

Office of Inspector General Corporation for National and Community Service

AUDIT OF THE FINANCIAL MANAGEMENT SURVEY RESPONSES OF NEW GRANTEES

OIG REPORT 09-15



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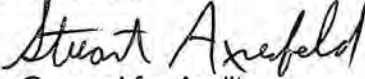
This report was issued to Corporation management on August 12, 2009. Under the laws and regulations governing audit follow-up, the Corporation is to make final management decisions on the report's findings and recommendations no later than February 12, 2010 and complete its corrective actions by August 12, 2010. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



OFFICE OF INSPECTOR GENERAL

August 12, 2009

TO: Nicola Goren
Acting Chief Executive Officer

FROM: Stuart Axenfeld 
Assistant Inspector General for Audit

SUBJECT: Office of Inspector General Report 09-15 *Audit of the Financial Management Survey Responses of New Grantees*

Attached is the final report on the OIG's Audit of the Financial Management Survey Responses of New Grantees.

Under the Corporation's audit resolution policy, a Final Management Decision on the findings in this report is due by February 12, 2010. The Notice of Final Action is due by August 12, 2010. The Corporation's response and corrective action plan to implement the recommendations in the audit report will be considered by the OIG as its proposed management decision.

If you have any questions or wish to discuss this final report, please contact Rick Samson, Audit Manager, at (202) 606-9380 or R.Samson@cncsoig.gov.

Enclosure

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EXECUTIVE SUMMARY

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), performed an audit of the Financial Management Responses of New Grantees. The purpose of the audit was to determine if the new grantees' responses to the Corporation's Financial Management Survey (FMS), and additional procedures performed by the Corporation, are adequate to determine whether the new grantees' financial management systems meet applicable regulations, Office of Management and Budget (OMB) Circular and grant requirements.

In OIG Report #98-02 *Review of Corporation for National and Community Service Pre-Award Financial Assessment of Grant Applicants*, dated February 20, 1998, we found that Office of Grants Management (OGM) staff did not always collect information required for assessing new grantees. OGM also did not always resolve new grantee deficiencies that were identified during the assessment process prior to making a grant award or renewal.

Our 1998 report recommended that the OGM strengthen its guidelines for pre-award financial assessments of grantees. Specifically, the report provided detailed information on how to document the grant officer's assessment and consistently document procedures performed during site visits. It also recommended criteria for determining when a more detailed assessment, other than the Financial Management Survey and a review of prior grantee audit reports, was necessary.

Many of the same problems identified by the OIG 11 years ago were found during this audit. For example, the OGM still primarily relies on the responses provided on the FMS, a less-than-reliable source of information, to determine whether new grantees' financial management systems meet OMB Circular and grant requirements. The FMS contains self-reported information and lacks any method for verification of responses.

The Corporation's review process also needs improvement. Of the 32 FMS documents provided by OGM for our audit, we found that 20, or 63 percent, showed no documentary evidence of a review by Grants Management personnel.

These serious shortcomings became evident in our on-site tests of 13 new grantees for this audit. Of that total, we found that nine new grantees had financial management systems that were either inconsistent with their FMS responses or were not in compliance with applicable regulations.

SUMMARY OF RESULTS

1. Sixty-three percent of the FMS documents reviewed did not provide sufficient evidence that the responses had been reviewed by Corporation personnel.
2. Thirty-eight percent of new grantees tested did not have time and attendance records (timesheets) that meet the requirements of applicable OMB Circulars.
3. Fifty-four percent of new grantees tested charged costs to grants that were not allowable, allocable, or supported with adequate documentation.

4. Forty-six percent of new grantees tested did not have adequate internal controls in place or written policies and procedures related to internal controls.
5. The risk level assigned using the Corporation's Monitoring Planning Assessment Criteria "Weighting" / Point Values was not consistent with risk indicators.
6. Twenty-three percent of new grantees tested applied indirect rates to the grant without an approved Negotiated Indirect Cost Rate Agreement (NICRA) in place and charged rates that exceeded the CFR limitations.
7. Thirty-one percent of new grantees tested did not have written policies and procedures for grant management.

As a result of reviewing a sample of costs for the selected grantees, the following costs were questioned:

SUMMARY OF QUESTIONED COST			
Reason	Grant No.	Cost Claimed 9/29/06 – 9/28/07	Questioned Amount 9/29/06 – 9/28/07
Unsupported	06SRAMA001	\$119,855	\$12,380
Excess Admin. Cost	06NDHCA001	3,526	1,623
Allowability	06NDHCA001	<u>13,485</u>	<u>582</u>
Total		<u>\$136,866</u>	<u>\$14,585</u>

CONCLUSION

Financial Management Surveys cannot be relied upon in determining whether the grantee's financial system complies with OMB Circulars and other grant provisions.

Nine of the 13 grantees selected for review had financial management systems that were inconsistent with their certified responses to the Financial Management Survey (FMS) or were not in compliance with applicable regulations.

We found that grant applicants are not required to provide documentation that supports the certified answers on the FMS and the information provided by applicants is not validated for accuracy. Moreover, the Corporation does not routinely conduct pre-award site visits.

We also found that the Corporation did not always follow up when applicants acknowledged deficiencies in their financial management system(s) in the FMS. As a result, the Corporation may award grant funds to organizations that cannot track the source and application of funds or determine whether they were used for authorized purposes. Corporation personnel stated that pre-award visits to applicants are no longer standard procedure. They are currently only performed for applicants with severe deficiencies noted in the FMS or in OMB A-133 *Audits of States, Local Governments and Non-Profit Organizations*.

Specific areas of noncompliance with OMB Circulars and other grant requirements are listed below in Findings 1 through 6.

RESULTS OF AUDIT

Finding 1. The Corporation did not properly review FMS responses or document its review, and some FMS forms were missing. Additionally, the Corporation did not document any follow-up on weaknesses identified on the FMS.

We reviewed 32 FMS provided by the OGM. Of that number, 20 had no documentation of a Corporation review. The FMS includes a place for Corporation personnel to document comments or observations and to sign and date, indicating their review. The FMS review was documented on only 12 of the 32 FMS provided to OIG. The reviewer identified weaknesses on only three of those 12 FMS, but did not document any follow-up action related to the weaknesses identified. Documentation of the FMS review and follow-up actions are needed to ensure that the review has been completed and the Corporation has exercised prudent oversight.

