Office of Inspector General
Corporation for National and Community Service

Pre-Audit Survey of the Montana Commission on Community Service
OIG Report Number 04-18

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This report was issued to Corporation management on August 23, 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 23, 2005, and complete its corrective actions by August 23, 2005. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

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May 21, 2004

Office of Inspector General
Corporation for National and Community Service

Cotton & Company LLP performed a pre-audit survey of the Montana Commission on Community Service (Commission). We performed this pre-audit survey in accordance with the terms of the statement of work dated February 23, 2004, 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. 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. Accordingly, we do not express such an opinion. Further, our procedures were not sufficient to express an opinion on the Commission's internal control 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

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OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

PRE-AUDIT SURVEY OF THE
MONTANA COMMISSION ON COMMUNITY SERVICE

SUMMARY OF RESULTS

Cotton & Company LLP was 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 Montana Commission on Community Service (Commission) for administering AmeriCorps grants and monitoring the fiscal activity of subgrantees. The primary purposes of the 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 offer the following preliminary assessments regarding the Commission's systems for administering AmeriCorps grants:

- The Commission did not have procedures to reconcile the cumulative balances of Financial Status Report (FSR) expenditures, Payment Management System (PMS) cash drawdowns, and State accounting records.
- The Commission did not document its consideration of past performance or financial risk assessments during the subgrantee selection process.
- The Commission did not close out its Competitive, Formula, and Administrative grants on time.
- The Commission did not adequately document its review of subgrantee expense documentation, member files, and member interviews.
- The Commission did not use the results of risk assessments in its subgrantee monitoring and evaluation process.

- The Commission did not adequately document its review of subgrantee audit reports.

- The Commission did not maintain grant file documents in accordance with record-retention policies.

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

During the period of our pre-audit survey, the Commission's AmeriCorps grants were not audited as a major program under Office of Management and Budget (OMB) Circular A-133.

Based on results of our preliminary assessment, we do not recommend performing a full-scope audit for Program Years 2001-2002 and 2002-2003. We recommend that the Corporation follow up with the Commission to determine that appropriate corrective actions have been taken to address conditions reported herein, and that the Corporation 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, with special attention focused on needs related to poverty. In return for their service, program participants may receive a living allowance and a monetary award for educational purposes.

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

Montana Commission on Community Service

Montana AmeriCorps programs are administered by the Governor's Office of Community Service, a State agency which is the administrative arm of the Montana Commission on Community Service (Commission). The Commission is attached to the State Department of Labor and Industry (DLI) for administrative purposes only.

The Commission operates with an executive director, program manager, and administrative assistant. To adequately segregate duties with limited resources, many of the financial functions of the Commission, such as payments to subgrantees and cash management activities, are handled by the Fiscal Support Bureau (FSB) of DLI.

As part of the Montana State Government, the Commission is included in the biannual OMB Circular A-133 audit. In the past four fiscal years, however, the Corporation's grants have not been selected as major programs, and the Commission has not received any other audits or reviews by the State. The State's OMB Circular A-133 audit has received an unqualified opinion for the past four years, indicating that the State's documented control environment is adequate for Federal grants management.

During our review, we noted that the Commission followed State procedures and internal controls. Additionally, DLI has been subject to audits and reviews performed by the same agency that performs the OMB Circular A-133 audits. These reports did not identify any weaknesses in controls over grants management that would affect the Commission. Therefore, while Commission grants were not specifically tested, controls established by the State and used by the Commission appeared to be adequate for administering Federal awards.

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

	Program Years			
Funding Source and Type	**2001-2002 Budget**	**2001-2002 Actual**	**2002-2003 Budget**	**2002-2003 Actual**
Administrative Grant	$ 135,319	$ 135,319	$ 133,316	$ 133,316
PDAT	111,000	111,000	103,000	103,000
Disability	64,386	44,709	67,405	72,235
AmeriCorps-Competitive	294,406	1,482,074	573,275	1,459,438
AmeriCorps-Formula	176,741	144,406	691,220	575,471
State Matching Fund	1,226,629	1,419,241	1,585,213	1,395,533
Total Funding	$2,008,481	$3,336,749	$3,153,429	$3,738,993

OBJECTIVES, SCOPE, AND METHODOLOGY

The Office of Inspector General engaged Cotton & Company to assess systems and procedures in place at the Commission for administering AmeriCorps grants and monitoring subgrantee fiscal activity. The primary purpose of this pre-audit survey was 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 subgrantees, monitoring of program accomplishments and other performance statistics, and monitoring of AmeriCorps member eligibility and service-hour reporting.

