
C O R P O R A T I O N

F O R N A T I O N A L



S E R V I C E

OFFICE OF THE INSPECTOR GENERAL

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Pre-audit Survey of

the Corporation's Grants Management Process

This report is issued to the Corporation for National Service and contains recommendations to improve the efficiency and effectiveness of the Corporation's operations. As required by OMB Circular A-50, *Audit Followup*, the Corporation must make a final management decision no later than September 16, 1996.

The Inspector General must approve any request for public release of the report.

March 20, 1996

Introduction

The Office of Inspector General performed this pre-audit survey of the Corporation for National Service's grants management process in support of the audit of CNS' fiscal year (FY) 1994 financial statements. We provided this report in draft to CNS management and the independent accounting firms performing the audit; however, we allowed CNS an extended response period so that the report's finding and recommendations could be considered in context with those resulting from the audit. The audit process has been concluded,¹ and this report is now being issued because its findings and the processes it documents are unchanged.

CNS responded on March 15, 1996. In its response, the Corporation stated that there is some overlap with recommendations in the draft Auditability Survey performed by Williams, Adley & Co., LLP and Arthur Anderson LLP. However, the Corporation stated that it has either initiated or completed action to address most, if not all of the concerns noted in the draft report. In conclusion the Corporation will continue to:

- evaluate the Payment Management System,
- establish reconciliation procedures and interfaces,
- continue the process of integrating financial management activity related to programs through the JADs initiative, and
- comprehensively address areas noted in the auditability survey.

The Corporation's response is included in its entirety as Exhibit A. As of the date of this report, OIG has performed no procedures to verify the extent of or the effectiveness of the reported corrective actions.

¹ Copies of the Office of Inspector General reports relating to the audit of CNS' FY 1994 financial statements are available from this office.

**Corporation for National and Community Service
Office of the Inspector General
Pre-audit Survey of the Grants Management Process**

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Corporation For National and Community Service
Office of the Inspector General
Pre-audit Survey of the Grants Management Process

The Corporation for National and Community Service's Office of Inspector General performed a pre-audit survey on the grants management process to:

- document management controls in support of the audit of CNS financial statements and
- identify areas for future audits by the Office of Inspector General.

Results

We are unable to conclude that management has established a control structure to provide reasonable assurance that grant obligations and expenditures are properly recorded because of the absence of timely and periodic reconciliations between the Health and Human Services' Payment Management system (PMS), the Federal Success system and the Grant Management database¹ for the AmeriCorps and Learn and Serve program grants. Reconciliations are an integral part of the internal control structure that provide assurance that amounts are accurately reflected and that accounts reflect transactions executed in a particular accounting period. The absence of periodic and timely reconciliations deters CNS' ability to prevent and detect misstatement of accounting information and impedes CNS' ability to prepare useful and reliable financial reports.

In addition our survey revealed several conditions which, while not material weaknesses, should be considered by management to improve grants oversight and financial reporting as well as when reporting on controls,² and by auditors in determining the design and extent of audit procedures in a financial or operational audit. Specifically,

- CNS currently utilizes three systems to record grant activity for AmeriCorps and Learn and Serve grant programs. The use of the three systems not only increases the risk of errors, but is also inefficient when financial reports are prepared.
- Management has not established routine procedures to estimate and adjust CNS financial statements for Financial Status Reports (FSRs) received and entered after fiscal year end. The FSRs provide grant data on the performance of grantees and thus, should be used to determine grant expense for financial reporting purposes.

¹ The grants management database was included because during sample testing, instances were noted where the grant award was in the database, but not recorded in Federal Success or the Payment Management System.

² 31 U.S.C. § 9106 (a)(2)(E) requires that the Corporation's annual management report to Congress include "a statement on internal accounting and administrative control systems by the head of the management of the Corporation, consistent with the requirements for agency statements on internal accounting and administrative control systems under the amendments made by the Federal Manager's Financial Integrity Act of 1982 (Public Law 97-255)."

- Management reports produced by the Federal Success system are not being sent to the Service Centers or the Corporation State Offices. Specifically, the GM-1 report, which analyzes FSR data on program performance is no longer sent to the field offices.
- In making 1994 grant awards for the AmeriCorps and Learn & Serve programs, CNS did not assess grantees' financial viability or their financial systems' ability to conform to Federal financial management requirements. Acknowledging that this condition occurred due to lack of time and other resources, particularly personnel, assessments of this nature should be considered to aid CNS in exercising financial oversight.
- CNS did not verify Health and Human Services' monthly grant disbursements for AmeriCorps and Learn & Serve program grants. The verification of the monthly disbursements would provide added assurance that CNS is properly recording funds advanced through PMS in the Federal Success system.

Observations I through V provide further detail and recommendations.

Scope and Methodology

We performed our pre-audit survey at the Corporation's headquarters between January 25, 1995 and April 10, 1995. We obtained an understanding of the internal control structure of the grant management system and assessed related risks through interviews, observations, small judgmental samples, and review of Federal Register notices, application guidance booklets, organization charts and procedures manuals. We established the following phases of the grant cycle for our review:

1. pre-grant award
2. application review and grant award
3. post award including payment procedures and grantee financial reporting
4. monitoring both programmatic and fiscal
5. and grant close out.

For each of these phases we documented the process³, identified controls, and applied limited testing to determine if controls are operating as intended. Where we noted control weaknesses or failure to adhere to the process, we have tried to identify related risks. Because we did not perform an audit or complete testing of transactions, we cannot conclude on the degree of CNS'

³ We will provide copies of our workpapers to CNS and its independent accountants for their use in testing management controls.

adherence to management controls or the effectiveness of the control techniques and procedures to prevent or detect material errors or non-compliance.

Background

Two separate Acts authorize the Corporation to make grants through the National Senior Service Corps, AmeriCorps, and Learn & Serve programs. The Domestic Volunteer Service Act of 1973, as amended, (DVSA) established the Senior programs including the Foster Grandparent program (FGP), the Retired Senior Volunteer program (RSVP) and the Senior Companion program (SCP). The National and Community Service Act of 1990, as amended, (NCSA) established the AmeriCorps and Learn & Serve programs.

Because the authorizing legislation established different purposes for the programs, the grant making processes differ. For programs established under the DVSA, fiscal administration is performed by five Service Centers located throughout the United States and programmatic administration is performed by the Corporation State Offices. Programs established under the NCSA are administered by Corporation headquarters.

