

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

**PERFORMANCE AUDIT OF THE CORPORATION FOR  
NATIONAL AND COMMUNITY SERVICE'S  
COMPLIANCE WITH THE IMPROPER PAYMENTS  
ELIMINATION AND RECOVERY ACT OF 2010 (IPERA)  
FOR FISCAL YEAR 2015**

**OIG REPORT 16-04**

Office of Inspector General

Corporation for  
**NATIONAL &  
COMMUNITY  
SERVICE** 

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**This report was issued to Corporation management on May 13, 2016. 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 14, 2016, and complete its corrective actions by May 15, 2017. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.**



May 13, 2016

TO: Wendy Spencer  
Chief Executive Officer

FROM: Stuart Axenfeld   
Assistant Inspector General for Audit

SUBJECT: Office of Inspector General (OIG) Final Report 16-04: *Performance Audit of the Corporation for National and Community Service's Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2015*

Attached is the OIG Final Report 16-04: *Performance Audit of the Corporation for National and Community Service's Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2015*. The audit was conducted by Cotton & Company LLP in accordance with standards established by the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Under the Corporation's audit resolution policy, a final management decision on the findings and recommendations in this report is due by November 14, 2016. Notice of final action is due by May 15, 2017.

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

Attachment

cc: Jeffrey Page, Chief Operating Officer and Acting Chief Financial Officer  
Lori Giblin, Chief Risk Officer, Office of the Chief Risk Officer  
Jeremy Joseph, General Counsel  
Robert McCarty, Budget Director  
Michael Gillespie, Partner, Cotton & Company LLP

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**PERFORMANCE AUDIT OF THE  
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**I. EXECUTIVE SUMMARY**

Despite years of trying, the Corporation for National and Community Service (CNCS) remains unable to perform a reliable assessment of the susceptibility of all of its programs and activities to improper payments, and likewise unable to estimate reliably the amount or the rate of improper payments in the AmeriCorps State and National Program in fiscal year (FY) 2015. CNCS also failed to complete its improper payment assessments for the two Senior Corps programs that it considers susceptible to significant risk of improper payments. The improper payments information reported in CNCS's FY 2015 Agency Financial Report (AFR) is therefore unreliable and incomplete in several respects. CNCS has again been unable to comply with the Improper Payments Elimination and Recovery Act of 2010, as amended (IPERA). As in the past, we found significant flaws at every stage of CNCS's improper payments assessment process. Many of these flaws resulted from a lack of sufficiently qualified personnel to develop a sound testing methodology and execute CNCS's complex sampling process.

IPERA requires Federal agencies to identify and reduce improper payments and report annually on their efforts in the AFR. IPERA also requires each agency's Inspector General to perform an audit of the agency's compliance with IPERA. CNCS's Office of Inspector General (OIG) contracted with Cotton & Company LLP (referred to as "we" in this report) to conduct the performance audit of CNCS's compliance with IPERA for FY 2015.

CNCS has begun implementing corrective actions to address findings issued in FY 2014. Specifically, we noted some improvements in the following areas:

- Completeness and accuracy of the improper payments reporting in the AFR according to OMB A-136 reporting requirements.
- Completeness and accuracy of the risk assessment and reasonableness of conclusions reached for CNCS programs and activities, excluding the Senior Companion Program (SCP) and Social Innovation Fund (SIF).
- Accuracy of data used in the statistical sampling process and consistency in following CNCS's documented methodology.
- Comprehensiveness of the testing methodology and corresponding test plans and implementation of mandatory training for personnel conducting test procedures.
- Implementation of a process to begin quarterly reporting on high-dollar overpayments.
- Implementation of guidance for disallowing grantee costs due to non-compliance with criminal history checks (CHC).

These partial improvements, although welcome, did not substantially improve CNCS's IPERA compliance status, and its FY 2015 AFR did not comply with IPERA reporting requirements. We identified the following compliance issues and other matters, many of them recurring from the prior year:

## Compliance Issues

- CNCS did not complete its improper payments reporting in the FY 2015 AFR in accordance with OMB A-136 reporting requirements.
- CNCS's risk assessments for SCP and SIF may not be valid.
- CNCS did not publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments.
- The improper payment estimate that CNCS did publish is not statistically valid, complete, or accurate.
- CNCS did not properly identify improper payments.
- CNCS did not meet its annual reduction target for the AmeriCorps State and National Grant Program.

