

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

**EVALUATION OF THE CORPORATION'S
OMB CIRCULAR A-133 REPORTS MONITORING
PROCESS**

OIG REPORT 12-09



Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

1201 New York Ave, NW
Suite 830
Washington, DC 20525

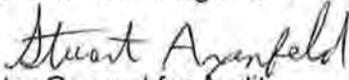
(202) 606-9390

This report was issued to Corporation management on May 11, 2012. 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 November 13, 2012 and complete its corrective actions by May 13, 2013. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



May 11, 2012

TO: Margaret Rosenberry
Director, Office of Grants Management

FROM: Stuart Axenfeld 
Assistant Inspector General for Audit

SUBJECT: Office of Inspector General (OIG) Report 12-09: *Evaluation of the Corporation's OMB Circular A-133 Reports Monitoring Process*

Attached is the final report on the OIG's *Evaluation of the Corporation's OMB Circular A-133 Reports Monitoring Process*. This evaluation was performed by OIG staff in accordance with the Quality Standards for Inspection and Evaluation.

Under the Corporation's audit resolution policy, a final management decision on the findings in this report is due by November 13, 2012. Notice of final action is due by May 13, 2013.

If you have questions pertaining to this report, please contact Thomas Chin, Audit Manager, at (202) 606-9362 or t.chin@cncsoig.gov; or me at (202) 606-9360 or s.axenfeld@cncsoig.gov.

Attachment

cc: Robert Velasco II, Chief Operating Officer
Douglas Hilton, Acting Chief Financial Officer
Rocco Gaudio, Deputy CFO for Grants and Field Financial Management Center
Claire Moreno, Audit Liaison, Office of Grants Management

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A: Corporation's Response to Draft Report

TABLE OF ACRONYMS

CFO	Chief Financial Officer
FFMC	Field Financial Management Center
FY	Fiscal Year
GMS	Grants Management Specialist
GO	Grants Officer
OGM	Office of Grants Management
OIG	Office of Inspector General
OMB	Office of Management and Budget
ORI	Operation REACH, Inc.

EXECUTIVE SUMMARY

Office of Management and Budget (OMB) Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* establishes audit requirements and defines Federal agencies' responsibilities for implementing and monitoring requirements for organizations receiving direct or indirect Federal awards. OMB Circular A-133 requires recipients of Federal grant awards to have internal controls which provide reasonable assurance that their use of resources is:

- Consistent with laws, regulations, and award terms;
- Safeguarded against waste, loss, and fraud; and
- Fairly disclosed in reliable reports.

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), performed an evaluation of the Corporation's OMB Circular A-133 (A-133 or "Single Audit") reports monitoring process. Our objectives were to determine whether the Corporation: (1) tracks, monitors, and ensures that required grantees submit their A-133 reports; and (2) follows up on grantees' corrective actions based on their audit findings.

Our evaluation focused on the review of the A-133 reports issued in Fiscal Year (FY) 2009, during which the Corporation awarded and oversaw more than \$780 million in grants to states, tribes, local communities, and nonprofit grantees. Of the issues we identified in the Corporation's review and evaluation of A-133 reports, we are particularly concerned that three of the findings (1, 2, and 5) are repeat findings, from previously issued OIG reports¹, involving weaknesses relating to obtaining and resolving A-133 reports. We noticed that these findings are still outstanding and remained unresolved. Generally, we found that there was a lack of follow-up activities by the Corporation's grants officers, and a lack of understanding of the terms and requirements of A-133 reports on their part.

Specifically, our performance testing, conducted from September 2011 through January 2012, resulted in these findings:

¹ OIG Report 98-02, *Review of Corporation for National and Community Service Pre-Award Financial Assessment of Grant Applicants*, issued in April 1998, reported that Corporation's Grants Management Office did not always collect information required for assessing grantees, such as information from single audit reports (A-133 reports). OIG Report 99-12, *Audit of the Corporation for National and Community Service's Fiscal Year 1998 Financial Statements*, issued in April 1999, reported that the Corporation lacked a routine methodology for obtaining and reviewing grantees' single audit reports. OIG Audit report 01-14, *Review of the Corporation's Use of Single Audit Reports*, issued in February 2001, reported that the Corporation's management controls for collection and use of single audit information are inadequate. It reported that procedures at the Corporation did not provide reasonable assurance that the Corporation is aware that the required single audits are being performed, or that single audit information is being obtained, reviewed, tracked, and resolved in accordance with the requirements of OMB Circular A-133. Furthermore, OIG Report 03-02, FY 2002 Financial Statement Audit Management Letter, noted that for five of the ten organizations for which the Corporation had oversight, management decisions and final actions related to the A-133 reports were not issued on a timely manner. It was also reported in OIG Report 04-02, FY 2003 Financial Statement Audit Management Letter, that A-133 audit findings were not resolved timely.