Our survey included the following procedures:

- Reviewing applicable laws, regulations, grant agreements, and provisions; the Corporation's State Administrative Standards Tool; and other information to gain an understanding of legal, statutory, and programmatic requirements.
- Reviewing the State's recent OMB Circular A-133 reports and other audit and review reports for DLI.
- Obtaining information from Commission management to complete the flowcharts in Appendix A, which show disbursement of Corporation funding to the Commission for Program Years 2001-2002 and 2002-2003.
- To the extent possible, conducting inquiries, observations, investigations, and examinations of a limited sample of source documents to meet the objectives and methodology specified in Appendix B.

The findings and recommendations presented in this report summarize the results of our work. We discussed all findings with Commission management during an exit conference on May 21, 2004. We also provided a draft of this report to the Commission and the Corporation for their responses, which are included as Appendices C and D, respectively.

RESULTS OF FIELDWORK

Internal Controls

According to 45 CFR § 2541.200(b)(1), which prescribes standards for financial management systems, the Commission must maintain systems that provide "[a]ccurate, current, and complete disclosure of the financial results of financially assisted activities." Paragraph (b)(3) requires the

Commission to provide "[e]ffective control and accountability . . . for all grant and subgrant cash, real and personal property, and other assets."

As a Montana State entity, the Commission follows State accounting policies and procedures and other guidance. Additional procedures are documented in the Commission's *Guide to AmeriCorps Program Management* which contains all of the grant management policies related to Corporation grants.

The FSB provides support to the Commission by managing of Corporation funds and provides additional segregation of duties. The FSB processes subgrantee payments, other accounts payable, and drawdowns; it also performs cash management functions. The State accounting system has separate codes specific to each Federal grant to track Commission activity and to track payments to each subgrantee.

To initiate a payment, the Commission must provide an approved payment request to the FSB. The FSB ensures that payments are made to subgrantees only with proper approval and available grant funds. The FSB also is responsible for drawdowns and prepares periodic drawdown requests based on expenditures incurred in each grant code. The Commission does not draw down Federal funds in advance of disbursement, but may approve a one-month advance of start-up funds for subgrantees.

Issue: The Commission did not have procedures to reconcile the cumulative balances of FSR expenditures, PMS cash drawdowns, and State accounting records.

The Commission did not reconcile cumulative expenditures reported on FSRs to the State accounting system records and on the Department of Health and Human Services' PMS cash drawdown balances. The Commission reported cumulative expenditures of $1,358,070 on its Formula FSR, compared to State accounting system records and PMS cash down balances of $812,396. A material difference of $545,674 exists.

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.

The difference is the result of a problem in the Web Based Reporting System (WBRS). When the first Formula FSR was prepared in August 2001, WBRS erroneously reported past expenditures on the competitive grant of $545,674 as the beginning balance of the first Formula FSR. The Commission had internal controls in place to ensure that individual drawdowns were supported by claimed expenditures. It did not, however, realize the importance of reconciling cumulative expenditures to cash drawdowns on a regular basis, which would have identified and corrected this error earlier.

Expenditures reported on FSRs were not properly supported by the State accounting system and were not the actual expenditures incurred under this grant. Periodic reconciliation is important to ensure that amounts reported to the Corporation are accurate, overpayments to subgrantees are identified, requests for additional obligations or deobligations can be made promptly, and officials with first-hand knowledge are still available to make decisions or respond to questions.

Recommendation: We recommend that a formal policy be developed to ensure that periodic reconciliations be performed of cumulative claimed costs. The policy should include procedures requiring that differences be investigated and resolved with explanations documented.

Selecting Subgrantees

According to 45 CFR § 2550.80(b)(1), State commissions are required to "[a]dminister a competitive process to select national service programs to be included in any application to the Corporation for funding."

The Commission administered an open, competitive process to select national service subgrantees. It provided notification of available funding through a variety of sources, in accordance with its *Guide to AmeriCorps Program Management*. The Commission also held informational meetings for new program applicants to provide them with basic information regarding the AmeriCorps program, including programmatic requirements and grant review components.

