress reports submitted by subgrantees and FSRs submitted by the Commission to the Corporation to assess accuracy.

We also conducted tests to determine if the Commission's systems and controls related to administering grant funds were functioning as designed. Our testing methodology included selecting a judgmental sample of subgrantee files. We reviewed documentation and other corroborating documentation to verify that stated policies and procedures were in operation and that controls in place were sufficient.

**EVALUATING AND MONITORING GRANTS**

Our objectives were to:

- Identify and assess the adequacy of the systems and controls used by the Commission to implement a comprehensive subgrantee evaluation and monitoring process.

- Determine if the Commission had an established subgrantee site visit program in place and assess the effectiveness of its design in achieving monitoring objectives.

- Determine the adequacy of Commission procedures to assess subgrantee compliance with Corporation regulations (e.g., eligibility of members, service hour reporting, prohibited activities, payment of living allowances to members, and allowability of costs claimed under grants by subgrantees).

- Assess the adequacy of Commission procedures for obtaining, reviewing, and following up on findings included in subgrantee single audit reports, where applicable.

- Determine if program goals were established, and if program results and performance statistics were accurately reported and compared to these goals.

- Assess the adequacy of procedures in place to evaluate whether subgrantee programs were achieving their intended purposes.

To achieve these objectives, we interviewed key Commission management and reviewed the program monitoring policy. This policy is broad and does not provide details regarding actual monitoring procedures; thus, we reviewed sample documents to determine what procedures appeared to be in place. This included Site Monitoring Visit Instruments, Progress Report analysis memoranda, OMB Circular A-133 Desk Review Guides, e-mails, and correspondence.

We then tested the Commission's systems and controls related to evaluating and monitoring subgrantees to determine if they were functioning as designed. Our testing methodology included selecting a judgmental sample of subgrantee files. We reviewed other corroborating documentation to verify that policies and procedures were in operation. We further determined if the Commission had received and reviewed OMB Circular A-133 audit reports from subgrantees.

# APPENDIX C

# ARKANSAS SERVICE COMMISSION RESPONSE

**Arkansas Service Commission**
DHS/Division of Volunteerism
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Little Rock, AR 72203-1437

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July 26, 2004

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

Dear Mr. George:

After studying the draft report on the Pre-Audit Survey conducted by Cotton and Company at the Arkansas Service Commission April 13-23, 2004, I am sending the Commission's response with this cover letter. The response has two parts.

- Part I consists of corrections of errors and clarifications of facts.
- Part III contains the Commission's response to specific issues and recommendations cited in the report.

Please let me know if any further clarification or documentation is required.

Sincerely,

Albert Schneider, Executive Director

**Arkansas Service Commission**
**Response to Draft Pre-Audit Survey Report**
**Part I: Corrections and Clarifications**

1. The draft report first arrived as an e-mail attachment. The cover letter was directed to me as Executive Director of the Arkansas Service Commission, but the street address, suite number, city, state and zip code all were those of the Arizona Commission. The correct postal address for the Arkansas Service Commission is P. O. Box 1437, Slot S230, Little Rock, AR 72203.

2. On page 3, in paragraph 3, "program director" should be changed to "program officer." At state commissions, the staff person who oversees program operations is a program officer, while the person who directs operations for an individual subgrantee is a program or project director.

3. On page 8, the issue regarding record-retention periods contains a statement that is confusing and contradicts the recommendation. The statement in full is: "Although five years from grant expiration is likely longer than the three-year retention period, subgrantees may fail to meet the Corporation's required retention period." The recommendation is "To meet both Corporation and State record-retention requirements, we recommend that the Commission require subgrantees to retain documents for the longer period, which is five years after grant expiration." This issue is more fully addressed in the response in Part III.