The DVSA Grant Process

There are approximately 1567 DVSA grants⁴ administered by the five Service Centers and Corporation State Offices. The Federal Success system records all DVSA grant financial activity. The accounting process begins when a Notice of Grant Award (NGA) is produced for each grant award and is used to obligate funds in the system. A Request for Advance or Reimbursement (RAR) is used to record payments to grantees, advances and/or expenditures, depending whether the grantee requests an advance or reimbursement. The Financial Status Report (FSR) filed by a grantee thirty days following the end of each fiscal quarter, is the document used to liquidate advances and record expenditures.

The AmeriCorps & Learn & Serve Grant Process

The AmeriCorps and Learn and Serve programs' approximately 442 grants⁵ are administered at Corporation headquarters. Program officers there are responsible for the technical evaluation, performance and program results monitoring, while grant officers are responsible for financial accountability, including fiscal monitoring and FSR analysis. Activity for AmeriCorps and Learn & Serve grants is recorded by the Health and Human Services' Payment Management System (PMS), Federal Success and the Grants Management database. The three systems do not interface

⁴ The number of DVSA grants was estimated by counting grants on Federal Success listing of active grants by Congressional district as of December 31, 1994.

⁵ The AmeriCorps and Learn and Serve grants were estimated by counting individual grants on the listing from the Grants Management database as of February, 1994.

and grant data⁶ are entered independently into all three systems. The PMS processes all payments to grantees through an electronic funds request system. PMS is also used to record award authorizations, process requests to draw funds, report payment information to grantees quarterly, and provide management reports to the Corporation.

Obligations are recorded in Federal Success based upon the grant award letter provided by the Office of Grants Management Services. Grantee advances are recorded based on the daily confirmed payments report produced by PMS. Currently, no AmeriCorps or Learn & Serve grant expenditures are recorded in the Federal Success system.

Obligations and advances are recorded in the Grants Management database based on the grant award letter and the confirmed payments report, respectively. No grant expenditures are recorded in the Grants Management database.

Observations

As a result of our review, we identified the following five conditions that we recommend management evaluate further:

I. Three non-integrated systems are used to record AmeriCorps and Learn & Serve grants. Their grant data are not properly reconciled. In addition, system constraints make financial reporting and other management activities inefficient.

Separate groups enter the financial activity for the AmeriCorps and Learn & Serve grants into the Payment Management System, the Grants Management database, and the Federal Success system from the same source documents. However, the systems do not electronically interface or otherwise share data, and reconciliations are not routinely performed among the systems.

The lack of an interface and the resultant redundant manual entry of data increase the risk of data entry errors. The lack of routine reconciliations increases the risk of undetected errors in the system. Our judgmental sample of nine grants revealed that only four grants were correctly recorded on all three systems. Federal Success was missing two grant awards. In addition, one grant award was incorrectly recorded for \$205,000 instead of \$1,964,000, and one grant number was incorrectly recorded. PMS was missing a total of four grant awards.

Additionally, we interviewed Corporate Analysis staff, who are preparing the Corporation's 1994 financial statements. They listed the following problems in compiling the financial statements:

- The recording of grant data in the three systems has required a significant amount of manual intervention to obtain amounts for grants liability and expenditures.

⁶ The grant award letter produced by the Office of Grants Management Services is the document utilized to obligate funds in all three systems. The confirmed payments report produced by PMS provides advance information, the federal quarterly transaction report provides the needed information to liquidate advances and record expenditures.

- Federal Success is a budgetary accounting system, and certain proprietary accounting entries required for financial statement preparation are not recorded.
- The late entry of Financial Status reports required adjustments to operating expenses and advances.
- The Federal Success system's capability to produce meaningful financial management reports is limited. Considerable effort has been put forth to determine grant expenditures, first through extensive manual labor and secondly special reports were created that were manually footed to determine financial statement balances.
- Further efforts were also required to reconcile data among the systems in an effort to assure the accuracy of the FY 94 financial statements.

The Chief of Reports Analysis and Funds Controls cited the following problems related to recording AmeriCorps and Learn and Serve grant information in the Federal Success system.

- Grant award letters are not received by the accounting department on a timely basis. Sometimes, the grantee requests funds through PMS before grant award letter is received. The untimely receipt of the grant award letter increases the risk that obligations and related advances are not recorded in the proper accounting period.
- Grant award letters do not always include the Employee Identification Number (EIN) of grantee. Therefore, a dummy number is entered until the correct EIN is received requiring subsequent data correction.
- The format used in PMS to record advances is not comparable to the Federal Success system. The grant award is recorded in the Federal Success system by funding source (program level), a legislative requirement. However, in PMS the grant award is recorded as one grant amount and not by funding source. Therefore, PMS does not provide the advance information by funding source; instead, advances are charged against the largest pool of funds until depleted creating an improper match of advances to funding sources.

We recommend that management assess the efficiency to be gained by consolidating the three systems.⁷ Management should consider utilizing the PMS system for all grant financial activity because PMS:

⁷ OMB Circular No. A-127, Section (7) (b), Efficient Transaction Entry states, " Financial system designs shall eliminate unnecessary duplication of transaction entry. Wherever appropriate, data needed by the systems to support financial functions shall be entered only once and other parts of the system shall be updated through electronic means consistent with the timing requirements of normal business/transaction cycles." Section (7)(e), Financial Reporting-Performance Measures states, "Agency financial management systems shall be able to capture and produce financial information required to measure program performance, financial performance, and financial management performance as needed to support budgeting, program management and financial statement presentation."

- utilizes the electronic funds request system,⁸
- can be conveniently used to produce reports for management and other analysis - in contrast to Federal Success, and
- according to grants management staff, PMS processing is less costly than similar processing in Federal Success.

We believe that utilizing the PMS with the proper interface to a fully integrated financial management system would save staff hours as well as reduce the manual process currently used to prepare financial statements. It would also provide complete accounting records and reports of liabilities, expenditures and disbursements related to grant activity within one financial management system.

II. CNS lacks procedures to analyze and adjust its financial statements for financial status reports information received after year-end.

The Financial Status Report (FSR) is an essential document, providing information on grant performance and the Corporation's expenses. However, approximately 15% of the FSR information related to the period ended September 30, 1994, was not entered in Federal Success until after February 1995, creating the need for adjusting entries to operating expenses and grant advances. Acknowledging that there will always be a lag in the receipt of FSRs for the final quarter of the year, we recommend CNS consult with the independent accounting firm performing the audit of CNS' financial statements and develop a methodology to analyze FSR data to estimate the final quarter's activity.