## Other Matters to Be Reported

Our report also notes certain other matters relating to our evaluation of CNCS's performance in reducing and recapturing improper payments:

- CNCS did not adequately report on high-dollar overpayments.
- CNCS did not complete a cost-benefit assessment for payment recapture audits.
- CNCS did not complete the reporting required as a result of its non-compliance with IPERA for three consecutive fiscal years.

Because CNCS did not meet IPERA requirements, the information reported in the AFR cannot be considered complete and accurate, and as a result, the estimated improper payment rate and dollar amount reported cannot be relied upon. Further, CNCS has not made the OIG and OMB aware of any high-dollar overpayments, or notified them that CNCS did not have any such overpayments. In addition, CNCS may not be effectively recovering Federal funds that should not have been paid. Finally, CNCS did not provide OMB and/or Congress notice with an appropriate level of awareness regarding the issues that resulted in its inability to comply with IPERA. The methodology chosen by CNCS requires more resources than CNCS can spare to execute it. CNCS must either abandon that approach in favor of an alternative that can be timely executed with the available resources, or marshal sufficient additional resources to bring this methodology to completion, working with Congress and the OMB if necessary.

We recommend that CNCS take the following corrective actions:

- Implement internal controls and review procedures over the Improper Payments section of AFR Part IV, *Other Information*, to ensure that it reports all elements required by OMB Circular A-136 and that the information reported is complete.
- Perform the IPERA risk assessment for SCP and SIF in FY 2016 using an improved assessment process. If CNCS uses a statistical sample as the basis for this risk assessment, ensure that the statistical methodology results in an improper payment estimate that is complete and accurate.

- Continue to work with a qualified statistician to implement a straightforward sampling methodology that is statistically valid and realistic to execute.
- Ensure that it has appropriately allocated sufficient resources, including trained personnel, to complete the sampling process and associated testing within the timeframe required to meet IPERA reporting requirements in the annual AFR.
- Implement procedures to hold grantees accountable for failing to respond to requests for documentation required to support the improper payments assessment.
- Develop a comprehensive testing methodology supported by appropriate criteria and documentation and consistently apply that methodology to selected sample items.
- Take appropriate programmatic corrective actions to address the root cause of improper payments identified in the AmeriCorps State and National Grant Program.
- Improve the process for reporting high-dollar overpayments to the CNCS OIG, OMB, and the public.
- Evaluate whether it is cost-effective to perform payment recapture audits for CNCS programs that expend \$1 million or more annually.
- Submit a plan to OMB and Congress, as appropriate, outlining the milestones for achieving compliance and assessing whether additional funding, program reauthorization, or statutory changes would help bring CNCS into compliance with IPERA.

## **II. BACKGROUND**

The Improper Payments Elimination and Recovery Act of 2010 (IPERA), Public Law (PL) 111-204, dated July 22, 2010, amended the Improper Payments Information Act of 2002 (IPIA), PL 107-300. IPERA requires agencies to periodically review and identify programs and activities that may be susceptible to significant improper payments, and to report on their actions to reduce and recover improper payments. As directed under IPERA, the Office of Management and Budget (OMB) issued Memorandum M-11-16, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123*, on April 14, 2011. This memorandum provides agencies with detailed guidance on the implementation of IPERA. The enactment of the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), PL 112-248, dated January 10, 2013, provided an opportunity for OMB to re-examine existing guidance to ensure that agencies are effectively reducing improper payment rates while also complying with multiple legislative and administrative requirements. OMB issued Memorandum M-15-02, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, on October 20, 2014. OMB Memorandum M-15-02 modifies all prior OMB Circular A-123, Appendix C guidance.

Part II, Section A, Subsection 3 of OMB Memorandum M-15-02 expands on the Inspector General (IG)'s responsibilities as outlined in IPERA, including:

- Reviewing agency improper payment reporting in the annual Agency Financial Report (AFR) and accompanying materials.

- Determining whether the agency is in compliance with IPERA.

The IG is also directed to evaluate the accuracy and completeness of agency improper payment reporting, as well as the agency's performance in reducing and recapturing improper payments. The *Objective, Scope, and Methodology* section of this report addresses the IG's responsibilities as described in Subsection 3.