The Commission's review committee was comprised of one commissioner and three professionals from the nonprofit community who had prior grant experience. Each review committee member independently scored each application. Then, the committee members discussed the applications and ranked them. Commission employees also reviewed new proposals to analyze peer review results and further scrutinize the strengths and weaknesses of all proposals. The review committee did not typically conduct reviews for continuation proposals. For these, Commission employees conducted reviews of past performance and future plans.

Commissioners make final funding decisions based on the results of the reviews. Successful and unsuccessful applicants are notified of the results, and evaluation documents are available for review after the award process is complete.

Issue: The Commission did not document its consideration of past performance or financial risk assessments during the subgrantee selection process.

The Commission did not document its consideration of past performance or financial risk assessments for new proposals submitted by subgrantees that had been previously funded. Pre-Award and Financial Risk Assessment and Past Performance Review forms were not completed for previously funded subgrantees. Without adequate documentation, we are unable to determine if past performance and financial risk assessments were utilized during the subgrantee selection process.

According to 45 CFR § 2522.410(b)(2), *Organizational Capacity,* "[t]he Corporation will also consider an organization's capacity to carry out the program based on . . . the past performance of the organization or program."

Recommendation: We recommend that the Commission utilize the Pre-Award and Financial Risk Assessment and Past Performance Review forms during the subgrantee selection process for all subgrantees, regardless of whether they have been previously funded.

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 provided reporting guidance for FSRs, Periodic Expense Reports (PERs), and Quarterly Progress Reports to subgrantees. Subgrantee reporting due dates were set to allow the Commission to report to the Corporation in a timely manner. Late or incorrectly submitted reports resulted in a one percent penalty of total accrued expenditures upon a second offense. The Commission reconciled subgrantee FSR balances to cumulative expenditures as reported on the Payment Request submitted by the subgrantees, to ensure the accuracy of FSRs.

The Commission communicated document-retention requirements to subgrantees at orientation sessions as well as during the grant closeout process.

As noted above, the Commission had adequate controls and segregation of duties for reimbursing subgrantee expenditures.

Issue: The Commission did not close out its Competitive, Formula, and Administrative grants on time.

The Commission did not close out its Competitive, Formula, and Administrative grants within 90 days of the end of each project period, as required. The Commission stated that it was waiting for Corporation notice to close out the grants.

According to 45 CFR § 2541.500(b) *Closeout-reporting*, the grantee must submit all financial, performance, and other reports required as a condition of the grant within 90 days of grant expiration or termination.

Project period and close-out due dates for each grant are summarized as follows:

Grant	Project Period	Close-Out Due Date
Competitive	09/01/2000-12/31/2003 (Amendment No. 12)	03/30/2004
Formula	09/01/2000-11/30/2003 (Amendment No. 3)	02/28/2004
Administrative	01/01/2001-12/31/2003 (Amendment No. 3)	03/30/2004

The Commission was not in compliance with the Corporation's grant closeout requirements. If the programs are not properly closed out in time, the Corporation cannot know the status of the programs and whether any additional funding will be requested.

Recommendation: We recommend that the Commission immediately close out its overdue Competitive, Formula and Administrative grants.

Evaluating and Monitoring Grants

The Commission monitors subgrantee performance, evaluates program operations, and regulates compliance by conducting formal site visits of the subgrantees' offices at least once a year. The Commission also conducts site visits of the subgrantees' operating sites. Prior to conducting site visits, the Commission contacts subgrantees to discuss the purpose of the site visit. The Commission also reviews subgrantee progress reports, prior site visit reports, and other grant materials prior to conducting the site visit.

The Commission documents its site visit using the Montana Program Review Instrument (MPRI). The MPRI consists of five modules that cover AmeriCorps laws, provisions, and other Federal requirements. The five modules include reporting and communication compliance, member documentation compliance, financial compliance, policies and procedures compliance, and program effectiveness compliance. The Commission usually completes two or three modules in one year and completes the remaining modules in the following year.
When reviewing member compliance, the Commission selects a judgmental sample of member files and reviews the files to ensure that members are eligible to perform services, service hours are only accumulated for authorized activities, members are being paid according to established guidelines, members receive orientation and training, and members are not performing prohibited activities.