III. During our interviews, a Grants Management Officer stated that since June 1994, he no longer receives management reports produced by the Federal Success system. Specifically, he stated that the GM-1 report was an useful tool, providing an analysis of budget versus actual, a procedure which must now be computed manually.

We recommend that management provide the Service Centers and Corporation State Offices with management reports (hard copy or on disk) to aid in oversight and performance assessment related to program activity, fiscal compliance and accountability.

⁸ The National Performance Review FM04: Increase The Use of Technology to Streamline Financial Services action #3 states, "Handle all payments to state or local governments through electronic funds transfer" and #6 states, "Simplify, redirect, and reengineer agency financial process to make them fully electronic and reduce the paperwork burden."

IV. In making 1994 grant awards for the AmeriCorps and Learn & Serve programs, CNS did not assess grantees' financial viability or their financial systems' ability to conform to Federal financial management requirements. This condition occurred in 1994 due to lack of time and other resources, particularly personnel. However, performing pre-award assessment of grantee's financial viability and financial system would aid CNS in exercising financial oversight.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organization*, and CNS' regulations establish requirements for financial reporting, accounting records, internal control, budget control, allowable cost, source documents, and cash management. Under these standards, grantees have the ultimate responsibility for ensuring that Federal funds are safeguarded and appropriately expended. Moreover, ensuring that only grantees who meet programmatic and financial eligibility requirements are approved for grant awards, is a basic management control objective.

CNS grants management has developed self-assessment checklists and other tools to address grantees' financial systems. However, these tools are used primarily in the post-award process. We recommend that CNS establish procedures to include assessments of grantee financial viability and financial management systems in the grant award process as well as during the performance period. These assessments could be used also to direct CNS' limited resources toward those grantees requiring immediate assistance in complying with Federal requirements or greater financial monitoring and oversight.


V. PMS grant disbursements are not reconciled with Treasury information.


The Health and Human Services' Payment Management System (PMS) disburses all funds for the AmeriCorps and Learn & Serve programs. On the fifth of every month, PMS transmits grant disbursement amounts through Treasury's Government On-line Agency Link System. Cash is transferred from the Corporation's appropriation to Health and Human Services. The net disbursements recorded at Treasury are reported monthly on the Undisbursed Appropriation Account Ledger sent to the Corporation. This report is not reconciled to PMS data detailing grant disbursements for the month or to Federal Success to determine if the advances are recorded completely and accurately.

We recommend that management review and reconcile the reports to provide added assurance of the accuracy of the Corporation's records.

March 15, 1996

TO: Luise Jordan
Inspector General

FROM: Gary Kowalczyk 
Acting Chief Financial Officer

CORPORATION
FOR NATIONAL
 SERVICE

SUBJECT: Pre-audit Survey of CNS Grants Management Process
Draft Report No. 95-12

Thank you for the opportunity to review the draft report as well as the extended response period. As you have noted, there is some overlap with recommendations in the draft Auditability Survey and, in addition, there are changed conditions since the audit work was done during the first half of 1995.

We would like to make the following comments that are specific to the draft report.

1. Reconciliations: The pre-audit survey identified a deficiency in reconciling disbursements through the Payment Management System (PMS) with Federal Success and is now current through December 1995. The accounting office has for some months now been reconciling data between the Federal Success system and the Payment Management System and has devoted additional staff resources to this function. We are also exploring improvements such as an automated interface between PMS and Federal Success that will eliminate duplicate data input and reduce the potential for human error.

The grants and accounting data carrying over from GSA's management of former Commission on National and Community Service grants, which was in an unreconcilable state, is being cleansed on an ongoing basis. Additionally, the problem of CNS not adequately assessing grantee financial system's ability to conform to federal financial management requirements, which was noted in the draft audit and which is a correct assessment, was addressed through a Financial Systems Survey of Non-Profits that was conducted prior to the grant award. The Office of Grants Management will also build management data profiles on grantees.

2. Different Grant Systems: The pre-audit survey discusses three separate systems for recording grant activity. However, there is now general agreement that the database used by the Office of Grants Management is, in fact, a "cuff" system rather than the official accounting system for Corporation grants. Further, the same person enters data into both PMS and the Office's grants management database while another person cares for data entries into Federal Success.

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AmeriCorps, National Service
Learn and Serve America
National Senior Service Corps

With regard to the two grants payment systems, the Corporation has been actively considering the possibility of using the PMS system universally as the primary funds delivery system for all grants. Several meetings and briefings have occurred with HHS staff on the feasibility of this approach and it is being tested by the Southwest Service Center for the State of Arkansas. We will use empirical data from the test to inform a policy decision on the costs and benefits of this approach when compared to the Federal Success grants sub-system used by the Service Centers. The policy decision should also be considered in conjunction with an automated interface and cash reconciliation procedure.

3. Fiscal Year-end Adjustments: A CNS grant accounting policy will be put into effect to record fiscal year-end accruals. Estimated accruals will be entered into Federal Success for FSRs that have not been received by September 30. We propose the year-end adjustments be a cumulative figure, computed (estimated) for each program, with the exact computation procedure to be determined.

4. GM-1 Reports: GM-1 reports can now be accessed in each Service Center. There have been some problems associated with the GM-1 reports, however, Automation either has corrected or is in the process of correcting them. The GM-1 reports should remain available for FSR analysis.

5. PMS Grant Disbursement Verification: The draft pre-audit survey observed that CNS did not verify HHS monthly disbursements for AmeriCorps and Learn and Serve America programs. However, the Office of Grants Management reviews daily drawdowns using information provided by HHS. Since May 1995, CNS staff have reviewed and reconciled on a monthly basis grants data among the PMS, Federal Success, and grants management databases. The reconciliations are accomplished in two ways. First Accounting office staff reconcile data between Federal Success and PMS. Second, Office of Grants Management staff reconcile data between PMS and the grants management database. We recognize these reconciliations are time-consuming and labor intensive. However, the procedures are an interim measure pending implementation of an automated interface between the PMS and Federal Success systems.

6. Timeliness of Grant Award Notification: An observation was made that grant award letters are not received by the accounting office on a timely basis and that in some cases the grantee has requested funds through PMS before a grant award letter is received. This problem has now been solved by changing staff roles. The Office of Grants Management has assumed responsibility for providing copies of grant awards to the accounting office within two to three days after the Grants Officers execute an award. The budget holder reviews reports from accounting to assure that grant awards are accurately recorded as obligations on a timely basis. The EIN issue is resolved for all new grant awards.

