
**Office of the Inspector General
Corporation for National Service**

**Review of
Corporation for National Service
Pre-Award Financial Assessment of Grant Applicants**

**Report Number 98-02
February 20, 1998**

This report is issued to Corporation management. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than October 24, 1998 and complete its corrective actions by April 27, 1999. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of the Inspector General
Review of Pre-Award Financial Assessment of Grant Applicants

The Corporation annually awards over \$200 million in AmeriCorps grants to states, nonprofit organizations, tribes and territories. These grants, like other Federal grant programs, have the inherent risk that the grantees may be unable to properly manage, safeguard, and account for grant funds in accordance with Federal law and grant provisions. To reduce this risk, during its grant award process, the Corporation's Grants Management Office is responsible for performing financial management assessments of grant applicants to evaluate whether they have the capability to comply with Federal requirements.

Because of the importance of these reviews in safeguarding the Corporation's funds, we reviewed the Corporation's guidelines and procedures¹ for performing its pre-award financial management assessments for its AmeriCorps grants. Our objective was to evaluate whether the Corporation's guidelines and procedures were adequate to provide reasonable assurance that grantees have basic financial management capabilities.

RESULTS IN BRIEF

In summary, our assessment revealed that because the guidelines may have been somewhat haphazardly implemented, the Grants Management Office's pre-award financial assessment of grants does not provide reasonable assurance that grantees have the basic financial management capabilities needed to administer grant funds in accordance with Federal requirements.² We found that grants management staff did not always collect information required for assessing the grantees and did not always resolve deficiencies that were identified during the assessment process. We concluded the Grants Management Office's pre-award assessment guidance is flawed, in that it is not specific enough to clearly describe the procedures to be applied. Finally, we noted that the Grants Management Office did not maintain a current and accurate listing of grant applicants and grant awards during the 1997 grant award review process.

¹Grant Management Guidelines 97-01 through 97-06 summarize these guidelines and procedures.

²OIG first disclosed deficiencies in grants management in OIG Report 96-31, *Pre-Audit Survey of Grants Management Process*, issued in March 1996. Over the past two years, other OIG work has disclosed similar conditions in grants management controls (see OIG Reports 96-38, *Report on the Results of the Auditability Survey*, issued in March 1996, and 97-04, *Report on the Follow-up Study to the Auditability Survey*, issued in December 1996). In these reports, OIG recommended that the Corporation standardize and document procedures over grant processing and monitoring.

SCOPE AND METHODOLOGY

We performed our review at the Corporation's headquarters in Washington, D.C., during the period September 11, 1997 through February 20, 1998, in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures included reviewing the Corporation's guidelines and procedures for assessing the financial management capabilities of grantees, interviewing grants management staff, reviewing a judgmental sample of 26 grant award files, and evaluating whether the guidelines and procedures were consistently implemented. Additional information on our scope and methodology is included in Appendix I.

We provided a draft of this report to the Corporation's management for comment. The Corporation's response was not received within the comment period.

FINDINGS

- I. Grants management staff did not always collect information required for assessing the grantees and did not always resolve deficiencies that were identified during the assessment process prior to making an award or renewal.

The Grants Management Office established guidelines, some of which are in draft form, generally outlining staff responsibilities and procedures for performing pre-award assessments of grantees so that grants management officers (and the Corporation) have reasonable assurance that applicants have the financial management capabilities, systems, and controls to carry out the award and to comply with the various grant requirements.³ The guidelines generally require grants officers to: review certain documents during the grant award process, including the applicant's most recent *OMB Circular A-133*⁴ audit report and a grantee-prepared Financial Management Survey (if the organization is a new applicant); consider prior Office of the Inspector General (OIG) audits or reviews applicable to the grantee; and make a pre-award site visit to a new grantee.

³According to the Director of the Grants Management Office, grants officers were required to follow the guidelines during the 1997 grant award process even though they had not been formally finalized. The requirements in the guidelines were also generally applicable during the 1996 grant award process except for the new requirement in 1997, that pre-award site visits be made to first-time applicants.