1. Non-compliance with OMB Circular A-133 and Corporation Policy and Procedures on Issuing Management Decisions;
2. Lack of Adequate Follow Up on Findings and Corrective Action Plans;
3. Grants Officers' Lack of Understanding of A-133 Report Audit Terms and Findings;
4. Discrepancies Between the A-133 Report Population Maintained by the Corporation and the Federal Audit Clearinghouse; and
5. A-133 Reports Are not Reviewed During the Grants Close Out Process.

We noted that the Corporation's Office of Grants Management (OGM) initiated an assessment of its' A-133 review process prior to our evaluation and conducted a refresher training for grants officers on how to review A-133 reports in September 2011 (two weeks before we conducted our interviews with grants officers). We noted that not all the grant officers attended the training; however, the majority of grant officers who attended the training said it was helpful. To build on this positive development, we recommend that the Corporation conduct comprehensive, periodic, mandatory training for all grants officers involved in the A-133 review process.

EVALUATION CONCLUSIONS

The Corporation's mechanism used to review and evaluate A-133 reports needs to be clarified, strengthened, and enforced. Our interviews with grants officers and our review of the A-133 documentation in eGrants revealed a knowledge gap on A-133 audit terms and requirements. We observed that the Corporation has designed controls, such as policies and procedures for the proper review and documentation of A-133 audits. However, these controls are not operating effectively, and some of the policies and procedures are not being implemented.

To address these issues, we recommend that the Corporation:

- Ensure management decisions are issued on audit findings that will impact the Corporation, as required by the OMB Circular A-133.
- Retain and track management decisions issued in response to A-133 report findings.
- Follow up on all questioned costs and audit findings identified in A-133 reports on a timely basis and collect amounts due to the Corporation.
- Ensure that all A-133 reports of grantees are reviewed and that grantees take appropriate and timely corrective actions on audit findings.
- Request and review any management letter associated with the report to identify other internal control issues that may impact the programs funded by the Corporation. Any inability or unwillingness by the grantee to correct A-133 findings should result in sanctions deemed appropriate by the Corporation.
- Conduct in-depth, periodic mandatory training for grants officers on how to review, research, and document A-133 findings that relate to the Corporation.

The training should also include the process used to identify internal control deficiencies, follow-up activities, and the definitions of audit terminology.

- Document all follow up actions in eGrants, as required by the Corporation's policies and procedures, to include specific risks or concerns, details of monitoring performed, the results, and the parties involved in the monitoring activities.
- Perform periodic reconciliation between the A-133 grantees' records maintained by the Corporation and the A-133 report population maintained in the Federal Audit Clearinghouse. Differences should be researched and resolved.
- Include in the Corporation's policies and procedures a requirement to review the most recent A-133 audit reports during the grants close out process to ensure that there are no outstanding questioned costs due to the Corporation.

RESULTS OF EVALUATION

Finding 1. Non-compliance with OMB Circular A-133 and Corporation Policy and Procedures on Issuing Management Decisions.

Management decisions were not issued for the majority of the 25 grantees in our sample. We found that only 16 percent of the sampled grantees had management decisions recorded in eGrants. All 25 grantees in our sample had material weaknesses in FY 2009. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. Our interviews with grants officers further revealed that management decisions on A-133 audits are not typically issued. This is a repeat finding from the OIG audit report 01-14, issued in February 2001, and OIG audit report 03-02 (FY 2002 Financial Statement Audit Management Letter).

In accordance with OMB Circular A-133 Subpart D. 400(c)(5), as well as the Corporation's Policy, CFO-102-2009-1 *Audit Resolution Under the Single Audit Act*, the Corporation must issue a management decision on audit findings within six months after receipt of the audit report and ensure that the recipient takes appropriate and timely corrective action. Final action must be completed by the grantee within 12 months of the receipt of the audit report.

Recommendations

We recommend that the Corporation:

- 1a. Ensure management decisions are issued on audit findings that will impact the Corporation, as required by the OMB Circular A-133; and
- 1b. Retain and track management decisions issued in response to A-133 report findings.

Finding 2. Lack of Adequate Follow Up on Findings and Corrective Action Plans.