In conclusion, the Corporation has either initiated or completed action to address most, if not all of the concerns noted in the draft report. We will continue to evaluate PMS, establish reconciliation procedures and interfaces, continue the process of integrating financial management activity related to programs through the JADs initiative and we will be comprehensively addressing areas noted in the auditability survey.

**Corporation for National and Community Service
Office of the Inspector General
Pre-audit Survey of the Grants Management Process**

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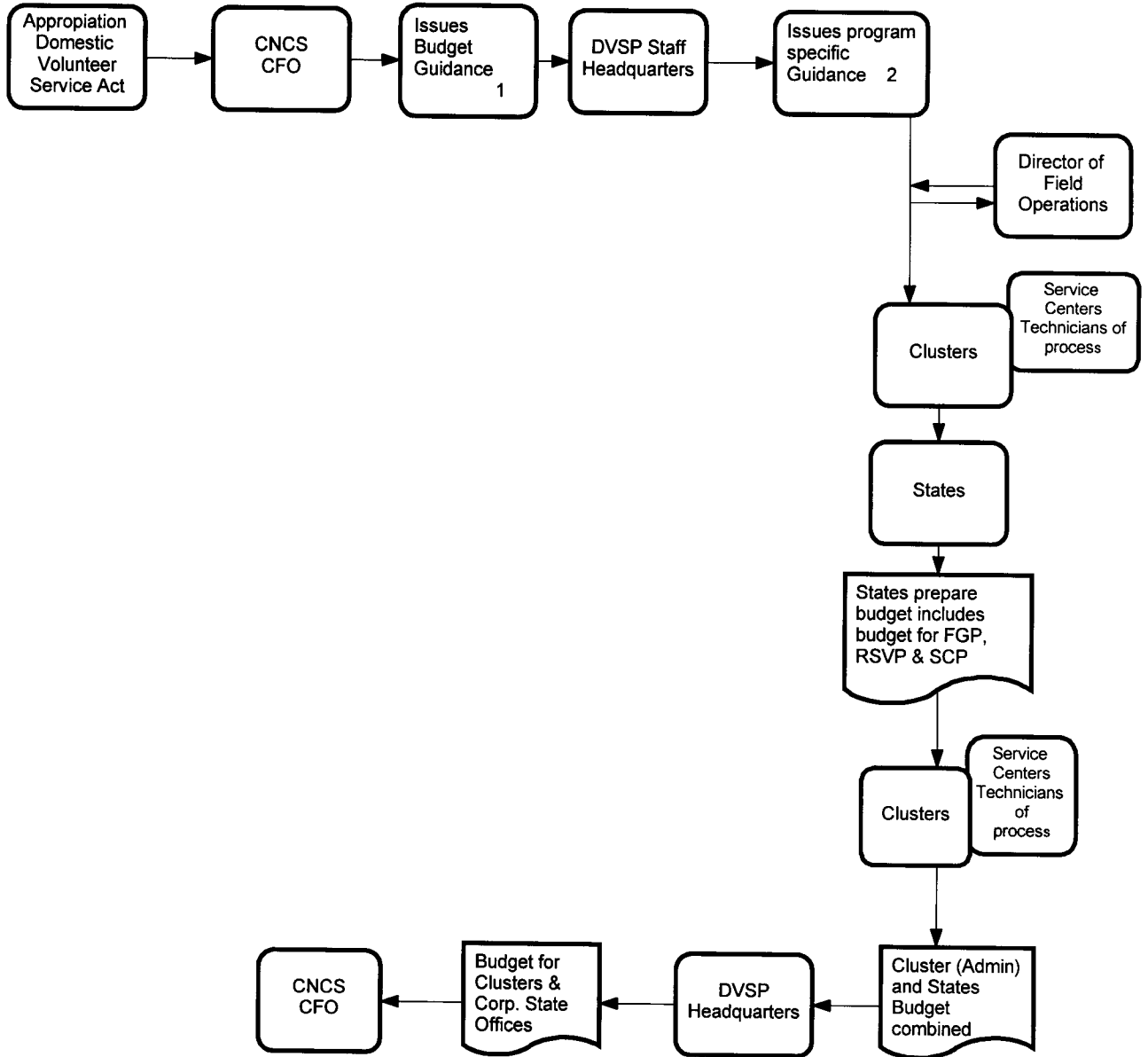
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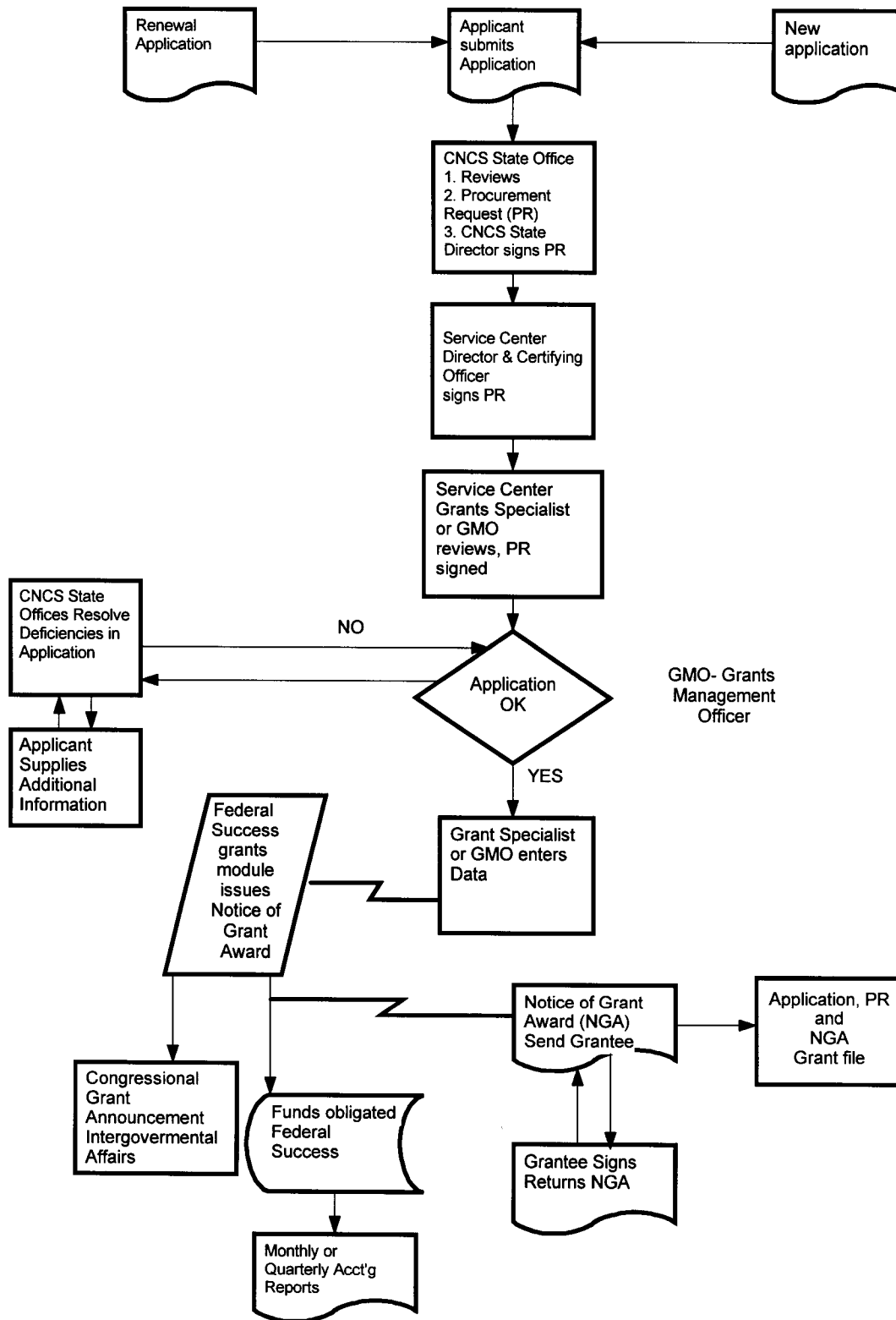
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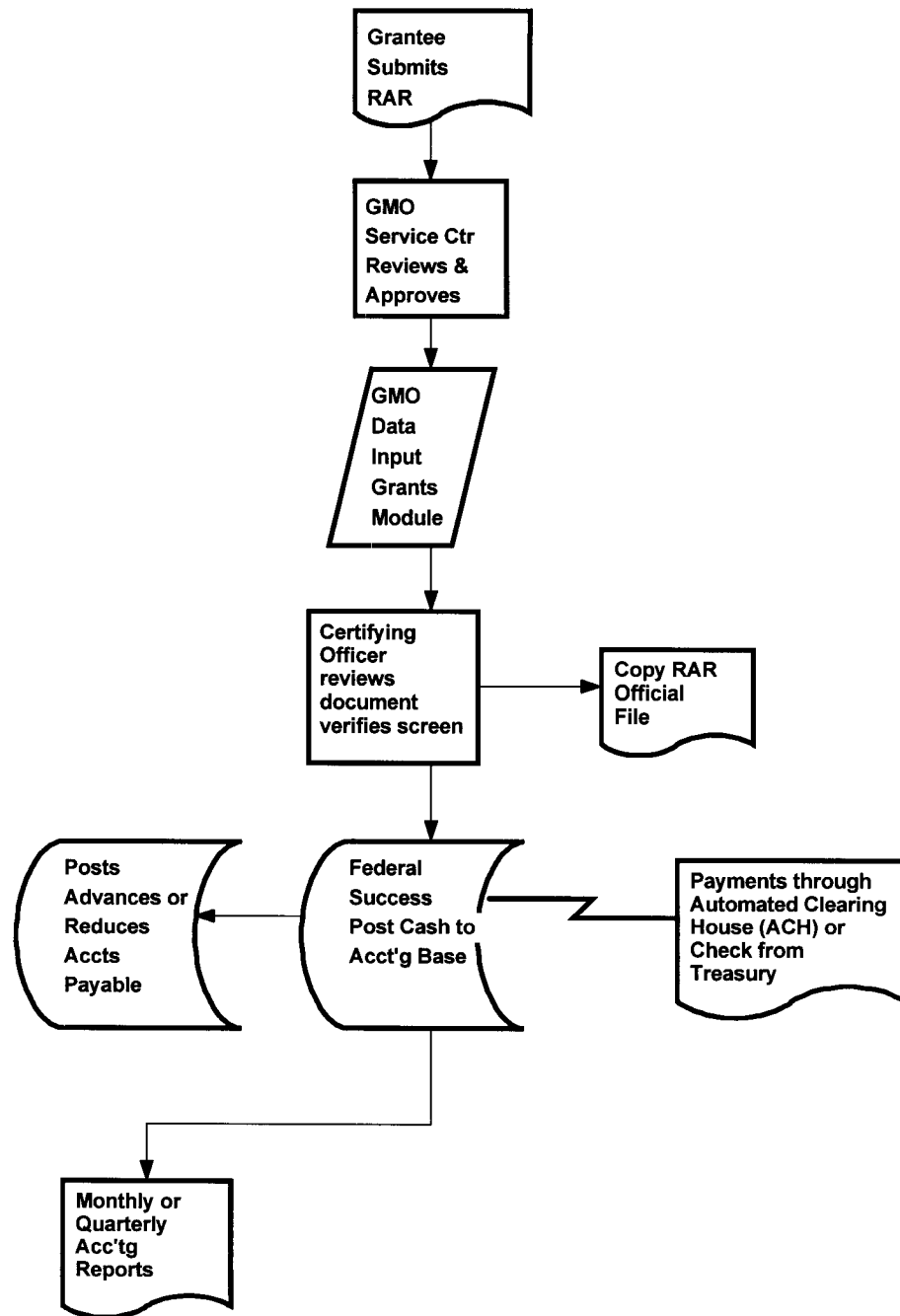
**PRE-AWARD AND BUDGET PROCESS
NATIONAL SENIOR SERVICE CORPS
CLUSTER OFFICES & CORPORATION STATE OFFICES**