⁴*Audits of Institutions of Higher Education and Other Nonprofit Institutions.*

For the 26 grant awards we reviewed, we found six grantees for which Grants Management Office staff did not obtain and retain the required information, including one grantee for which three of the four required documents were not in the grant files.⁵ The following table summarizes the missing documents.

Grant Files with Documents Missing ^(A)			
	Document Required	Document Available for Review	Document Missing
Financial Management Survey	11	8	3
OMB Circular A-133 report	21	18	3
Pre-award site visit write up	6	3	3
^(A) Documentation requirements vary; the guidelines do not require all documents for all applicants. Of the six grantees, four were missing one document, one was missing two documents and one was missing three documents.			

For example, we found that the Grants Management Office did not obtain *OMB Circular A-133* audit reports for three of the 21 applicants. In another instance, the *OMB Circular A-133* audit report on file for a grantee was missing pages from the Independent Auditors' Report on the Internal Control Structure and the Independent Auditors' Reports on Compliance. The grants officer did not obtain a complete copy of the report until we inquired about the missing pages. While the missing pages did not disclose any reportable conditions,⁶ the grants officer could not have been aware of this at the time he assessed the grantee's financial management capability.

In addition, we found that 13 applicants' files had at least one financial management deficiency noted in either the *OMB Circular A-133* audit report, the Financial Management Survey, or a prior OIG report. However, for eight applicants, we found no evidence in the grant files that all issues were considered by the grants officer during the assessment process or otherwise resolved before the Grants Management Office made the awards. The following table summarizes the documents disclosing financial management deficiencies and those where there was no evidence in the grant file that the deficiency was resolved or considered prior to making an award.

⁵OIG previously recommended that the Corporation implement procedures to ensure completeness of grant files in OIG Report 96-38, *Report on the Results of the Auditability Survey*, issued in March 1996.

⁶Under standards established by the American Institute of Certified Public Accountants, reportable conditions involve matters coming to the auditor's attention relating to significant deficiencies in the design or operation of the internal control structure that, in the auditor's judgment, could adversely affect the auditee's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Grant Files Revealing Financial Management Deficiencies ^(A)			
	# Reviewed	Financial Management Deficiency Noted in Document	Financial Management Deficiency Not Considered/Resolved
Financial Management Survey	8	4	4
Financial Controls Assessment form	1	1	1
Prior OIG report	11	11	3
(A) Not all files are required to contain all documents.			

Of the eight Financial Management Surveys which we reviewed, four disclosed deficiencies for which there was no documented resolution. The conditions disclosed in the surveys included inadequate separation of duties related to cash transactions, lack of time distribution record keeping systems for staff (a requirement of *OMB Circular A-122*⁷), and a lack of knowledge of Federal cost principles. Further, we noted three grant awards for which issues reported in OIG reports had not been resolved prior to award. We found no evidence in the files that the grants officer considered these matters prior to making the award or otherwise determined that the weaknesses had been corrected.

In another example, the grants officer did not completely fill out the Financial Controls Assessment form (a more in-depth form sometimes substituted for the Financial Management Survey). Instead, the form contained open-ended comments indicating that additional work needed to be performed. We found no evidence in the files that the grants officer performed any additional work to resolve the issues.

We recommend that the Grants Management Office clarify and strengthen its procedures for pre-award financial assessment of grantees by revising them to

- clearly articulate how the review of required forms and reports should be documented;⁸
- emphasize to staff the importance of adhering to the pre-award financial assessment requirements; and
- expand staff training related to pre-award financial management assessments.

⁷*Cost Principles for Nonprofit Organizations*, Attachment B, paragraph 1 (2).

⁸Moreover, the guidelines should describe the elements of a complete *OMB Circular A-133* audit report.

- II. The Grants Management Office's pre-award assessment guidelines are flawed in that they are not specific enough to clearly describe the procedures to be applied.