When reviewing for financial compliance, the Commission reconciles FSR expenditures to subgrantee accounting records and selects a judgmental sample of expenditures to test for allowability and proper support. The Commission also conducts interviews and administers surveys with program staff, members, and service recipients during site visits. The Commission uses the questionnaires and surveys to provide additional information for its assessment of program effectiveness. Upon completion of the site visit, the Commission sends the subgrantee a

summary of the site visit, including names of staff members that participated, statements summarizing comments of members interviewed, and any findings that were identified.

The Commission ensures that subgrantees comply with the requirements of OMB Circular A-133 by obtaining and reviewing subgrantee audit reports.

Issue: The Commission did not adequately document its review of subgrantee expense documentation, member files, and member interviews.

The Commission did not maintain documentation to support all subgrantee monitoring efforts during the subgrantee monitoring site visits. Specifically:

- The Commission stated it reconciled FSR expenditures to subgrantee accounting records and selected a judgmental sample of expenditures to test for allowability and proper support. No evidence exists to indicate whether discrepancies between FSR and subgrantee accounting records were identified and resolved, or to indicate the type of expenditure and expense documents reviewed during site visits.

- The Commission stated that it reviewed a judgmental sample of member files for compliance during site visits; however, there was no evidence to indicate the number of member files that were selected for review during the site visit or whether any problems were noted.

- The Commission stated that it conducted interviews with members. It did not, however, document the names of those members or specific discussion topics.

According to 45 CFR § 2541.400(a), *Monitoring by grantees,* 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 ensure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee 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 follow through on issues of noncompliance.

The Commission did not realize the importance of adequately documenting all of its monitoring efforts during the site visits.

Without documenting this information, the Commission cannot readily provide documentation to show that certain monitoring efforts were made. As a result, we were unable to determine if the Commission has adequate procedures to ensure allowability of costs claimed, member eligibility, and accuracy of member service hours. In addition, we could not determine if interviews were conducted, what information was discussed during the interviews, and whether any specific issues were identified. Thus, we could not ensure that key topics, such as prohibited activities and training support, were discussed during the member interviews.

Recommendation: We recommend that the Commission document the expenditure and member files sampled, which aspects are reviewed, contents of interviews with members, the names of those interviewed, the results of the review, and follow-up actions on identified issues.

Issue: The Commission did not use the results of risk assessments in its subgrantee monitoring and evaluation process.

The Commission did not monitor and evaluate subgrantees using the results of risk assessments. While the Commission utilizes pre-award and financial risk assessments in the new subgrantee selection process, the Commission does not use the results of these assessments in the subgrantee monitoring process. The Commission uses the same monitoring techniques for all subgrantees regardless of whether they are new and in the first year of operation or a continuous subgrantee in the fifth year of operation. In addition, the Commission does not consider factors such as the size of the subgrantee, amount awarded to the subgrantee, or past compliance problems, when monitoring and evaluating subgrantees.

Per 45 CFR § 2541.400(a), *Monitoring by grantees,* 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 ensure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.

The Commission was unaware that it should be using risk assessments or results of risk assessments in the subgrantee monitoring and evaluation process. Without use of the risk assessments or the results of risk assessments in the subgrantee monitoring and evaluation process, subgrantees may not be adequately monitored. For example, high-risk areas may not be covered during site visits, potentially resulting in problems remaining unidentified and unresolved.

Recommendation: We recommend that the Commission utilize risk assessments in the subgrantee monitoring and evaluation process.

Issue: The Commission did not adequately document its review of subgrantee audit reports.

The Commission did not have detailed documentation of its desk reviews of subgrantee audit reports. The only documentation of the Commission's reviews of a subgrantee audit report were three completed lines on the Grant File Review Checklist. The three lines indicated whether an A-133 or equivalent audit report had been received, whether findings or actions had been identified, and whether further action and responses from the subgrantee were required.

According to 45 CFR § 2541.400(a), grantees are required to monitor grant and subgrant supported activities to ensure compliance with applicable Federal requirements and that performance goals are being achieved. Additionally, Section 4.3 of the *Reference Manual for Commission Executive Directors* requires the Commission to evaluate whether the subgrantees

comply with legal, reporting, financial management, and grant requirements, and the Commission must ensure follow through on issues of noncompliance.