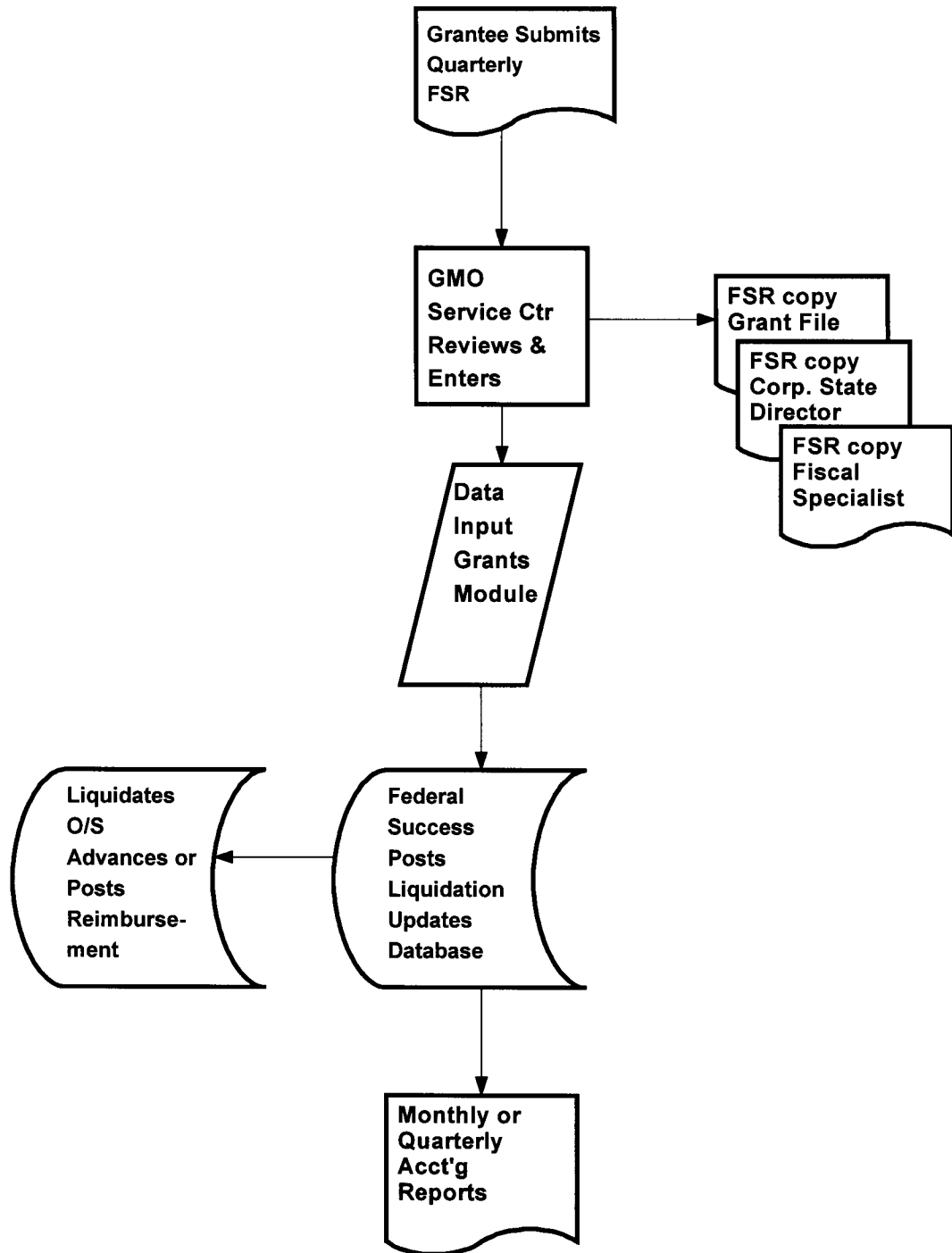
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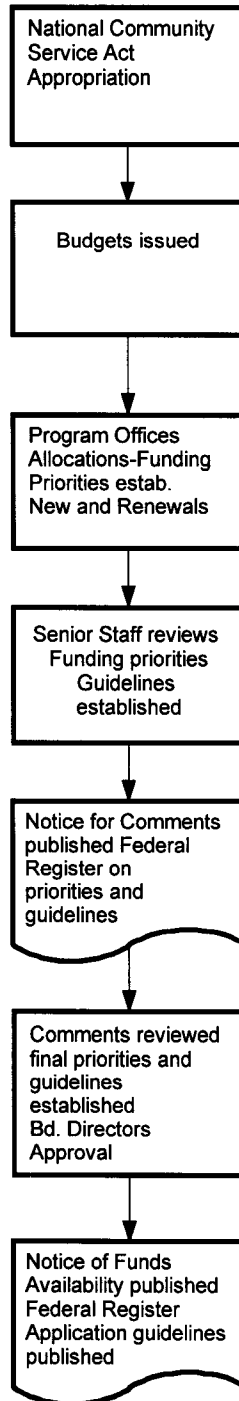
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