New grantee training was not always provided. On the FMS for one grantee in our sample, the reviewer recommended training and technical assistance for grantee staff employees. The grantee stated that it was an all-volunteer organization and did not obtain the training because it did not have staff working on the grant. Two grantees in our sample received training and technical assistance (TTA) four months or more after the grant was awarded; and one grantee requested TTA. Necessary and timely training for new grantees can improve their accounting systems and financial reporting and avoid future financial and compliance issues.

Chief Financial Officer Policy CFO-029 states that:

The Corporation has a responsibility to exercise prudent oversight of Federal funds under its administration. Accordingly, it is to monitor grantees to provide reasonable assurance that federal grant funds are expended in ways that meet program objectives, the award terms and conditions, applicable federal statutes, regulations and guidelines. One way to facilitate this is to ensure that prospective grantees have adequate financial systems in place to manage grant funds prior to receiving an award, the Corporation should conduct the pre-award financial review (financial review) prescribed under this policy...

The FMS was not routinely maintained as part of the official grant file. Of the 48 FMS we requested for our audit, the Corporation could not locate seven (15 percent). OGM Policy No. 600 states that an official grant file "is a file that contains hard copy financial and program documents, forms and memoranda needed to properly award, monitor and close out the grant." It also states that an official grant file should maintain certifications and assurances.

Five of the 13 new grantees tested did not have a FMS, including one that cited an exemption granted by the Corporation because it is a government entity. However, we found that this grantee did not meet the criteria for an exemption. CFO-029 states that

“[g]rants officials generally determine that new or re-competing applicants are exempt from a financial review if they meet one or more of the following criteria for low risk:

1. Any applicants for grants of \$25,000 or below;
2. State and local governments that have received OMB Circular A-133 audit reports with no findings for the past two years; and/or
3. State commissions that have successfully completed the Corporation’s Administrative Standards Review process.”

The governmental entity that was granted the exemption was awarded a grant in excess of \$25,000, did not have an OMB Circular A-133 audit conducted for FY 2004 and FY2005, and is not a State commission. Therefore the exemption did not apply.

The Corporation’s eGrants system did not readily identify new grantees, making it difficult for the Corporation to find and examine these entities. When the OIG requested a list of new grantees during Calendar Year 2006, the Corporation could not readily identify these entities.

Recommendation 1

We recommend that the Corporation:

- 1a. Review and maintain documentation of its review of all FMS received from applicants or grantees.
- 1b. Document weaknesses identified as a result of the FMS review.
- 1c. Provide early training to grantees on financial management of Federal grants and timely technical assistance to grantees with weaknesses identified in recommendation 1b.
- 1d. Provide training to Corporation staff on the criteria for requiring a FMS from new grantees.
- 1e. Develop and implement, in eGrants, a method to identify new grantees in any given year.

Corporation Response

The Corporation agreed with the recommendations, but will implement them using a different tool than the current FMS. The Corporation will replace the current FMS with the more extensive Financial Systems Survey (FSS) that Corporation staff members use in preparation for site visits and in desk reviews. The FSS requires grantees to provide documentation of their financial systems, policies and procedures, and internal controls in preparation for desk reviews and site visits. The Corporation will begin using the FSS with the 2010 grant cycle; and will document its review of the FSS in the monitoring component of eGrants where more extensive comments can be included. The Corporation will revise CFO Policy 029 by

December 31, 2009 and its financial assessment processes to reflect the changes to the pre-award review of the grant applicants' financial management capabilities.

In addition, the Corporation will develop an on-line training course that new grantees will complete during the award process. The training program will cover the requirements under the OMB Circulars, paying particular attention to problem areas such as timekeeping, written internal control procedures, allowable costs and application of indirect cost rates. The course will include periodic quizzes to ensure grantees understand and can apply the information to their organization. The projected availability for the on-line course is March 31, 2010.

OIG Comment

The Corporation's planned actions meet the intent of the recommendations. However, the OIG will review and comment on the revised CFO Policy 029 before it is finalized.

Finding 2. Time and attendance was not recorded using activity based timesheets that met the requirements of applicable OMB Circulars.

Thirty-eight percent (5 of 13) of selected grantees were not using activity based timesheets. Employees' time charged to the grants was not supported by timesheets that were prepared in accordance with the applicable OMB Circular. One grantee reported being unaware of the requirement. Two grantees did not record time by grant and activity, or did not maintain documentation supporting their alternative labor method of allocating time between grants and activities. Two grantees did not properly certify their timesheet records.

OMB Circular A-122 *Cost Principles for Non-Profit Organizations*, Attachment B Paragraph 8. m. *Support for salaries and wages*, states that "Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph 2, except when a substitute system has been approved in writing by the cognizant agency."

OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment B Paragraph 8. h. *Support for salaries and wages*, states that "Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit." A-87 continues "Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency."

The Corporation did not verify that these new applicants had a time and attendance system that complied with OMB Circulars, creating a situation where labor costs charged to the grants could be overstated. Without adequate time and attendance reports, grantees could also apply labor charges to their respective grants for activities that are

not grant-related. Additionally, management oversight and budgeting of grant labor costs is weakened without accurate information on labor cost.

Recommendation 2

We recommend that the Corporation:

- 2a. Ensure the grantees' timesheets or time and attendance system complies with OMB Circular and grant provisions as part of the FMS review.
- 2b. Evaluate alternative labor charging methods used by grantees and correct or approve as needed.
- 2c. Provide training on time and attendance requirements to new grantees.

Corporation Response

The Corporation agrees with the recommendations. The on-line training course, described in the Corporation's response to the recommendations in Finding 1, will provide instructions on what written policies and procedures grantees must have in place at the time of grant award. The Corporation will conduct a site visit or desk review of each new grantee within one year of its first award. By reviewing time and attendance within the first year of grant award, the Corporation will be able to address actual performance rather than hypothetical performance.

During the site visit or desk review, the Corporation will review the grantee's timekeeping system and conduct a review of the organization's policies as well as a sampling of records. In order to address the larger risks associated with alternate labor charging methods, the on-line training will inform grantees that, when they wish to use alternate timekeeping systems, they must request approval in advance from their cognizant agency. Grantees that use alternative labor charging methods without approval will be required to develop a corrective action plan with a deadline for approval.