The Commission considered its documentation on the Grant File Review Checklist sufficient to support its review of the subgrantee audit reports. Without adequate documentation of review of subgrantee audit reports, we cannot easily determine if the possible presence of material weaknesses, reportable conditions, findings, and questioned costs related to the Corporation grant.

Recommendation: We recommend that the Commission improve documentation of its review of subgrantee audit reports to include information about material weaknesses, reportable conditions, findings, and questioned costs identified in the audit reports related to Corporation funding and take appropriate follow-up actions to address identified issues.

Issue: The Commission did not maintain grant file documents in accordance with record-retention policies.

The Commission did not ensure that all grant files were maintained as required by Corporation record-retention policies, as identified in the AmeriCorps provisions. Specifically, the Commission was unable to provide the following documents:

- Conflict of Interest (COI) Certification for one peer reviewer for Program Year 2003-2004.
- OMB Circular A-133 audit report for one subgrantee for the fiscal year ending June 30, 2002.
- Press releases from the Governor's office announcing availability of Commission funds for the Program Year 2003-2004 subgrantee selection processes.

AmeriCorps General Provision 26, *Retention of Records*, requires grantees to retain and make available all financial records, supporting documentation, statistical records, evaluation and program performance data, member information, and personnel records for three years from the date of the final FSR.

The Commission did not know why the COI certification and OMB Circular A-133 report were missing from its files, but thought that the OMB Circular A-133 report had been submitted to the Corporation. The Commission stated that the Governor's office was attempting to locate the announcement.

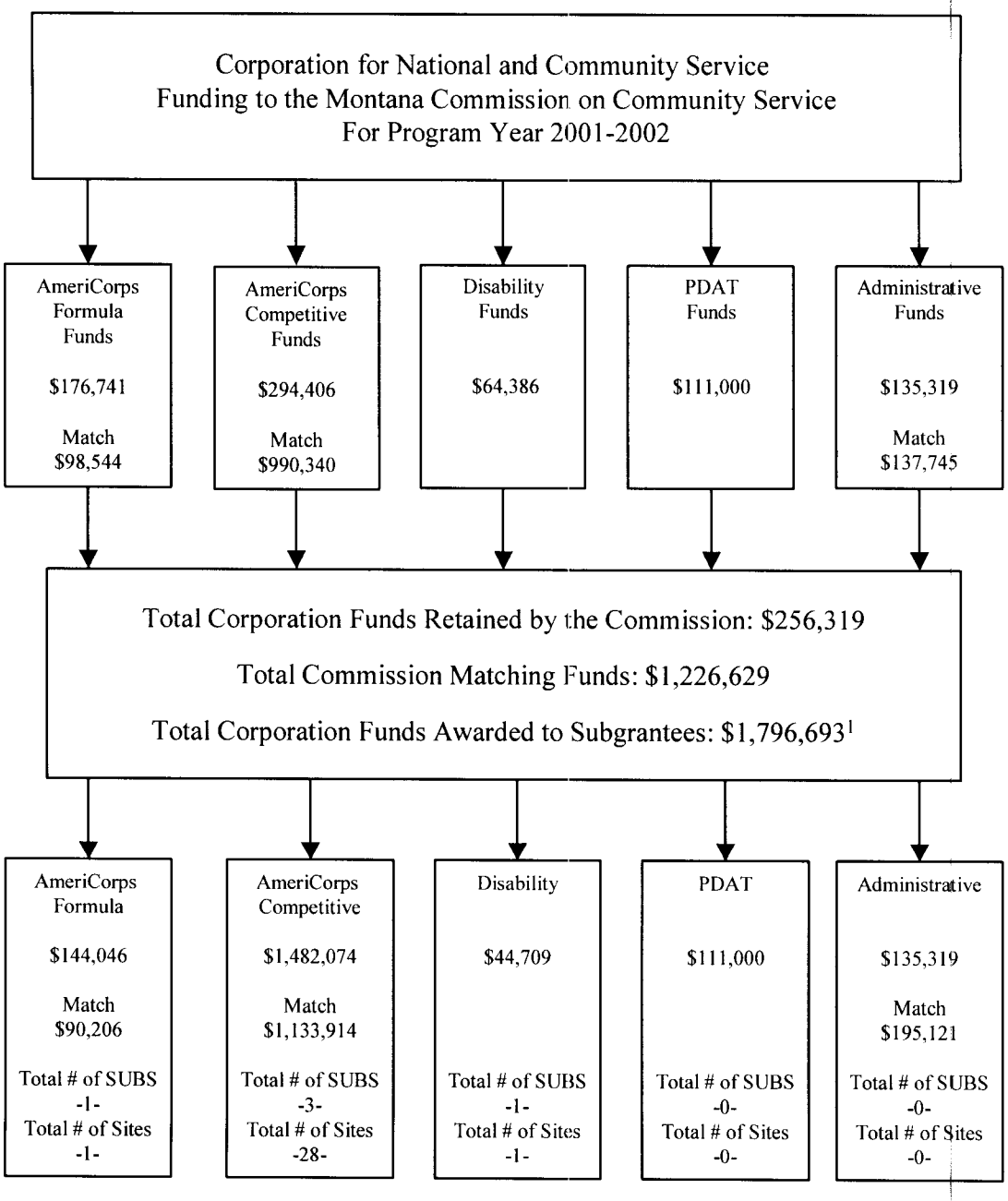
Without these documents, the Commission was unable to provide evidence that all subgrantee selection reviewers were free of conflicts, all available OMB Circular A-133 reports were obtained and reviewed, and the availability of funds for Program Year 2003-2004 was properly advertised.