**Arkansas Service Commission**
**Response to Draft Pre-Audit Survey Report**
**Part II: Response to Specific Issues and Recommendations**
**Issue/Recommendation #1: Procedures to Review Invoices for Accuracy and Allowability**

A. The Commission has routinely checked invoices against the number of members in the program based on WBRS records and contacted programs when it appeared that living allowance costs exceeded the number of members enrolled. In two cases (Good Neighbor Center and First Baptist Church) this procedure led to a lengthy investigation of the programs' records, questioning of costs and reimbursement to the Commission/Corporation.
B. In order to document this and other steps in invoice review more completely, the Commission developed and began using a standardized checklist for reviewing program invoices immediately after the Pre-Audit Survey. Copies of a completed checklist for one of the programs and the form that will be used in 2004-2005 are attached to this response (**Attachment 1** and **Attachment 2**).
C. The Commission has added review of program invoices with this checklist to the Program Officer's job description. A copy of that job description is attached to this response (**Attachment 3**). Please note the italicized portions for the changes made to address the issue/recommendation.
D. The Commission has revised Commission Compliance Requirements to include a requirement that programs submit expense support to validate expenses for allowability and accuracy. A copy of the revised Compliance Requirements is attached to this response (**Attachment 4**). Please note the italicized portions for the changes made to address the issue/recommendation. The Compliance Requirements will continue to be incorporated in the grant agreement with each program. During the month of August 2004 and in subsequent years the executive director of the Commission will review this new requirement with all program directors to ensure proper understanding and compliance.

**Arkansas Service Commission**
**Response to Draft Pre-Audit Survey Report**
**Part II: Response to Specific Issues and Recommendations**
**Issue/Recommendation #2: Reconciliation of Subgrantee FSRs and PERs to Monthly Invoices and DHS – OFA Payment Records.**

A. With the invoice review process described in Issue #1, the Commission has already taken steps that will result in early detection and correction of discrepancies between subgrantee and Commission records.
B. The Commission has added to its policies a requirement that the Program Officer reconcile on a quarterly basis program FSRs, PERs and invoices to DHS – OFA records, as well as investigate and resolve differences and document explanations. In addition, the program officer will retain records of the quarterly reconciliation in Commission FSR files. A copy of the policy is attached to this report (**Attachment 5**). Please note the italicized portions for the changes made to address the issue/recommendation.
C. Beginning with the period ending March 31, 2004, the Commission began implementing the policy. In the absence of a program officer the Executive Director met with the DHS – OFA representative to reconcile the reports. A copy of those reconciliation documents is attached to this response (**Attachment 6**).
D. The Commission has revised the Program Officer's job description to include the quarterly reconciliation of program FSRs, PERs and invoices to DHS – OFA records (**Attachment 3**). Please note the italicized portions for the changes made to address the issue/recommendation.

**Arkansas Service Commission**
**Response to Draft Pre-Audit Survey Report**
**Part II: Response to Specific Issues and Recommendations**
**Issue/Recommendation #3: Standardized Renewal Form**

A. Members of the Commission staff have reviewed program performance, including timely and accurate submission of reports, recruitment and retention of members, progress towards objectives/performance measures and participation in training in reviewing and approving renewal applications for AmeriCorps funds. Most of the information they considered was included in detailed analyses and memoranda back to programs on their quarterly progress and financial reports (Income Report, Periodic Expense Report and FSR) and in the memoranda to program directors following site visits. In at least one instance, Boys and Girls Clubs of Faulkner County, the review resulted in refusal to fund the subgrantee for a third year.

B. In order to document its review more completely the Commission has developed the Arkansas AmeriCorps Program Assessment. Commission staff will complete this form in January of each year to determine funding for renewal applicants. They will use the same form in January and again in July to determine which programs should receive a site visit in the spring and fall. A copy of the Arkansas AmeriCorps Program Assessment is attached to this response (**Attachment 7**).

**Arkansas Service Commission**
**Response to Draft Pre-Audit Survey Report**
**Part II: Response to Specific Issues and Recommendations**
**Issue/Recommendation #4: Record Retention Period for AmeriCorps Program Documents**

A. The hinge statement in this section of the draft report defies logic: "Although five years from grant expiration is likely longer than the three-year retention period, subgrantees may fail to meet the Corporation's required retention period." It is difficult to imagine a scenario in which a subgrantee would fail to meet the federal record retention requirement if instructed to keep documents for five years from the expiration of the grant.
B. Further, the statement begs the question because a careful review of the documents we submitted shows that we have repeatedly communicated to our subgrantees the CNCS (three-year) requirement, not the (five-year) requirement contained in the DHS (state) grant agreement.
C. The Issue concludes with this Recommendation: "To meet both Corporation and State record-retention requirements, we recommend that the Commission require subgrantees **to retain documents for the longer period, which is five years after grant expiration**." Unfortunately the Recommendation contradicts the hinge statement cited above in Item A.
E. Given the problem with the Recommendation, the Commission plans instead to instruct subgrantees that they are subject to two record retention policies, one federal and one state, and that they are required to hold the records for whichever turns out to be longer. The Arkansas Service Commission has revised its Compliance Requirements accordingly. A copy of the revised Compliance Requirements is attached to this response (**Attachment 4**). Please note the italicized portions for the changes made to address the issue/recommendation. The Compliance Requirements will continue to be incorporated in the grant agreement with each program. During the month of August 2004 and in subsequent years the executive director of the Commission will review this new requirement with all program directors to ensure proper understanding and compliance.