There is a lack of evidence of follow up on audit findings and corrective action plans by the Corporation. This is a repeat finding from the OIG audit report 01-14, issued in February 2001, and OIG audit report 04-02 (FY 2003 Financial Statement Audit Management Letter). OMB Circular A-50, *Audit Followup*, Section 8.a.(2), requires prompt resolution and corrective actions on audit recommendations. It states that resolution shall be made within a maximum of six months after issuance of a final report or, in the case of audits performed by non-Federal auditors, six months after receipt of the report by the Federal government and corrective action should proceed as rapidly as possible. In addition, OMB Circular A-133 compliance requirements include adequate monitoring and findings follow-up procedures to ensure that funding is used for authorized purposes, pertinent laws, regulations, and provisions of the agreement. We found insufficient evidence that the Corporation had performed adequate monitoring on findings reported in the A-133 audit reports.

For example, a questioned cost of \$55,903 was reported in the Catholic Community Services of Western Washington's FY 2009 A-133 audit report. However, the grantee's A-133 report was not followed up on because the grants officer inaccurately recorded in eGrants that there was no finding in eGrants.

During this evaluation and our ongoing grant audit of Operation REACH, Inc. (ORI), we found that ORI was late in submitting its A-133 report. We further found that while the Corporation noted in eGrants that ORI's A-133 report was reviewed, it was unable to provide supporting documentation to demonstrate that ORI's A-133 audit findings were communicated to two state commissions. Subsequently, grants totaling \$466,461 were awarded through two state commissions to ORI despite the fact that unresolved material weaknesses had been identified in the A-133 report. As a result of the findings discovered during our ORI grant audit, we initiated an investigation on ORI's administration of Corporation grants and issued a management alert to Corporation senior management on our preliminary audit findings.

In addition, we found that 48 percent of the grantees with material weaknesses in FY 2010 had reoccurring material weaknesses from their FY 2009 A-133 reports or from their FY 2009 financial statements audits. We further found that another 11 percent of the grantees with material weaknesses in FY 2010 had significant deficiencies reported in FY 2009. Also, 16 percent of our samples for FY 2009 review had significant deficiencies in FY 2010. Also, we observed that grants officers did not consistently request and review management letters² issued by the grantees' auditors.

OMB Circular A-50 states that the audit follow up official has personal responsibility for ensuring that (1) systems of audit follow up, resolution, and corrective action are documented and in place, (2) timely responses are made to all audit reports, (3) disagreements are resolved, and (4) corrective actions are actually taken.

² Management Letters identify issues not required to be disclosed in the auditor's report but represent the auditor's concerns and suggestions noted during the audit.

Recommendations

We recommend that the Corporation:

- 2a. Follow up on all questioned costs and audit findings identified in A-133 reports on a timely basis and collect amounts due to the Corporation;
- 2b. Ensure that all A-133 reports of grantees are reviewed and that grantees take appropriate and timely corrective actions on audit findings; and
- 2c. Request and review any management letter associated with the report to identify other internal control issues that may impact the programs funded by the Corporation. Any inability or unwillingness by the grantee to correct A-133 findings should result in sanctions deemed appropriate by the Corporation.

Finding 3. Grants Officers' Lack of Understanding of A-133 Report Audit Terms and Findings.

The Corporation's grants officers are designated the responsibility for monitoring and following up on audit findings of the organizations within their portfolios. However, we noted that several grant officers could not clearly identify and differentiate different types of audit opinions and/or audit findings (material weakness and significant deficiency). During our interviews with grant officers, we found that several of them did not fully comprehend the extent and gravity of the audit findings. As a result, they recorded incorrect A-133 report results and audit resolution information in eGrants. For example, we found that many grant officers inaccurately recorded that there were no audit findings (in the findings box within the eGrants' Grant Officer's Certification Screen) when material weaknesses had been reported in the A-133 reports for findings related to the Corporation. Entering erroneous information in eGrants inhibits the Corporation's opportunity to follow up on the audit findings or develop effective risk profiles for grantee monitoring purposes.

Additionally, audit findings for 75 percent of the sampled grantees were not recorded in the audit resolution function in eGrants, as required by the Corporation's policies and procedures. In some instances, grants officers indicated in eGrants that there were audit findings; however, there was no description of the finding in eGrants. The Corporation's A-133 eGrants Audit Resolution Procedures describe the established protocol for recording A-133 audit findings. It states "[i]f the A-133 has findings and the grant management specialist indicates "yes" in the findings box on the GO [Grants Officer] certification screen, the GMS [Grants Management Specialist] must also set up a record for the organization and its A-133 audit in the audit resolution function in eGrants." It further states that the "Corporation uses the Audit Resolution component of eGrants to record and track the resolution process for all A-133 audits of our grantees with monetary, internal control or compliance findings."