Recommendation: We recommend that the Commission strengthen current record-retention polices to ensure that all grant documents are retained.

APPENDIX A

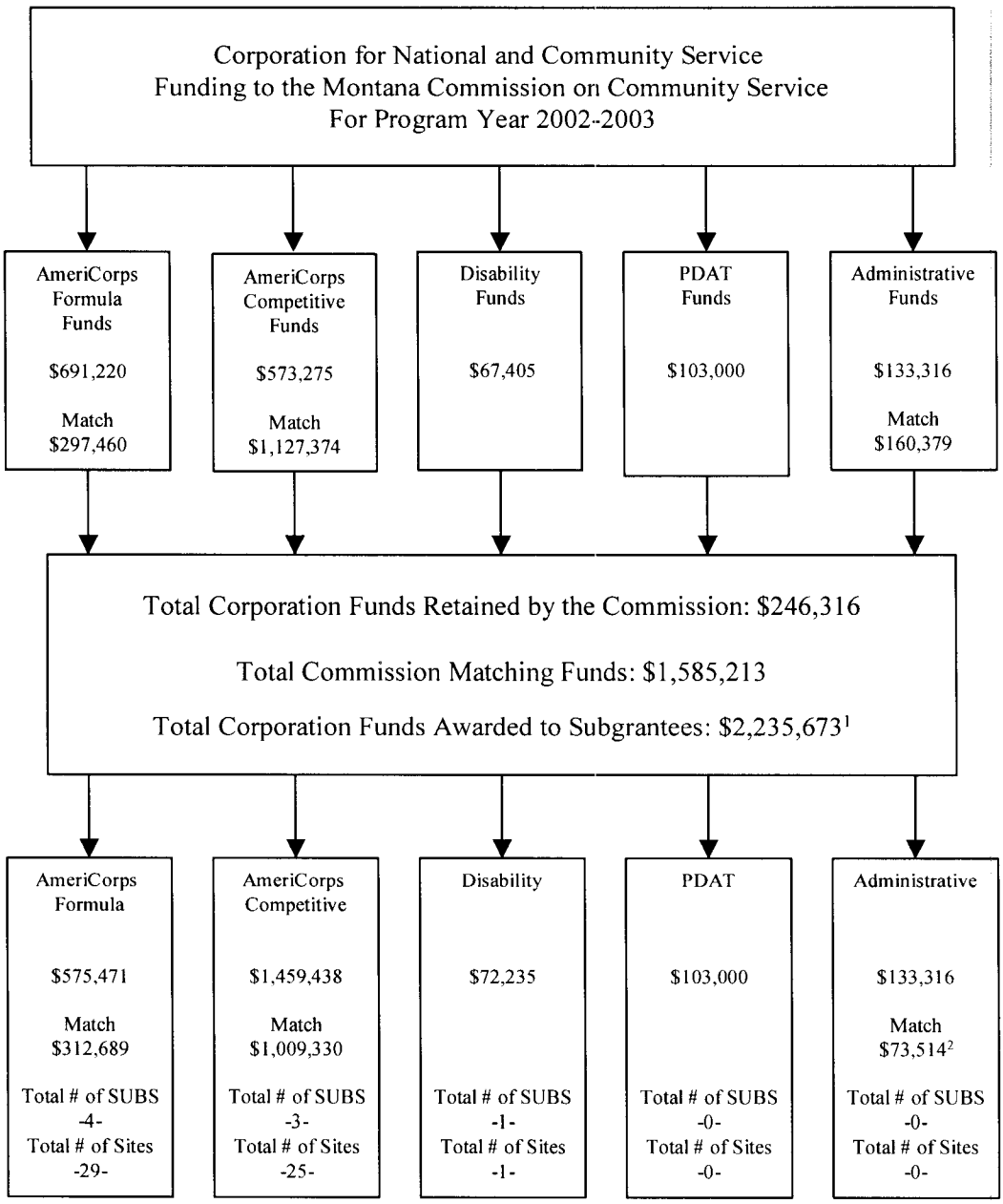
FUNDING HIERARCHY FLOWCHARTS

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



Note 1: Due to the carry over of Corporation funds from the previous program year, the amount of Corporation funds awarded to subgrantees exceeds the funds obtained from the Corporation during the current program year.

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



Note 1: Due to the carry over of Corporation funds from the previous program year, the amount of Corporation funds awarded to subgrantees exceeds the funds obtained from the Corporation during the current program year.

Note 2: The Commission cumulative match contribution met the minimum matching requirement.

APPENDIX B

DETAILED ENGAGEMENT OBJECTIVES AND METHODOLOGY

Office of Inspector General
Corporation for National and Community Service
State Commission Pre-Audit Survey
Montana Commission on Community Service
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 requirements. We interviewed Commission and Fiscal Support Bureau (FSB) staff, and reviewed related documents, including the Commission's *Guide to AmeriCorps Management*, to gain an understanding of the control environment. We also reviewed operating procedures in place regarding allowable costs, eligibility, cash management, matching, period of availability of Corporation funds, procurement, suspension and debarment, program income, and Commission reporting to the Corporation.

We reviewed reports prepared by both the Commission and the FSB, such as accounting revenue and expenditures status reports, and in-kind contribution reports, for accuracy and completeness. We compared internal documents to financial reports submitted to the Corporation as well as reports submitted to the U.S. Department of Health and Human Services for drawdown activities. We reviewed subgrantee expenditure reports and Commission financial reports to note controls on matching requirements.

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 for selecting subgrantees appeared to be 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. Next, we obtained and reviewed guidance provided to selection officials and documentation supporting the evaluation and grant awards process. We reviewed policies for selecting subgrantees in the Commission's *Policies and Procedures Manual.*