**Arkansas Service Commission**
**Response to Draft Pre-Audit Survey Report**
**Part II: Response to Specific Issues and Recommendations**
**Issue/Recommendation #5: Verification and Reconciliation of Member Time Records to Hours Reported in WBRS**

A. The auditors recommend that the Commission modify its existing Site Visit Monitoring Instrument to include the procedures for ensuring the accuracy of member information in WBRS. The Commission proposes to address the issue in a different manner, i.e., by including this part of its monitoring process in the quarterly review of progress and financial reports.
B. Members of the Commission staff review team will request the program director to fax the signed time sheet of one randomly chosen member for the latest month entered in WBRS. The reviewer will check the WBRS time log for timeliness and accuracy, note any discrepancies, and notify the program director that the WBRS time log was submitted in a timely manner and is accurate or needs to be revised because of discrepancies. The program director will be required to make the corrections and report back to the Commission.
C. The Commission is choosing this method of monitoring the accuracy of WBRS time logs for the following reasons. First, it is difficult for the site visit team to collect all the data required in the current site visit document in one day. Second, by connecting the monitoring process to the quarterly progress report review, the Commission will actually be monitoring those records more frequently than if the review was limited to site visits which are conducted only once or twice a year.
D. Prior to the Pre-Audit Survey, the document the Arkansas Service Commission called its Program Monitoring Policy did not describe forms of monitoring other than site visits. It has been expanded to include other forms of monitoring that were covered elsewhere in Commission Policies and Procedures and new elements of monitoring that are being adopted in response to the draft report. A copy of the revised progress and financial report review procedure is attached to this report (**Attachment 8**). Please note the italicized portions for the changes made to address the issue/recommendation.

**Arkansas Service Commission**
**Response to Draft Pre-Audit Survey Report**
**Part II: Response to Specific Issues and Recommendations**
**Issue/Recommendation #6: Documentation of Site Visit Interviews**

A. The Arkansas Service Commission has always included interviews with AmeriCorps members and other stakeholders as part of its site visit process. Other interviewees have included host site supervisors, mentor teachers overseeing the activities of AmeriCorps tutors in schools, principals of schools and concerned community members. The visitor to the site made notes on the interviews and incorporated significant information in the memorandum to the program director following the site visit. In some instances these interviews have alerted the Commission to violations of the nondisplacement provision. This resulted in a strong warning to the program director to ensure that host sites not conscript AmeriCorps members to help with activities that others were paid to do such as substitute teaching, playground duty and secretarial or receptionist work

B. In order to document the form, substance and results of interviews with AmeriCorps members during site visits, the Commission has developed forms for an AmeriCorps member interview and AmeriCorps stakeholder interview. The forms include places for the name of the interviewee, the interviewee's relation to the program, the name of the interviewer and date. The Commission began using these forms during the June 2004 site visits and will use them in all future site visits. Copies of the forms are attached to this response (**Attachment 9** and **Attachment 10**).

# APPENDIX D

# CORPORATION RESPONSE

Corporation for
NATIONAL & COMMUNITY SERVICE

To: J. Russell George, Inspector General

From: Margaret Rosenberry, Director of Grants Management

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

Date: July 26, 2004

Subject: Response to OIG Draft Audit Report 04-15, Pre-Audit Survey of the Arkansas Service Commission

We have reviewed the draft Pre-Audit Survey of the Arkansas Service Commission. Due to the limited timeframe for response, we have not reviewed all the supporting documentation and corrective action plans submitted by the Commission. However, we note that the Commission has indicated they have implemented corrective action on all six recommendations and updated their written policies and procedures to reflect the recommendations made in the report. Within the next four months, the Corporation will complete its management decision and follow up with the Commission to confirm that implementation is complete.