Furthermore, we were told by grants officers that their lack of knowledge on A-133 terminology and proper documentation in eGrants was due to insufficient training. The majority of grants officers interviewed requested additional training on A-133 audit terms and requirements, as well as training on the process used to identify and record audit findings in different modules within eGrants.

Recommendations

We recommend that the Corporation:

- 3a. Conduct in-depth, periodic mandatory training for grants officers on the process used to review, research, and document A-133 findings that relate to the Corporation. The training should also include how to identify internal control deficiencies, follow-up activities, and the definitions of audit terminology; and
- 3b. Document all follow up actions in eGrants, as required by the Corporation's policies and procedures, to include specific risks or concerns, details of monitoring performed, the results, and the parties involved in the monitoring activities.

Finding 4. Discrepancies Between the A-133 Report Population Maintained by the Corporation and the Federal Audit Clearinghouse.

We found there were inconsistencies between the list of oversight organizations maintained by the Corporation and the list maintained by the Federal Audit Clearinghouse (harvester database). We further found that a reconciliation of A-133 report population maintained by OGM and that maintained by the harvester database was not performed, as reflected by the discrepancies we identified. For example, we found that Weber Human Services, Human Resources Development Corporation, and Public Allies, for which the Corporation had oversight responsibilities, were included in the A-133 report population extracted from the harvester database, but were not included in the Corporation's A-133 report population, which indicates the Corporation's listing is incomplete. We were unable to obtain a clear explanation from the Corporation for the cause of the discrepancies.

Maintaining a comprehensive list of grantees for which the Corporation has oversight responsibilities provides more effective monitoring and ensures that grantees that should have filed A-133 reports are in compliance with the applicable regulations. The Corporation's A-133 eGrants Audit Resolution Procedures, "General Policies" Section, No. 4 states that the A-133 Audit Resolution Coordinator is responsible for "[m]aintaining the list of organizations for which CNCS [Corporation] is cognizant or [has] oversight [responsibility]." This responsibility includes maintaining accurate and reliable listing of A-133 grantees.

During the course of this evaluation, the OIG offered OGM assistance with maintaining a complete listing of A-133 grantees for which the Corporation has oversight responsibilities. However, due to the recent deep congressional budget cuts experienced by our office for FY 2012, we will be unable to provide such assistance. The Corporation will have to develop a mechanism for ensuring it maintains a complete listing of A-133 grantees.

Recommendation

We recommend that the Corporation:

4. Perform periodic reconciliation between the A-133 grantees' record maintained by the Corporation and the A-133 report population maintained in the Federal Audit Clearinghouse. Differences should be researched and resolved.

Finding 5. A-133 Reports Are not Reviewed During the Grants Close Out Process.

During our interviews with grants officers, we found that A-133 reports are not reviewed during the grant close out process. The Corporation currently has no requirement to review A-133 reports during close out of grants. This is a repeat finding from the OIG audit report 01-14, issued in February 2001. As a best management practice, A-133 audit reports should be reviewed during the grant close out process to mitigate the risk of overlooking questioned costs determined to be due to the Corporation.

Recommendation

We recommend that the Corporation:

5. Include in the Corporation's policies and procedures a requirement to review the most recent A-133 audit reports during the grants close out process to ensure that there are no outstanding questioned costs due to the Corporation.

OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted this evaluation in accordance with the Quality Standards for Inspection and Evaluation issued by the Council of the Inspectors General on Integrity and Efficiency.

Our objectives were to determine whether the Corporation: (1) tracks, monitors, and ensures that required grantees submit their A-133 reports; and (2) follows up on grantees' corrective actions based on their audit findings.

We performed our evaluation from August 2011 to January 2012. The evaluation focused on the review of A-133 reports issued in FY 2009. We selected a judgmental sample of 25 A-133 audit reports from a population of grantees that had material weaknesses identified in their reports. We performed a detailed review of all grantees in our sample for evidence of audit follow up and completion of corrective action plans.

Our procedures included a review of A-133 audit reports, prior OIG audit reports, the eGrants grant history reports, and eGrants documentation from the Grants Officer's Certification Screen, Monitoring Screen, and Audit Screen. We also reviewed applicable laws and regulations (such as OMB Circular A-133 and OMB Circular A-50), and Corporation's OGM policies and procedures on A-133 review and monitoring.

We conducted our evaluation at the Corporation's headquarters in Washington, DC and the Field Financial Management Center (FFMC) in Philadelphia, PA. We interviewed grants officers regarding their roles, responsibilities, and experience with A-133 reviews. The interviews were conducted in person at the Corporation's headquarters and FFMC, and via telephone. In addition, we interviewed OGM's Audit Resolution Specialist and had discussions with the Director of OGM and the Deputy Chief Financial Officer for Grants and FFMC to obtain an understanding of the Corporation's A-133 review process.