We discussed the contents of this report with CNCS management in an exit conference held on April 19, 2016. We summarized CNCS management's written response to the draft report in Section IV below and included the response in its entirety as Appendix D to this report.

### III. AUDIT RESULTS

Based on the audit procedures performed, we determined that CNCS did not meet five of the six applicable OMB criteria for compliance noted in the audit objectives. The following table identifies each criterion and states whether CNCS met the criterion. Following the table are brief synopses of the related compliance findings, which provide support for our conclusions.

OMB Criteria for IPERA Compliance	Results <sup>1</sup>	Explanation of Results
Published a PAR or AFR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.	Not Compliant	CNCS published an AFR for FY 2015 and posted the report and accompanying materials to the agency website; however, it did not report the information in accordance with OMB A-136 reporting requirements, and the information is not complete. <b>See Finding 1.</b>
Conducted a program-specific risk assessment for each program or activity that conforms with Section 3321 of Title 31 U.S.C. (if required).	Not Compliant	CNCS conducted a program-specific risk assessment; however, the risk assessment for the Senior Companion Program and Social Innovation Fund may not be valid. <b>See Finding 2.</b>
Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under the agency's risk assessment (if required).	Not Compliant	CNCS did not publish improper payment estimates for all programs and activities identified in its risk assessment as susceptible to significant improper payments. In addition, while CNCS did publish an improper payment estimate for the AmeriCorps State and National Grant Program, the estimate is not statistically valid, complete, or accurate, and we were unable to rely on the results of the testing. <b>See Findings 3, 4, and 5.</b>
Published programmatic corrective action plans in the PAR or AFR (if required).	Compliant	CNCS published programmatic corrective action plans in the AFR.

<sup>1</sup> OMB Memorandum M-15-02 requires that the compliance review clearly state the agency's compliance status (i.e., compliant or non-compliant). We have reported the results in accordance with this requirement and provide further explanation to support instances in which CNCS partially met compliance criteria.

OMB Criteria for IPERA Compliance	Results <sup>1</sup>	Explanation of Results
Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments.	Not Compliant	CNCS did not meet its reduction target for FY 2015 for the AmeriCorps State and National Grant Program. <b>See Finding 6.</b>
Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR.	Not Compliant	CNCS did report an improper payment rate of less than 10 percent for the AmeriCorps State and National Grant Program in the AFR; however, the estimate is not statistically valid, complete, or accurate, and we are unable to rely on the results of the testing. <b>See Findings 4 and 5.</b>

### Compliance Findings

CNCS did not meet five of the six applicable OMB criteria for IPERA compliance. The detailed findings and recommendations are included in Appendix A to this report. A comparison of the factors contributing to non-compliance for FY 2014 and FY 2015 is included in Appendix D.

**Finding 1. CNCS did not complete its improper payments reporting in the FY 2015 AFR in accordance with OMB A-136 reporting requirements. [Modified repeat finding for FY 2015]**

CNCS's improper payments reporting in the FY 2015 AFR was incomplete and was not performed in accordance with the OMB Circular No. A-136 reporting requirements. Specifically:

- In its FY 2015 risk assessment, CNCS determined that the Senior Companions Program (SCP) is susceptible to significant levels of improper payments; however, CNCS did not include SCP in the improper payments reporting table or indicate when it expected to produce an estimated improper payment error rate for SCP. CNCS is required to list all risk-susceptible programs whether or not it reports an error measurement; and where it does not report such a measurement, CNCS should indicate when it expects to complete the measurement.
- CNCS reported a current year (CY) outlays amount for the AmeriCorps State and National Grant Program that differed from the fiscal year (FY) covered by the AFR. This is acceptable with OMB approval; however, CNCS was unable to provide evidence that OMB had approved the alternative reporting period. The reporting period for determining the improper payments estimate was April 1, 2014, through March 31, 2015.
- CNCS did not provide a summary of the justification and analysis supporting its determination that it was not cost-effective to conduct a payment recapture audit program for its programs or activities and that these programs or activities would therefore be excluded from any such audits. In addition, CNCS did not indicate whether it had notified OMB of this determination (including the month and year of notification).

CNCS did not have adequate procedures in place or sufficient supervision and oversight to ensure that information reported in the AFR was completed in accordance with the requirements



in OMB Circular No. A-136. As a result, users of CNCS's AFR were unable to obtain a complete picture of CNCS's improper payment assessment and results.