The Corporation's pre-award financial assessment procedures are inadequate because they do not describe the procedures which should be consistently applied and how they should be documented, do not provide specific criteria for determining when a more detailed review is necessary, and do not discuss how to follow up the issues and determine that corrective actions are made. While we recognize the Grants Management Office's need to maintain some flexibility in making assessments and applying procedures to specific grants, we believe that the guidelines, as currently written, are too general.

For example, the Corporation's Grant Management Guideline 97-03, "Grant Monitoring and Site Visits," provides some guidance for performing and documenting a site visit. However, the guideline does not specifically describe the types of procedures to be performed during a pre-award site visit, or how the results are to be documented.

We found that procedures performed during pre-award site visits were not well documented. For example, although one pre-award site visit writeup concluded that the grantee demonstrated an understanding of such issues as administrative costs, time sheet reporting, prohibited activities, and Corporation reporting requirements, the grants officer did not clearly describe what had been done to determine this. The writeup stated that Grants Management Office staff met with the grantee's Controller and Project Director but did not indicate whether any testing of the records or systems was performed or whether the conclusions were based solely on discussion with the grantee's staff.

During another pre-award site visit, a grants officer noted specific follow-up actions were needed by the applicant, including development of an indirect cost rate and design of a staff time sheet which would allow its staff to allocate time by project in compliance with Federal regulations. However, the grants officer did not establish milestones for these actions or describe how the Grants Management Office would assess that they had been successfully completed. The writeup did not discuss what the consequences would be if the follow up actions were not made in a timely manner, and we found no evidence in the files that the grants officer verified that the corrective actions had been implemented.

In addition, none of the guidelines specifically addresses the issue of site visits to subgrantees. Grant Management Guideline 97-06 states that copies of the Financial Management Survey *should be provided* to State Commissions and other grantees with subgrants since they are required to obtain and review similar information from their subgrantees. However, we believe that the guideline should *require* grantees to perform site visits or obtain other information to assess the financial capability of subgrantees.

Grant Management Guideline 97-06, "Pre-Award Reviews," requires the grants officer to review the Financial Management Survey, when submitted. However, for the eight Financial

Management Surveys we reviewed, we found no evidence that the grants officer evaluated the responses to the surveys. Because the guidelines do not provide guidance about how the grants officer should document the review, the grant files did not allow us to determine with a reasonable degree of certainty that the surveys were reviewed.

Further, Grant Management Guideline 97-05, "Audits and Audit Resolution," states that after grants officers review an *OMB Circular A-133* or *Circular A-128* audit report, they will note their review with initials and the date. According to the guideline, the grants officer is to note "No Further Action Needed" or "Further Action Needed," as appropriate. However, we did not find *any* such notation or other written analysis evidencing a grants officer's review on *any* of the 18 audit reports in our sample.

We recommend that the Grants Management Office strengthen its guidelines for pre-award financial assessment of grantees to:

- Provide detailed information about how to document the grant officer's assessment of required forms and reports. For example, the guidelines should contain a requirement that grants officers
 - sign off on the document that it was reviewed,
 - provide narrative on issues raised during the assessment, and
 - document how the issues were resolved.

Further, for pre-award site visits, we recommend that grants officers consistently document the procedures performed during the visit. The writeup should list specific procedures performed and whether the grants officer obtained information through testing, observation, or by inquiring of the grantee's staff.


- Include specific criteria for determining when a more detailed assessment than the basic Financial Management Survey and review of prior audit reports is necessary, and provide examples of situations where special award conditions or requirements may be appropriate.
- Result in providing specific training and technical assistance for new grantees, as appropriate; the need for which, resulting request and follow-up should be documented in the grant file.
- Establish a time frame and method for follow up to determine that issues and concerns were addressed in an acceptable manner. Specifically, we recommend that the Grants Management Office document how it will establish milestones for corrective actions, assess that the follow up actions were completed, and the consequences for not completing the follow up actions by the deadline.