OIG Comment

The Corporation's planned actions meet the intent of the recommendations. We will review the on-line training course for timesheet and other financial management requirements.

Finding 3. Costs charged to grants and reported on the Financial Status Reports (FSRs)¹ were unallowable, unallocable, or not supported with adequate documentation.

Fifty-four percent (7 of 13) of grantees selected did not comply with applicable OMB Circulars, CFRs, or grant financial management provisions. Additionally, 2 of the 7 grantees were not in compliance in two or more areas.

¹ For the purpose of this report, Federal Financial Report (FFR) and FSR may be used interchangeably.

We questioned costs of \$12,962 charged by two grantees based on allowability and unsupported costs. As a result of this audit, we questioned one grantee's cost of \$582 based on allowability. That grantee then completed a review of all cost charged to the grant, and voluntarily reimbursed the Corporation \$6,631².

One of the grantees we tested used accounting software that allowed data to be altered without authorization and did not maintain an account history or log of the altered data.

45 C.F.R. § 2541.200 *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments Subpart C – Post-Award Requirements, Standards for Financial Management Systems*, subsection (b)(1) requires that financial management systems produce financial reports that are “accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.”

Two of the grantees we tested charged costs to the grant that were incurred outside of the grant period, including expenses for training and travel. One of these grantees charged costs, which were incurred before the grant period, for employment advertising for a project director. Neither of the grantees requested or was granted prior approval in accordance with the regulations.

45 C.F.R. § 2543.28 *Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations Subpart C – Post-Award Requirements Financial and Program Management, Period of availability of funds* states that “[w]here a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.”

Two of the grantees charged unallowable costs to their grant. One grantee charged entertainment costs as part of a training seminar, and the other charged time for the Director's fundraising activities.

OMB Circular A-122, *Cost Principles for Non-Profit Organizations Attachment B. Selected Items of Cost*, states in paragraph 14. *Entertainment costs*, “[c]osts of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.” It also states in paragraph 17. *Fund raising and investment management costs* that “[c]osts of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable.”

Two grantees did not provide adequate support for the Federal and match costs they charged to the grant. One grantee charged match and other costs based on data contained on an Excel spreadsheet, but the cost could not be traced to the accounting system. Another grantee charged travel costs, but the source documentation did not identify that the travel was for the grant.

² The grantee mailed a check to the Department of Health and Human Services, the Corporation's paying agent, on October 20, 2008.

OMB Circular A-122, *Cost Principles for Non-Profit Organizations Attachment A. General Principles Basic Considerations*, paragraph 2. *Factors Affecting Allowability of Costs*, states that “[t]o be allowable under an award, costs must...[b]e reasonable for the performance of the award and be allocable thereto under these principles...[b]e adequately documented.”

45 C.F.R. § 2543.23 *Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations Subpart C – Post-Award Requirements Financial and Program Management, Standards for Financial Management Systems*, says that accounting records, including cost accounting records, should be supported by source documentation.

Two of the grantees tested had financial management systems that could not identify the source and application of grant costs. The financial management system for one of those grantees had the capability to track the source and application of grant costs. However, it did not utilize the capability and could not identify the source and application of funds with the system’s configuration at the time of our site visit. Our testing of a sample of costs at the other grantee revealed that it could not support costs charged as match or payroll.

45 C.F.R. § 2541.200 *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments Subpart C – Post-Award Requirements, Standards for Financial Management Systems* and 45 C.F.R. §2543.21 requires records that adequately identify the source and application of funds for Federally sponsored activities.

One of the grantees charged health care costs over the provisional limit for the Corporation’s share. During year two of the grant, the Corporation granted retroactive pre-approval for the grantee’s health care costs.

AmeriCorps Special Provisions 2006, *Living Allowances, Other In-Service Benefits And Taxes Obtaining Health Care Coverage* states that “[y]ou may obtain health care insurance for your members through any provider you choose, as long as the policy provides the minimum benefits and is not excessive in cost. If you use a health care policy that charges more than \$150 per month to the Corporation you must send a copy of the policy along with a summary of its coverage and costs to the Corporation’s Office of Grants Management.”

One grantee used an adjusting journal entry to inflate its FSR. The grantee stated it was directed by the Corporation’s Grants Officer to report the entire amount of the grant on the initial FSR. The adjusting journal entry was used to overstate expenses on the general ledger and for reconciliation to the FSR and was immediately reversed after the reconciliation.

45 C.F.R § 2543.21(b)(1) states that “[r]ecipients’ financial management systems shall provide...[a]ccurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirement set forth in [45 C.F.R. §2543.52].”

In all cases of noncompliance discussed above, the Corporation did not request or receive documentation that supports the cost applied to the grants. As a result, unsupported and unallowable costs and match cost were charged to the grant.

Recommendation 3

We recommend that the Corporation:

- 3a. Resolve and recover questioned costs of \$12,380 charged to a grant.
- 3b. Ensure that grants officers review grantees' FMS, for cost and match issues, and to determine whether grantees are aware of which cost principles and CFR requirements apply to its organization, document issues, and follow through to resolve any issues noted.
- 3c. Conduct a site visit or desk review within one year of grant award to ensure grantees are adhering to applicable cost principles and CFR requirements.

Corporation Response

The Corporation agrees with the recommendations. The Field Financial Management Center (FFMC) is following up on the questioned costs from the RSVP grant. The grantee relinquished the grant and the Corporation will determine amounts owed when the grant is closed. The Corporation believes that use of the FSS, on-line training, site visits and desk reviews, in combination, will ensure grantees have financial management policies and procedures in place that adhere to the appropriate cost principles.

OIG Comment

The Corporation's planned actions meet the intent of the recommendations.

Finding 4. Grantees internal controls were not adequate or they lacked written internal control policies and procedures.

Forty-six percent (6 of 13) of selected grantees did not have internal controls in place to minimize risk and maximize the prevention or detection of waste, fraud, or abuse. The most common deficiency we found was the lack of policies and procedures related to separation of duties. Another grantee did not have adequate payroll controls and the payroll account was not accurate, one did not have controls in place to prevent manipulation of the accounting system without authorization. Also, one grantee did not have its control measures adequately documented or demonstrate that the internal control policies were clearly articulated throughout the organization.