BACKGROUND

The Congress enacted the Single Audit Act of 1984 (subsequently amended in 1996) to ensure uniformity among Federal agencies for the audit of nonfederal entities expending Federal awards. The OMB Circular A-133 *Audits of States, Local Governments, and Non-Profits Organizations* implements the Single Audit Act. The Single Audit Act mandates that non-Federal entities expending \$500,000 or more annually in Federal awards have a single or program-specific audit conducted for that year. Any Corporation grantee expending \$500,000 or more in Federal funds in a year (the grantee's FY) must conduct a Single Audit in accordance with the OMB Circular A-133 and submit the report and data collection form to the Federal Audit Clearinghouse managed by the Department of Commerce. The results of the audit are recorded in the Federal Audit Clearinghouse for use by Federal agencies to monitor their grantees.

Single Audits are performed in accordance with the Government Auditing Standards. They provide valuable information on Corporation grantees, including financial reporting, internal controls, compliance with Federal laws and grant provisions, and performance of their grants. This independent information can assist the Corporation in its evaluation of the financial management capabilities of grant applicants, and its oversight and monitoring of current grantees.

In addition, the Single Audit Act requires Federal agencies, including the Corporation, to review the reports, track and follow up on Single Audit findings, and issue management decisions to ensure that grantees take appropriate corrective actions. The OMB Circular A-133 requires that the Federal agency issues a management decision within six months of receipt of the audit report on findings that relate to the awards it makes to recipients. OMB Circular A-133 also addresses actions that Federal agencies should take, including withholding Federal funds, if a grantee does not to comply and obtain a Single Audit.

At the Corporation, management and oversight of grants occurs at different organizational levels, depending upon the program involved. OGM and FFMC are the operating units primarily responsible for grant awards issuance, monitoring, and close outs. The grants officers use eGrants, an in-house grants information system, to document and track grant activities, including the review of A-133 reports.

This evaluation is a follow up on five previously-issued OIG reports (refer to footnote 1 for details) that identified weaknesses related to monitoring and resolving issues identified in A-133 reports.

EXIT CONFERENCE

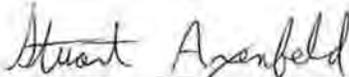
We discussed the contents of this report with Corporation representatives at the exit conference on January 23, 2012. We summarized the Corporation's response to the draft report below and included its response, in its entirety, as Appendix A.

CORPORATION RESPONSE

The Corporation stated that its own review on A-133 review and follow-up processes identified similar findings as reported by OIG. The Corporation also stated that OIG's recommendations were very helpful to the Corporation as it considers alternatives to the current approach and role of the A-133 review. The Corporation plans to establish a final overall corrective action plan after OIG issues the final report.

OIG COMMENT

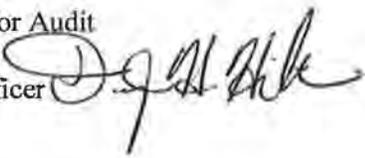
While the Corporation did not address our findings and recommendations individually, we acknowledge that the Corporation plans to take corrective actions during the audit resolution process. We will assess the Corporation's implementation of our recommendations during the audit resolution process.



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

Appendix A
Corporation's Response to Draft Report

To: Stuart Axenfeld, Assistant Inspector General for Audit

From: Douglas H. Hilton, Acting Chief Financial Officer 

Date: May 11, 2012

Subject: Response to OIG Draft Report on the Evaluation of the Corporation's OMB
Circular A-133 Reports Monitoring Process

Thank you for the opportunity to comment on the OIG draft audit of the Corporation's A-133 audit review processes. The Office of Grants Management assessed our A-133 audit review and follow-up processes in its own 2011 internal control review. That review identified similar findings as the OIG evaluation and identified additional areas where we need to revise procedures or systems for A-133 review as follows:

- Re-design the audit resolution component of eGrants to reflect procedures for A-133 audits;
- Update the procedures to define expectations for management decisions related to A-133 audits; and
- Clarify expectations for tracking A-133 audit follow-up.

The IG's recommendations were very helpful to the Field Financial Management Center and the Office of Grants Management as we consider alternatives to our current approach and the role of our A-133 reviews in our overall approach to monitoring our grantees, including State Service Commissions. Additionally we note the Office of Management and Budget is currently reviewing the Circular A-133 for possible modifications. We will establish final overall corrective action plan after receipt of the final OIG Report.

cc: Rocco Gaudio, Deputy CFO for Grants and Field Financial Management
Peg Rosenberry, Director of Grants Management
Kim Mansaray, Deputy Chief Operating Officer