- Require grantees to report that they have performed financial management assessments of subgrantees and considered the results in making the award and in their oversight plans.

III. The Grants Management Office did not maintain a current and accurate listing of grant applicants and grant awards during the 1997 grant review process.

The Grants Management Office maintains a database of information on its grant applicants and grantees. The database contains information on the grantee's proposed budget, final total authorized budget and grant award amounts, number of members, and listings of subgrantees. For the 1997 grant award process, the Grants Management Office added fields for certain key dates including the dates the award was signed and prepared for mailing. Also, grants management staff stated that the database is intended to provide a listing of grants awarded and be used as a management tool so that grants officers can monitor the grants.

However, we found that grants officers did not consistently enter information into the database; for 118 grants listed, the database contained award signed dates for only 13 (11 percent) of the grants and distribution dates for only 11 (nine percent) of the grants. Further, although grants management staff indicated that the office's practice was to delete grant applicants who did not receive an award, we found two rejected applicants still listed in the grants database. We recommend that the Grants Management Office develop procedures to ensure that information in the database is complete, accurate and updated on a timely basis.


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Washington, DC
February 20, 1998

SCOPE AND METHODOLOGY

Our objective was to review the Corporation's guidelines and procedures used to assess the financial management capabilities of AmeriCorps National Direct, State Commission, Tribes, and Territories grantees in order to evaluate whether the guidelines and procedures were adequate to provide reasonable assurance that grantees have basic financial management capabilities.

We obtained and reviewed the Grants Management Office's Grant Management Guidelines for the grant award process and interviewed Grants Management Office staff to discuss the implementation of these guidelines. We reviewed prior OIG audit reports related to the Corporation's grants management process to identify risk areas.

We selected a judgmental sample of 26 grants from the Grants Management Office database. For these items, we reviewed the official grant file and the official organization file for each grant⁹ to assess:

- Whether the grants officer signed and filed the Grants Office Certification form.
- Whether the Financial Management Survey was completed and filed. Further, we reviewed the Financial Management Survey to assess whether any issues or problems were noted. If any issues were noted, we reviewed the grant files to determine if follow up actions were proposed, resolved and documented including whether the grants officer performed a follow up site visit, or if training and technical assistance was offered.
- If the Corporation previously provided funding to the grantee. If so, we reviewed the Financial Management Survey completed for the prior grant award, if applicable.¹⁰
- The extent of the grants officer's review of the *OMB Circular A-133* audit report.

⁹According to grants management staff, the Grants Management Office maintains two separate files for each grant, the "official grant" file and the "organization" file. Generally, the *official grant* file should contain the grant award letter, grant amendments, Grant Office Certification Form, the grant application and revisions, grant review documentation, Financial Status Reports, and correspondence. The *organization* file generally should contain the most recent *OMB Circular A-133* audit report and any documentation related to an OIG audit. The Financial Management Survey may be maintained in either file.

¹⁰The Grants Management Office first used Financial Management Surveys in 1995; therefore, a grantee first awarded prior to 1995 would not have completed a Financial Management Survey.

- Whether the grantee was previously audited or reviewed by OIG. If so, we evaluated whether the OIG report and its findings were considered during the grant award process.
- Site visits were made and adequately documented.

Finally, we discussed issues noted in the grant files with the grants officer.

As discussed in Finding III of this report, our review revealed that the Grants Management Office did not maintain an accurate and current listing of grants awarded during the grant award process. However, the scope of our work was not intended to determine that the Filemaker database contained a complete universe of 1997 grants awarded. As of the date our sample was selected (December 4, 1997), the Corporation was still awarding grants.

Furthermore, in other OIG reports, we have disclosed that Corporation management controls do not provide reasonable assurance that the database contains complete and accurate information. We conclude the database provided adequate information from which to draw our sample and to test the implementation of the Corporation's assessment procedures.