45 C.F.R. § 2541.200(b)(3) and 45 C.F.R. § 2543.21(b)(3) require that effective control and accountability must be maintained for all grant funds and real and personal property, and other asset. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Without effective internal control policies that are documented and articulated throughout

the organization, grantees may lose control and accountability over funds, property, and other assets; and may be unable to determine whether grant funds were used for authorized purposes.

Recommendation 4

We recommend that the Corporation:

4. Before making a grant award, verify that new grantees have written internal control policies and procedures that include separation of duties, asset management (including preparing and signing checks), recordation of transactions, and reconciliation of accounts before grant award.

Corporation Response

The Corporation agrees that grantees must have written internal control and other financial and program management policies and procedures in place, but does not agree that verification must be done prior to the award. The grants officers can verify the existence of effective written internal control and other financial and program management policies and procedures during site visits or desk reviews that are conducted within one year of grant award, in accordance with policy. The Corporation believes these processes provide sufficient verification and that the benefits outweigh the costs of conducting the verification prior to the award.

OIG Comment

The OIG requested a copy of the policy requiring the monitoring of new grantees within 12 months of grant award. The Corporation provided its Monitoring Planning Guidance and Implementation Strategy for FY 2009. However, this document does not mandate all new grantees receive either a site visit or desk review within 12 months of its initial grant award. After discussions with the Corporation's Directors of Grants Management and Award Oversight and Monitoring, the Director of Grants Management said the revision of CFO Policy 029, to be completed by December 31, 2009, will include the mandate.

The Corporation's planned actions meet the intent of the recommendations. However, the OIG will review and comment on the revised CFO Policy 029 before it is finalized.

Finding 5. The risk level assigned using the Corporation's Monitoring Planning Assessment Criteria "Weighting" / Point Values was not consistent with risk indicators.

In two cases, the risk level assigned by Grants Officers for new grantees was not consistent with the risk reported in audits for OMB A-133 *Audits of States, Local Governments and Non-Profit Organizations*. One of the 13 tested grantees was assessed as a low risk, in eGrants, despite having received an adverse opinion in its OMB Circular A-133 audit report. This grantee was not identified as a low risk in the audit report, which included an adverse opinion on the financial statements, significant

deficiencies³ in internal control over compliance and other deficiencies considered material weaknesses. An adverse opinion is only issued in extreme circumstances. The audit report noted multiple material weaknesses and was used to formulate the eGrants assessment.

Another grantee, also assessed as low risk in eGrants, received a qualified opinion in its OMB Circular A-133 audit report. A qualified opinion means that, in the judgment of the auditors, the financial statements may not fairly present the financial position and operating results of the firm. The grantee, which was not identified as low risk in the audit report, was also found to have material weakness related to both the financial statements and Federal awards. The risk assessment differences were due to the manner in which the Corporation computes risk.

Based on the Corporation's Monitoring Planning Assessment Criteria "Weighting" / Point Values, audit findings are worth 50 points. The Monitoring Planning Assessment Criteria "Weighting" / Point Values scale does not take into consideration the number or severity of the audit findings. A grantee receiving a rating between 0 and 79 points, based on standard predetermined scoring, is considered low risk using these point values regardless of the severity of the underlying issue(s). However, a grantee with multiple material weaknesses identified in its A-133 audit should be assessed as a medium- to high-risk grantee.

Recommendation 5

We recommend that the Corporation:

5. Evaluate the Corporation's Monitoring Planning Assessment Criteria "Weighting" / Point Values and change as necessary to ensure that significant deficiencies result in the appropriate risk rating.

Corporation Response

The Corporation agrees with the recommendation and has taken corrective action. As part of its annual procedures, it will review the assessment criteria in preparation for the assessments conducted each July to develop its annual monitoring plan. The 2009 assessment is complete. The Corporation is also conducting a more extensive analysis of the assessment data collected over the last three years.

OIG Comment

The Corporation's actions meet the intent of the recommendation.

³ According to Government Auditing Standards July 2007 Revision (GAO-07-731G) a significant deficiency is a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

Finding 6. Indirect costs rates, that exceeded statutory limitations, were charged to grants without an approved Negotiated Indirect Cost Rate Agreements (NICRA) in place.

Twenty-three percent (3 of 13) of selected grantees charged indirect costs to grants in excess of statutory limitations without and approved NICRAs.

For 1 of the 3 selected grantees without an approved NICRA, the Notice of Grant Award stated that indirect costs should not be paid until the Corporation received an approved NICRA; however, indirect costs were submitted by the grantee and paid by the Corporation. On January 6, 2009, this grantee provided the Corporation a letter from the Department of Health and Human Services, dated December 10, 2008, with approved final indirect rates for 2002-2007 and provisional rates for 2008-2009. Another of the three grantees, without an approved NICRA, for which we questioned \$1,623, stated it would voluntarily reimburse indirect costs charged to the grant in excess of the statutory limitation. The third grantee and Corporation personnel stated that the grantee had submitted the necessary paperwork, however it was misplaced. After we notified the grantee and Corporation that a NICRA was not in place, a provisional indirect cost rate for this grantee was approved on June 24, 2008.

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A. *General Principles* paragraph E.2 *Negotiation and approval of rates* states:

- b. A non-profit organization which has not previously established an indirect cost rate with a Federal agency shall submit its initial indirect cost proposal immediately after the organization is advised that an award will be made and, in no event, later than three months after the effective date of the award.

* * *

- g. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the non-profit organization. The cognizant agency shall distribute copies of the agreement to all concerned Federal agencies.

One of the three grantees that did not have an approved indirect cost rate agreement was a for-profit agency. Federal Acquisition Regulations Subpart 42.7 – *Indirect Cost Rates* states in paragraph 42.703-1 *Policy* that:

- (b) Billing rates and final indirect cost rates shall be used in reimbursing indirect costs under cost-reimbursement contracts and in determining progress payments under fixed-price contracts.

- (c) To ensure compliance with 10 U.S.C. 2324(a) and 41 U.S.C. 256(a)—

- (1) Final indirect cost rates shall be used for contract closeout for a business unit, unless the quick-closeout procedure in 42.708 is used. These final rates shall be binding for all cost-reimbursement contracts at the business unit, subject to any specific limitation in a contract or advance agreement; and

(2) Established final indirect cost rates shall be used in negotiating the final price of fixed-price incentive and fixed-price redeterminable contracts and in other situations requiring that indirect costs be settled before contract prices are established, unless the quick-closeout procedure in 42.708 is used.