We recommend that CNCS implement internal controls and review procedures over the *Improper Payments* subsection of AFR Section IV, *Other Information*, to ensure that it reports the required elements per OMB Circular No. A-136 and includes complete and accurate information.

**Finding 2: CNCS's risk assessment for the Senior Companions Program and Social Innovation Fund may not be valid. [Modified repeat finding for FY 2015]**

The results of CNCS's risk assessment over SCP and the Social Innovation Fund (SIF) may not be valid. CNCS may have appropriately concluded that SCP is susceptible to significant improper payments; however, it may have incorrectly concluded that SIF is not susceptible to significant improper payments because the improper payment estimate upon which CNCS based the conclusions is not complete or accurate. CNCS based its risk assessment conclusions for SCP and SIF on a qualitative assessment of the risk factors outlined in OMB M-15-02 and on a statistical sample. We identified the following deficiencies relating to the statistical sample:

- The sample used a mean-per-unit (MPU)<sup>2</sup> projection rather than a probability proportional to size (PPS)<sup>3</sup> projection. This is inconsistent with CNCS's use of a monetary unit sampling (MUS) approach, which is a PPS sampling method.
- CNCS did not properly report all errors identified in its samples. We found that CNCS reported only those errors in which it was able to select an appropriate transaction, test it, and identify the transaction as an improper payment. It did not report non-response errors,<sup>4</sup> in which the grantee did not provide sufficient supporting documentation for the Federal Financial Report (FFR) to enable CNCS to select the transaction for testing, or unmatched errors,<sup>5</sup> in which the grantee provided documentation to support the FFR or General Ledger (GL) but the documentation did not reconcile.

CNCS does not have adequate procedures and controls in place to ensure that it has implemented a complete, accurate, and systematic method of performing the IPERA risk assessment for all programs. Specifically, CNCS lacks adequate procedures to ensure that the statistical methodology used to extrapolate the estimated improper payment amount results in a complete and accurate estimate.

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<sup>2</sup> The MPU approach is a classical variables sampling technique that projects the sample average to the total population by multiplying the sample average by the total number of items in the population. [Source: *AICPA Audit Guide, Audit Sampling, Appendix G, Glossary*]

<sup>3</sup> PPS sampling is a sampling technique that selects sample items in proportion to their relative size, usually their monetary amounts. Monetary unit sampling uses this method to select the sample. [Source: *AICPA Audit Guide, Audit Sampling, Appendix G, Glossary*]

<sup>4</sup> We reviewed the 55 SCP sample items and the 55 SIF sample items selected by CNCS and found 38 and 25 instances of non-response errors, respectively.

<sup>5</sup> We reviewed the 55 SCP sample items and the 55 SIF sample items selected by CNCS and found 7 and 15 instances of unmatched errors, respectively.

We recommend that CNCS improve the IPERA risk assessment process to ensure that it provides a complete, accurate, and systematic method for all programs. Specifically, if CNCS uses a statistical sample to evaluate whether SCP and SIF are susceptible to significant improper payments, it should ensure that the statistical methodology results in an improper payment estimate that is complete and accurate.

**Finding 3: CNCS did not publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments.**

CNCS did not publish improper payment estimates for the Foster Grandparent Program (FGP)<sup>6</sup> and the Retired and Senior Volunteer Program (RSVP)<sup>7</sup>, although both programs were deemed susceptible to significant risk of improper payments in prior-year risk assessments. As stated in the FY 2015 AFR Section IV, *Other Information*, page 120, CNCS began the sampling and estimation process in FY 2015; however, it was unable to complete the sampling process and produce an estimate of improper payments with the required precision.

CNCS was unable to complete sampling and testing due to resource constraints related to executing its complex statistical sampling process. In FY 2015, CNCS dedicated fewer than five personnel to the improper payments assessment, which included a multi-stage data collection and sampling process and testing of more than 1,500 items for the three programs for which CNCS intended to publish improper payment estimates. Grantee non-responsiveness compounded the difficulties; approximately 69 percent of the grantees for both FGP and RSVP did not provide the required supporting documentation for the FFR, and as a result, CNCS was unable to select the related transactions for testing.