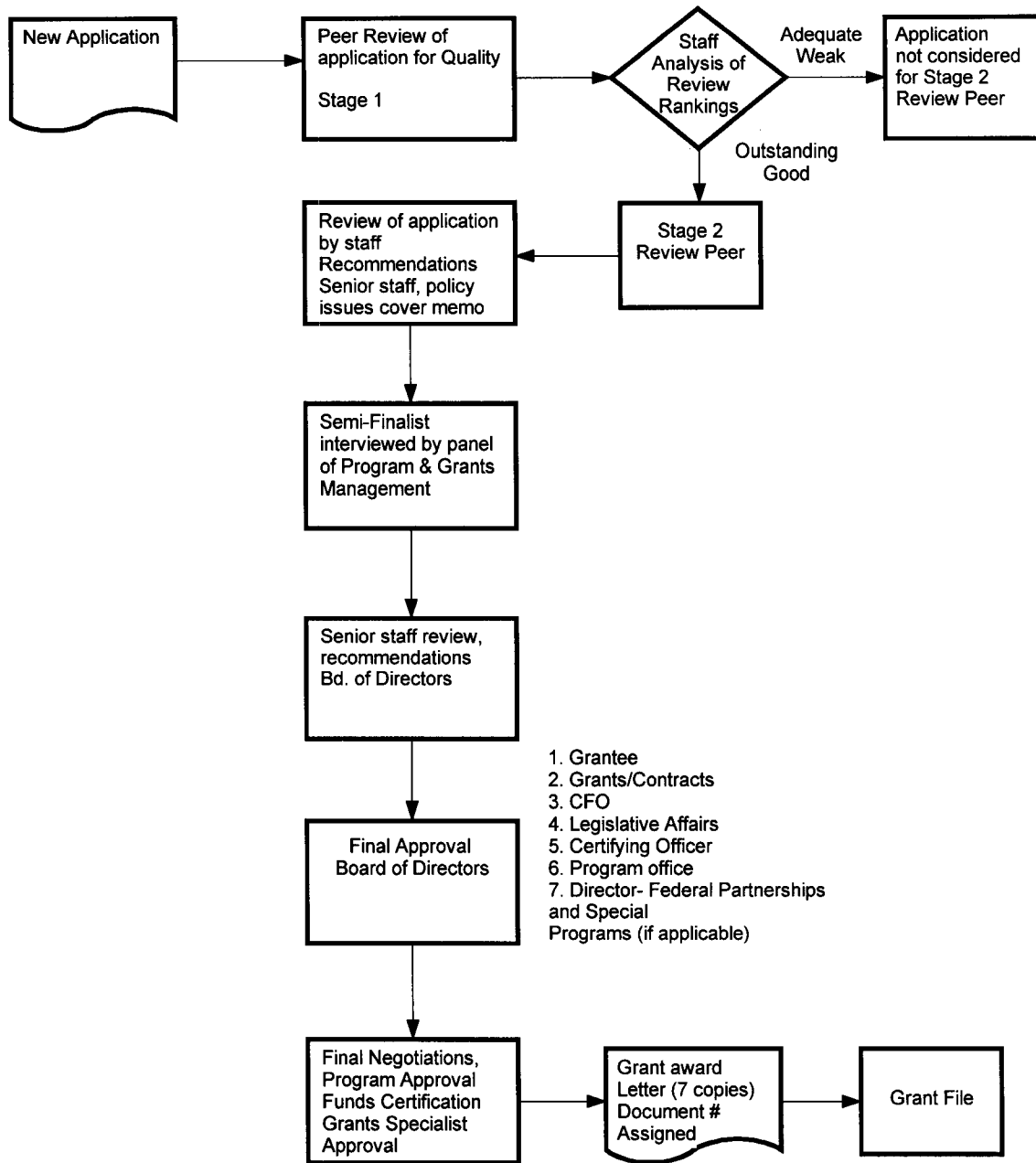
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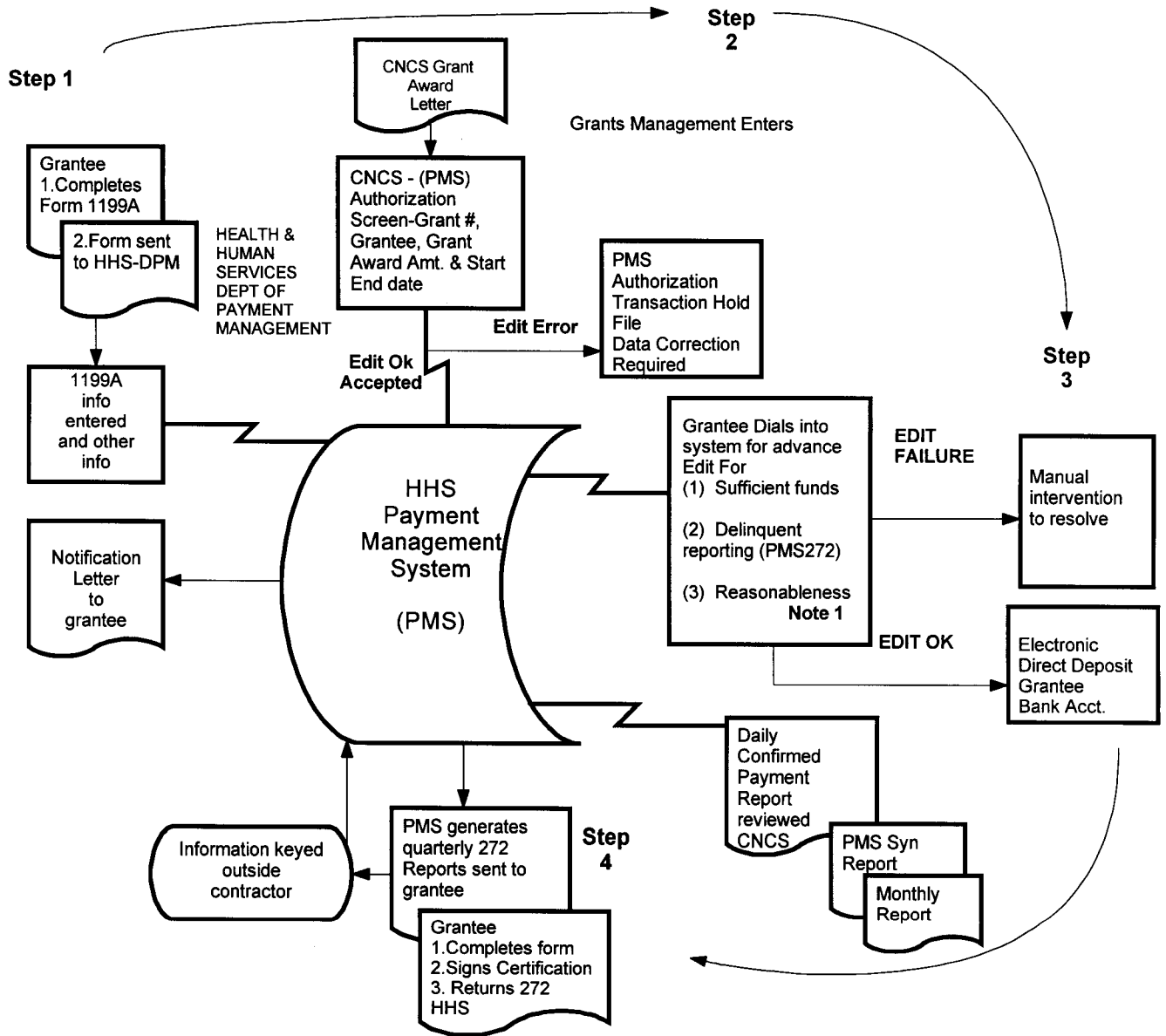