45 C.F.R. §2540.110 *General Administrative Provisions, Subpart A – Requirements Concerning the Distribution and Use of Corporation Assistance, Limitation on use of Corporation funds for administrative costs*, subsection (a)(3)(i) states “[l]imit the amount or rate of indirect costs that may be paid with Corporation funds under a grant or subgrant to five percent of total Corporation funds expended.”

Because the Corporation did not review indirect costs applied to the grants to ensure compliance with applicable regulations, grants were overcharged when grantees charged indirect cost rates in excess of the statutory limitation without an approved NICRA.

Recommendation 6

We recommend that the Corporation:

- 6a. Resolve and recover questioned costs of \$1,623 charged to the grant.
- 6b. Enforce statutes and regulations that limit indirect costs charged to grants to the standard general and administrative rate unless the grantee has an approved NICRA on file with the Corporation.
- 6c. Review indirect costs reported on new grantees’ initial FSRs to ensure only authorized indirect costs are charged to Corporation grants.

Corporation Response

The Corporation agrees with the recommendations. The questioned \$1,623 in indirect costs have been disallowed. Proper allocation and limitations on indirect cost rates will be included in the on-line training program. The Corporation will review its current processes to ensure that indirect costs reported are within appropriate limitations.

OIG Comment

The Corporation’s planned actions meet the intent of the recommendations. Although The Corporation’s response did not specifically address ensuring that only authorized indirect costs are charged to Corporation grants, enforcement of statutes and regulations that limit indirect cost charged to grants will ensure that only authorized indirect costs are applied to Corporation grants. We will review the on-line training program regarding indirect costs charged to grants.

Finding 7. Grantees did not have written policies and procedures for grant management in accordance with applicable regulations.

Thirty-one percent (4 of 13) of selected grantees did not have policies and procedures in place as required by the CFR's *Standards for Financial Systems*. Moreover, the Corporation did not verify that new applicants had written policies and procedures in place related to the draw down of Federal funds.

The grantees did not have written policies in place for complying with applicable cost principles and conditions of the grant award, such as a policy concerning cash management.

45 C.F.R. §2541.200 *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments Subpart C – Post-Award Requirements, Standards for Financial Management Systems* states at subsection (b)(7) *Cash management*:

Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Three grantees did not have written policy to minimize the time elapsing between the transfer of funds from the U.S. Treasury and payment of expenses.

45 C.F.R. §2543.21 *Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations Subpart C – Post-Award Requirements Financial and Program Management, Standards for Financial Management Systems*, states at subsection (b)(5):

Recipients' financial management systems shall provide for the following:...
Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants or payments by other means for program purposes by the recipient. To the extent that the provisions of the Cash Management Improvement Act (CMIA) (Pub. L. 101–453) govern, payment methods of State agencies, instrumentalities, and fiscal agents shall be consistent with CMIA Treasury-State Agreements or the CMIA default procedures codified at 31 CFR part 205, "Withdrawal of Cash from the Treasury for Advances under Federal Grant and Other Programs." and (b)(7) (6) "Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.

Grantees without documented policies and procedures for complying with Standards for Financial Management Systems may charge unallowable costs to grants or overdraw grant funds.

Recommendation 7

We recommend that the Corporation:

7. Before making a grant award, verify that grantees have written financial management policies and procedures, including policies for determining reasonableness, allocability, and allowability of costs and draw downs of Federal funds.

Corporation Response

The Corporation agrees that grantees must have written financial management policies and procedures in place, but it does not agree that verification must be done prior to the award. It states that grants officers can verify written policies and procedures exist and confirm they are operating as required during site visits or desk reviews that are conducted within one year of grant award. In addition, the on-line training course will include instructions on what written policies and procedures grantees must have in place, including policies for ensuring costs are reasonable, allowable and allocable. The Corporation believes these processes provide sufficient verification and benefits that outweigh the costs of conducting the verification prior to awarding the grant.

OIG Comment

The OIG requested a copy of the policy requiring monitoring of new grantees within 12 months of grant award. The Corporation provided its Monitoring Planning Guidance and Implementation Strategy for FY 2009. In our opinion, this document does not mandate all new grantees receive either a site visit or desk review within 12 months of its initial grant award. After discussions with the Corporation's Directors of Grants Management and Award Oversight and Monitoring, the Director of Grants Management said the revision of CFO Policy 029, to be completed by December 31, 2009, will include the mandate.

The Corporation's planned actions meet the intent of the recommendations.

OBJECTIVE, SCOPE, AND METHODOLOGY

We conducted this audit in accordance with generally accepted government audit standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objective of the audit was to determine whether new grantees' responses to the Corporation's Financial Management Survey (FMS) can be relied upon in determining

whether the grantees' financial systems meet OMB Circular and grant provision requirements. The audit tested new grantees receiving awards in Calendar Year (CY) 2006. For the purpose of this review, a grantee was considered "new" if it had not received Corporation grant funds during Fiscal Year (FY) 2005. We assessed the adequacy of the grantees' system documentation, internal controls, and the financial management system. We conducted our audit between February 9, 2007, and April 1, 2009. Our audit was conducted in compliance with generally accepted government audit standards.

During the period covered by our audit, Corporation awarded \$10.3 million to 50 new grantees in twelve different grant programs. We judgmentally selected a sample of grantees, intentionally including the majority of the programs represented in the population. Our test sample of 13 new grantees included nine programs with an award total of \$2.5 million and individual awards ranging from \$25,000 to \$500,000.

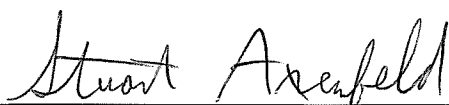
BACKGROUND

The Corporation appropriation for FY 2006 was approximately \$927 million, of which approximately \$685 million was used to provide grants to States, nonprofit organizations, tribes, and territories. The majority of awards were provided to organizations that had received grants in the prior year. The Corporation made \$10.3 million in awards valued at \$5,000 or more to 50 organizations it identified as new grantees in Calendar Year 2006. The Corporation used the Financial Management Survey form as a tool to determine if new grantees had systems in place to adequately account for and safeguard Federal funds and to certify that their financial systems met all requirements of the OMB Circulars.