To test whether the Commission's systems and controls related to selecting subgrantees were functioning as designed, we took a judgmental sample of applicants, including new award recipients, renewals, and those denied funding. We then reviewed all supporting documentation, including conflict-of-interest forms, risk assessment tools, evaluation committee packages, correspondence, memorandums, and e-mails.

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 according to 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 for maintaining financial systems, records, and supporting documentation and reporting 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 and FSB managers and documented policies and procedures used to administer grant funds. We also gained an understanding of both manual and automated systems used by Commission and FSB personnel to administer grant funds. We obtained and reviewed the Commission's official policies and procedures related to administering grant funds, as established in its *Guidance to AmeriCorps Program Management.*

We then discussed controls over grant expenditures and subgrantee match information with Commission management. We reviewed documents supporting established controls over matching. We also tested whether the Commission's systems and controls related to administering grant funds were functioning as designed. We reviewed FSRs for a judgmental sample of subgrantees to test for timeliness of submission. We also compared amounts reported on FSRs to cash drawdowns by the Commission for any material discrepancies.

EVALUATING AND MONITORING GRANTS

Our objectives were to:

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

- 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 managers and documented policies and procedures used by the Commission for monitoring and evaluating subgrantees, including controls over obtaining and reviewing subgrantee OMB Circular A-133 reports. We obtained and reviewed Commission policies and procedures related to monitoring and evaluating subgrantees, as established in its *Guide to AmeriCorps Program Management*.