**GRANT AWARD NEW/RENEWAL
APPLICATION REVIEW PROCESS
AMERICORPS AND
LEARN & SERVE**



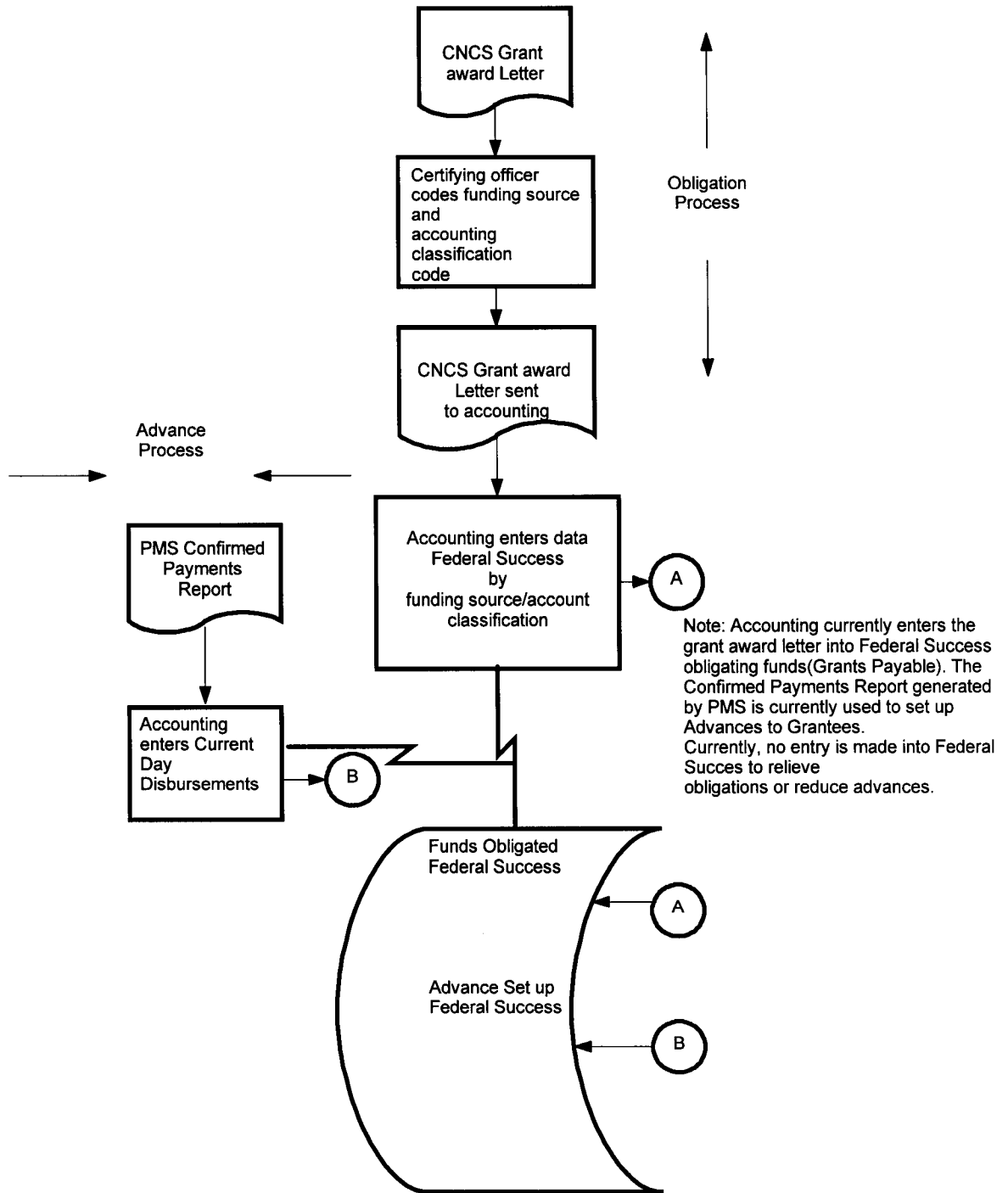
Renewal applications start with staff review, skipping semi-finalist interview, and then continuing process. Special provisions apply to rejected State applicants.

AMERICORPS AND LEARN & SERVE AMERICA POST AWARD PROCESS PAYMENT MANAGEMENT SYSTEM

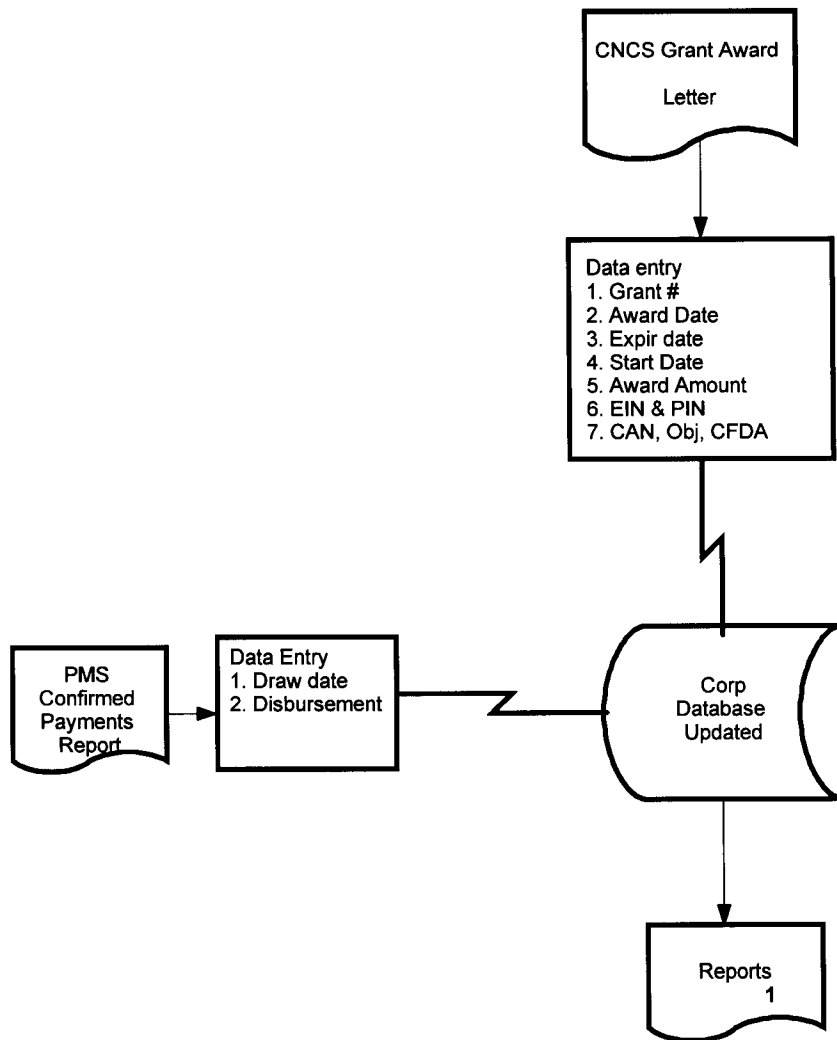


Note 1-HHS places hold on account for two missing PMS 272 reports, CNCS can also place hold on account

FEDERAL SUCCESS POST AWARD GRANT PROCESS-AMERICORPS/ LEARN & SERVE



GRANTS MANAGEMENT DATA BASE



Note 1 : The Grants Management database has the capability of producing a wide range of reports, based upon the various fields.