Prior OIG audits have found grantees whose financial systems had weaknesses in accounting for and safeguarding Federal funds. For example, in OIG Report Number 04-23, dated September 20, 2004, we found that the audited grantee had completed an FMS and certified that its financial management system had the capability to manage Federal funds in accordance with required standards. The audit showed that the grantee had never implemented the key financial systems and controls it had certified on the FMS. This lack of grantee compliance resulted in more than \$100,000 in questioned costs.

EXIT CONFERENCE

We discussed the contents of this report with Corporation representatives at an exit conference on April 1, 2009. A draft report was provided to Corporation representatives on April 14, 2009. We summarized the Corporation's comments in the findings section of this report and included their full comments in Appendix C.



Stuart Axenfeld, Assistant Inspector General for Audit
Office of Inspector General
Corporation for National and Community Service

APPENDIX A

Financial Management Survey Form

Corporation for National and Community Service
FINANCIAL MANAGMENT SURVEY

The information collected by this survey will be used by the Corporation for National and Community Service exclusively as a tool to assess the capacity of your organization to manage federal funds and will become the basis for determining the areas of your organization's financial systems that may warrant technical assistance.

LEGAL NAME OF ORGANIZATION: _____

ADDRESS: _____

CITY/STATE/ZIP CODE: _____

INSTRUCTIONS: For this survey to be complete, please: 1) respond to each applicable question, 2) attach a copy of documents requested, and 3) provide comments/explanations.

While section "A. General Information" can be completed by the executive officer of your organization, we recommend that sections "B. Funds Management" and "C. Internal Controls" be completed by your fiscal or accounting officer.

A. GENERAL INFORMATION

1. Is your organization incorporated as a nonprofit?
 NO
 YES In what state? _____
Please attach a copy of the most recently filed IRS Form 990.

2. Has your organization received a federal grant or cost-type contract award in the last 2 years?
 YES NO
If "Yes," please identify your federal cognizant/oversight agency:
Federal Agency: _____
Name of Contact: _____
Telephone: _____

If "Yes," please attach a schedule showing the total federal dollars awarded to your organization by granting agency for each of the two most recently completed fiscal years.

Please answer No. 3 if your organization has ever received funding from the Corporation for National and Community Service.

3. Describe how your organization has received Corporation funding:
Directly from the Corporation? YES NO
If "Yes," specify grant number[s]: _____
Indirectly through a state commission, nonprofit organization, or university?
 YES NO
If "Yes," specify grant number[s]: _____

4. Has your organization been audited by a Certified Public Accountant firm within the past two years?
 YES NO
If "Yes," please attach a copy of the most recent audit.

5. Has your organization completed an OMB A-133 audit within the past two years?
 YES NO N/A
If "Yes," please attach a copy of most recent A-133 audit.
If "No," is one currently underway or scheduled?
 YES NO
Provide scheduled completion date: _____

Corporation for National and Community Service
FINANCIAL MANAGMENT SURVEY

6. Does your organization have established, written policies relating to the following areas?

- | | | |
|----------------------|---------------------------|--------------------------|
| Accounting Practices | <input type="radio"/> YES | <input type="radio"/> NO |
| Management Controls | <input type="radio"/> YES | <input type="radio"/> NO |
| Personnel Policies | <input type="radio"/> YES | <input type="radio"/> NO |
| Salary Scales | <input type="radio"/> YES | <input type="radio"/> NO |
| Employee Benefits | <input type="radio"/> YES | <input type="radio"/> NO |
| Travel reimbursement | <input type="radio"/> YES | <input type="radio"/> NO |
| Procurement | <input type="radio"/> YES | <input type="radio"/> NO |
| Other _____ | | |

B. FUNDS MANAGEMENT

1. Check which of the following books of account are maintained by your organization:

- General Ledger
- Cash Receipts Journal
- Cash Disbursements Journal
- Payroll Journal
- Income (Sales) Journal
- Purchase Journal
- General Journal
- Other _____

2. How frequently do you post to the general ledger?

- Daily Weekly Monthly Other

3. Does your accounting system track the receipt and disbursement of funds by each grant or funding source?

- YES NO

4. Does your accounting system enable you to track and document disbursement of funds from original invoice through final payment?

- YES NO

5. Does your organization use a job cost system?

- YES NO

6. Are common or indirect costs accumulated into cost pools for allocation to projects, contracts and grants?

- YES NO

7. Check the categories of costs your organization includes as an administrative cost:

- Salaries and expenses of executive officers
- General administration, including accounting, personnel, budget and planning
- Personnel administration
- Liability Insurance
- Depreciation or use allowances on buildings and equipment
- Costs of operating and maintaining facilities
- Management information systems
- Audit, Contracting, or Legal Services
- Other _____

8. Does your accounting system provide for the recording of actual grant/contract costs according to categories of your approved budget[s], and provide for current and complete disclosure?

- YES NO

9. Are personnel activity reports, i.e., timesheets, maintained by funding source and project for each employee to account for total actual hours [100%] devoted to your organization?

Corporation for National and Community Service
FINANCIAL MANAGMENET SURVEY

YES NO

Please answer Nos. 10, 11, and 12 if your organization currently receives federal funds.

10. Which one of the following OMB Circulars defining federal cost principles applies to your organization?

- A-21
- A-87
- A-122

11. Which one of the following OMB Circulars defining federal administrative requirements applies to your organization?

- A-102
- A-110

12. Who in your organization is responsible for determining allowance of costs consistent with federal cost principles governing federal grants and contracts?

Please specify Name/Title: _____

C. INTERNAL CONTROLS

1. Are the duties of the accountant/bookkeeper/record keeper separate from cash functions (receipt or payment of cash)?

YES NO

2. Are checks signed by individual[s] whose duties exclude recording cash received, approving vouchers for payment and the preparation of payroll?

YES NO

3. Are purchase approval methods documented and communicated?

YES NO

4. Are accounting entries supported by appropriate documentation?

YES NO

5. Are cash or in-kind matching funds supported by appropriate documentation?

YES NO

6. Are employee activity reports, i.e., timesheets, distributions, or semi-annual certifications, appropriately signed by the employee or by a responsible supervisory official having first hand knowledge of the activities performed by the employee?