To determine if established controls were in place, we judgmentally selected a sample of subgrantees and reviewed monitoring documentation, including site visit monitoring tools. We

also reviewed training documents and member contracts to determine if proper monitoring of prohibited member activities was being conducted. We tested the Commission's processes 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 and reviewing documentation to verify that policies and procedures were in place and functioning properly. We further determined if the Commission had received and reviewed OMB Circular A-133 audit reports from subgrantees.

We then discussed the Corporation's Government Performance and Results Act goals with Commission management. For a judgmental sample, we reviewed subgrantee evaluation files to ensure that they included program accomplishment information.

APPENDIX C

MONTANA COMMISSION ON COMMUNITY SERVICE RESPONSE

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1210 New York Avenue NW
Washington, DC 20525

Dear Mr. Axenfeld:

I am writing in response to the Pre-Audit Survey of the Montana Commission on Community Service – Draft Report prepared by Cotton and Company. I have tried to address each of the Issues identified in the draft report in a positive manner.

ISSUE

- *The Commission did not have procedures to reconcile the cumulative balances of Financial Status Report (FSR) expenditures, Payment Management System (PMS) cash drawdowns, and State accounting records.*

Montana Commission Response: We thank you for bringing this issue to our attention. Even though the cause of this problem was a technical issue with the WBRS system we acknowledge the need to develop a process that will identify problems like this in the future. We will institute a policy of comparing Financial Status Reports (FSR) and Payment Management System (PMS) totals on a quarterly basis and reconciling any discrepancies in a timely fashion.

ISSUE

- *The Commission did not document its consideration of past performance or financial risk assessments during the subgrantee selection process.*

Montana Commission Response: We agree with this issue. We will amend our Guide to AmeriCorps Program Management to include a Pre-Award and Financial Risk Assessment and Past Performance Review forms for the review of continuation requests. We will continue to use this process with all new applicants

ISSUE

- *The Commission did not close out its Competitive, Formula, and Administrative grants on time.*

Montana Commission Response: We acknowledge the misunderstanding about the deadline for closing out grants. It was our understanding that the Corporation would issue a formal notice of the deadline for closeouts. We have complete the closeout on the Competitive and Formula grants on July 30, 2004, and will have the Administrative Grant closed out by August 31, 2004.

ISSUE

- *The Commission did not adequately document its review of subgrantee expense documentation, member files, and member interviews.*

Montana Commission Response: We agree with this recommendation. The Commission will enhance our Guide to AmeriCorps Program Management to include the necessary documentation of the expenditure and member files sampled.

ISSUE

- *The Commission did not use the results of risk assessments in its subgrantee monitoring and evaluation process.*

Montana Commission Response: We agree with this issue. We will develop and implement policies to incorporate risk assessment in our Guide to Program Management which governs our subgrantee monitoring and evaluation process.

ISSUE

- *The Commission did not adequately document its review of subgrantee audit reports.*

Montana Commission Response: We agree with this issue. We will expand the questions on our existing monitoring instruments to reflect information about material weaknesses, reportable conditions, findings, and questioned costs identified in the audit reports. We will also enlist support from the Fiscal Support Bureau of the Dept. of Labor and Industry to assist in the review of these audits.

ISSUE

- *The Commission did not maintain grant file documents in accordance with record-retention policies.*

Montana Commission Response: We concur with the recommendation that Commissions have strong record retention policies in place and we will continuie to monitor the proper retention of all records under the purview of the Commission.

Please feel free to contact me if you need additional information or clarification of these issues.

Sincerely,

Steve P. Nelsen
Executive Director
Montana Commission on Community Service.
Cc George Dennison, Chair

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: August 5, 2004

Subject: Response to OIG Draft Audit Report 04-18, Pre-Audit Survey of the Montana Commission on Community Service

We have reviewed the draft Pre-Audit Survey of the Montana Commission on Community Service. Due to the limited timeframe for response, we have not thoroughly reviewed the report. However, we discussed the report with the Commission and agree with the auditor's recommendations. The Commission has agreed to implement corrective action as recommended. Within the next four months, the Corporation will follow up with the Commission to confirm that implementation is complete.