YES NO

7. Are employees who handle funds bonded against loss by reasons of fraud or dishonesty?

YES NO

Preparer's Comments/Explanations:

The total number of attachments is _____ including: **Audit[s]**
Schedule of Federal Funds
IRS Form 990, if Nonprofit

Please attach **numbered** sheets as necessary.

Corporation for National and Community Service
FINANCIAL MANAGMENT SURVEY

PREPARER CERTIFICATION:

By my signature I certify that the above information is complete and correct to the best of my knowledge.

SIGNATURE OF

PRIMARY PREPARER: _____

NAME(S) OF PREPARER(S): _____

DATE: _____

TITLE(S) OF PREPARER(S): _____

TELEPHONE: _____

FAX: _____

E-MAIL: _____

FOR INTERNAL USE ONLY at the Corporation for National and Community Service

REVIEWED BY: _____

DATE: _____

COMMENTS:

APPENDIX B

New Grantees Selected for FMS Sample

Program Type	Grant Number	Legal Applicant Name	Award Amount
Tribes	06TNHNE001	Omaha Tribe	\$151,155
NATL	06NDHCA001	Prevent Child Abuse California	\$50,000
NATL	06NDHDC004	National Student Partnership	\$301,564
NATL	06NDHPA001	Public / Private Ventures (AMACHI)	\$357,803
SCP	06SCAMA001	Family Services of Central Massachusetts	\$247,512
SCP	06SCWNM003	HELP-NM	\$51,980
FGP	06SFWNM003	HELP-NM	\$38,229
FGP	06SFSMS001	Yazoo County Board of Supervisors	\$151,675
RSVP	06SRWNM002	Child & Family Services, Inc.	\$50,999
RSVP	06SRAMA001	United Way of Hampshire County	\$159,327
K12SB	06KSHVA001	National Association of Secondary School Principals	\$325,053
MLK	06MKADC002	National Alliance of Faith and Justice	\$88,650
TTA	06TAHMD001	AFYA, INC.	\$499,932
VISTA	06VSADC025	Little Lights Urban Ministries	\$25,000

Table of Acronyms

FGP	Foster Grandparent Program
K12SB	Learn and Serve America K-12 School Based
MLK	Martin Luther King Day
NATL	AmeriCorps*National
RSVP	Retired Senior Volunteer Program
SCP	Senior Companion Program
Tribes	AmeriCorps*Indian Tribes
TTA	Training and Technical Assistance
VISTA	AmeriCorps*VISTA (Volunteers in Service to America)
NM	New Mexico

APPENDIX C

Corporation of National and Community Service Response to the Draft Report



To: Stuart Axenfeld, Assistant Inspector General for Audit

From: *Rocco Gaudio*
Rocco Gaudio, Deputy CFO for Grants and Field Financial Management
Peg Rosenberry, Director of Grants Management *Peg Rosenberry*

Date: July 9, 2009

Subj: Response to OIG Draft Report on the Audit of Financial Management Survey Responses of New Grantees

Thank you for the opportunity to comment on the OIG audit of the Corporation's Financial Management Survey. The Corporation's Acting CEO requested that we respond to the draft report. This response is the Corporation's proposed management decision. We are providing you with an overall corrective action plan that implements the recommendations in the report through an alternative approach to the Financial Management Survey (FMS). The OIG's report was very helpful to the Field Financial Management Center and the Office of Grants Management as staff considered alternatives to our current approach.

Recommendation #1: We recommend that the Corporation:

- 1a. Review and maintain documentation of its review of all FMSs received from applicants or grantees.
- 1b. Document weaknesses identified as a result of the FMS review.
- 1c. Provide early training to grantees on financial management of Federal grants and timely technical assistance to grantees with weaknesses identified in recommendation 1b.
- 1d. Provide training to Corporation staff on the criteria for requiring a FMS from new grantees.
- 1e. Develop and implement, in eGrants, a method to identify new grantees in any given year.

Management Decision: The Corporation agrees with the recommendations, but will implement them using a different tool than the current financial survey. The Corporation has a more extensive financial systems survey that staff members use in preparation for site visits and in desk reviews (see attached). That systems survey requires grantees to provide extensive documentation of their financial systems, policies and procedures, and internal controls in preparation for desk reviews and site visits. We are replacing the current survey with the more extensive systems survey starting with the 2010 grant cycle. Grantees must submit the documentation required in the financial systems review prior to receiving their

grant. By December 31, 2009, we will revise our CFO Policy 029 and our financial assessment processes to reflect these changes.

In addition, the Corporation will develop an on-line training course that new grantees will complete during the award process. Our current agreements with our technical assistance providers include funds to develop on-line training courses. The training program will cover the requirements under the OMB circulars, paying particular attention to problem areas, such as time-keeping, written internal control procedures, allowable costs and application of indirect cost rates. It will include periodic quizzes to ensure grantees understand and can apply the information to their organization type. We expect to have the new course developed and available on-line by March 31, 2010, in advance of the next award cycle.

With respect to Recommendation 1a, IG staff may not have seen evidence on the survey form that confirms a grants officer reviewed the survey because grants officers incorporate the results of their reviews into the GO certification process in eGrants. Of the 20 surveys OIG staff identified as showing no evidence of GO review, 17 of them were appropriately recorded in eGrants as having been reviewed. The eGrants record includes either an affirmation that the grantee has the financial capacity to manage a federal grant or that the survey was not required or pending. For the three remaining, the eGrants record was not clear and the grants officers should have explained the status of the survey in their comments in eGrants.

When we implement the more extensive financial systems review process, eGrants will remain the system of record, but GOs will record their review in the monitoring components of eGrants where we can include more extensive comments than we can during the GO certification process. We will revise CFO Policy 029 to recognize eGrants as the system of record for documenting financial systems reviews and train GOs on the documentation requirements and the criteria for review of the systems survey, including the A-133 audit.

As for developing a way to identify new grantees in eGrants, the Corporation currently identifies new grantees during each grant competition. GOs run a report in Discoverer (the eGrants' reporting tool) which flags organizations that have not previously received funding from CNCS. This report identifies new grantees that need an account in the HHS Payment Management System and who should receive a pre-award assessment as part of the award process. If the new organization is ultimately awarded a grant, the GO records this information as part of the Corporation's annual monitoring assessment process. One of the assessment criteria identifies new CNCS recipients. If the grantee meets this criterion, the GO enters "yes" on the monitoring assessment screen in eGrants. **(Open)**

Recommendation 2: We recommend that the Corporation:

- 2a. Ensure the grantees' timesheets or time and attendance system complies with OMB Circular and grant provisions as part of the FMS review.
- 2b. Evaluate any alternative labor charging method used by a grantee and correct or approve as needed.
- 2c. Provide training on time and attendance requirements to new grantees.

Management Decision: The Corporation agrees with recommendation 2a and is taking corrective action. As noted above, the Corporation is developing an on-line training course that we will require all new grantees to complete before getting their awards. That course includes instructions on what written policies and procedures grantees must have in place, including Federal requirements for time and attendance reporting. **(Open)**

Regarding recommendations 2a and 2b, we review timekeeping systems when we conduct an on-site or desk compliance review of a new grantee, including a review of the organization's policies as well as sampling records. Since new grantees are monitored within one year of their first award (see response to recommendation 3c), time and attendance compliance is addressed in detail within a reasonable period following the grant award. In this manner, we are addressing actual performance rather than hypothetical performance. Additionally, by performing checks of records post-award, we will receive feedback on how effective the on-line training program is. In order to address the larger risks associated with alternate labor charging methods, the training will also inform grantees that when they wish to use alternate timekeeping systems, they must request approval from their cognizant agency in advance. As with any compliance shortcoming that a grants officer may identify, if a grantee is using an alternate labor charging method without cognizant agency approval appropriate remedies will be implemented. These will include, but not be limited to, imposing a deadline to obtain approval as well as being required to develop a corrective action plan. **(Action completed)**

Recommendation 3: We recommend the Corporation:

- 3a. Resolve and recover questioned costs of \$12,380 charged to a grant.
- 3b. Ensure that grants officers review grantees' FMS, for cost and match issues, and to determine whether grantees are aware of which cost principles and CFR requirements apply to its organization, document issues, and follow through to resolve any issues noted.
- 3c. Conduct a site visit or desk review within one year of grant award to ensure grantees are adhering to applicable cost principles and CFR requirements.

Management Decision: The Corporation agrees with the recommendations and is taking corrective action. The FFMC is following up on the questioned costs from the RSVP grant. The grantee has relinquished the grant and we will determine amounts owed as we close the grant. The Corporation's decision to use the financial systems survey to replace the FMS, along with the site visit or desk review grants officers conduct within a year of the grant award addresses Recommendations 3b and 3c. Through site visits and desk reviews, we determine if grantees have financial management policies and procedures in place and follow them, understand and follow the appropriate cost principles, reconcile their general ledger to their federal financial reports, and have appropriate asset management systems and appropriate internal control policies and procedures in place. Along with the required training courses and the more robust financial system survey, this process addresses the specifics in your recommendations and will provide the Corporation with better assurance that a new grantee can manage funds effectively. In addition, the on-line required training will cover allowable costs, match documentation and other topics included in the Administrative Requirements and Cost Principles. **(Open)**

Recommendation 4: We recommend that the Corporation, before making a grant award, verify that new grantees have written internal control policies and procedures that include separation of duties, asset management (including preparing and signing checks), recordation of transactions, and reconciliation of accounts before grant award.

Management Decision: The Corporation agrees that grantees must have written internal control and other financial and program management policies and procedures in place, but does not agree that the verification must be done before award. In accordance with Corporation policy, grants officers conduct site visits or desk reviews within the first year of grant operation to verify that grantees have written internal control policies and procedures in place and confirm they are operating as required. In addition, the on-line course grantees will take includes instructions on what written policies and procedures grantees must have in place, including separation of duties, reconciliation of accounts and asset management. These processes provide sufficient verification and benefits that outweigh the costs of conducting the verification before awarding the grant. **(Open)**

Recommendation 5: We recommend that the Corporation evaluate the Corporation's Monitoring Planning Assessment Criteria "Weighting"/Point Values and change as necessary to ensure that significant deficiencies result in the appropriate risk rating.

Management Decision: The Corporation agrees with the recommendation and has taken corrective action. As part of our annual procedures, we review the assessment criteria in preparation for the assessments we conduct each July to develop our annual monitoring plan. We completed that process for 2009 in June. This year, we are also conducting a more extensive analysis of the assessment data collected over the last three years. **(Action completed.)**

Recommendation 6: We recommend that the Corporation:

- 6a. Resolve and recover questioned costs of \$1,623 charged to the grant.
- 6b. Enforce statutes and regulations that limit indirect costs charged to the grants to the standard general and administrative rate unless the grantee has an approved NICRA on file with the Corporation.
- 6c. Review indirect costs reported on new grantees' initial FSRs to ensure only authorized indirect costs are charged to Corporation grants.

Management Decision: The Corporation reviewed the \$1,623 in indirect costs questioned as above the statutory limit and agrees the grantee claimed more than the allowable 5%. The costs are disallowed. The Corporation agrees with recommendation 6b and will include training on proper allocation and limitations on indirect costs rates in the on-line training program. For recommendation 6c, the FSR was replaced earlier this year with the government-wide Federal Financial Report. The Corporation will consider this recommendation as we review our current processes to ensure that indirect costs reported are within appropriate limitations. **(Open)**

Recommendation 7: We recommend that the Corporation, before making a grant award, verify that grantees have written financial management policies and procedures, including policies for determining reasonableness, allocability, and allowability of costs and draw downs of Federal funds.

Management Decision: The Corporation agrees that grantees must have written financial management policies and procedures in place, but does not agree that the verification must be done before award. In accordance with Corporation policy, grants officers conduct site visits or desk reviews within the first year of grant operation to verify that grantees have written policies and procedures in place and confirm they are operating as required. In addition, the on-line course grantee will take includes instructions on what written policies and procedures grantees must have in place, including policies for ensuring costs are reasonable, allowable and allocable. These processes provide sufficient verification and benefits that outweigh the costs of conducting the verification before awarding the grant. **(Open)**

cc: Nicola Goren, Acting Chief Executive Officer
William Anderson, Acting Chief Financial Officer
Frank Trinity, General Counsel
Sherry Blue, Audit Resolution Coordinator