Because CNCS has not produced a baseline improper payment estimate for FGP or RSVP, it may not completely understand the root causes of improper payments in these programs, is unable to develop comprehensive programmatic corrective action plans to reduce improper payments, and has no basis to measure improper payment reduction.

We recommend that CNCS work with a qualified statistician to implement a straightforward sampling methodology that is statistically valid and realistic to execute. CNCS should ensure that it has allocated and committed sufficient resources to complete the sampling process and associated testing within the timeframe required to meet IPERA reporting requirements in the AFR. In addition, CNCS should implement procedures to hold grantees accountable for failing to respond to requests for documentation required to support the improper payments assessment.

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<sup>6</sup> CNCS selected a sample of 500 FGP items and completed testing on 154 of the items. Of the sample items for which CNCS was unable to complete testing, 345 could not be tested because CNCS did not receive supporting documentation from the grantees for the FFR. CNCS categorized the remaining one sample item as an unmatched error and did not test it for improper payments. Due to the issues relating to the statistical methodology, the audit team did not pursue further clarification for this one item.

<sup>7</sup> CNCS selected a sample of 800 RSVP items and completed testing on 246 of the items. Of the sample items for which CNCS was unable to complete testing, 551 could not be tested because CNCS did not receive supporting documentation from the grantees for the FFR. CNCS categorized the remaining three sample items as unmatched errors and did not test them for improper payments. Due to the issues relating to the statistical methodology, the audit team did not pursue further clarification for these three items.

**Finding 4: CNCS’s published improper payment estimate is not statistically valid and may not be complete and accurate. [Modified repeat finding for FY 2015]**

IPERA requires each agency to produce a statistically valid estimate of the improper payments made by each risk-susceptible program and activity and to include the results in the AFR. The improper payment estimate included in the FY 2015 AFR for the AmeriCorps State and National Grant Program is not statistically valid, complete, or accurate, and the results reported in the AFR therefore cannot be relied upon.

CNCS did not have adequate procedures, supervision, oversight, and quality control to ensure that the statistical methodology used to extrapolate the estimated improper payment estimate was valid and resulted in a complete and accurate estimate. Specific deficiencies included:

- CNCS used an MPU projection rather than a PPS projection. This is inconsistent with its use of an MUS sampling approach, which is a PPS sampling method.<sup>8</sup>
- CNCS did not properly report all errors identified in its samples. We found that CNCS reported only those errors in which it was able to select an appropriate transaction, test it, and identify the transaction as an improper payment. It did not report non-response errors,<sup>9</sup> in which the grantee did not provide sufficient supporting documentation for the FFR to enable CNCS to select the transaction for testing, or unmatched errors, in which the grantee provided documentation to support the FFR or GL but the documentation did not reconcile.
- CNCS’s methodology resulted in incorrect and inconsistent selection of transactions for testing. Specifically, we found that CNCS selected the wrong dollar amount for testing in 2 out of 45 instances. We also found that CNCS selected a transaction that was comprised of multiple payments rather than one unique payment in 2 out of 45 instances. In addition, we were unable to confirm that CNCS had sampled the correct dollar amount for testing in 20 out of 45 instances.

We recommend that CNCS work with a qualified statistician to implement a straightforward, statistically valid sampling and extrapolation methodology and provide oversight throughout the planning and estimation process to ensure that the agency is in compliance with IPERA.

**Finding 5: CNCS did not properly identify improper payments. [Modified repeat finding for FY 2015]**

CNCS did not develop a comprehensive testing methodology to determine the estimated rate and dollar amount of improper payments reported in the FY 2015 AFR for the AmeriCorps State and National Program and was inconsistent in applying the test plans that it did develop. Further, CNCS either did not verify or did not appropriately document verification that it had examined all applicable allowability/eligibility requirements to support that the sampled

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<sup>8</sup> CNCS’s extrapolation plan stated that it would use a PPS projection; however, it used an MPU projection instead. As a result, the improper payment amount was understated.

<sup>9</sup> Of the 250 sample items that CNCS selected for the AmeriCorps State and National Grant Program, CNCS identified 55 non-response errors and 107 unmatched errors. Of the 55 non-response errors, CNCS incorrectly categorized 9 sample items for which it had obtained sufficient documentation to accurately conclude that these transactions were accruals and should not be tested, as accruals do not represent an actual payment.

payments were proper or improper in accordance with the applicable sections of the Code of Federal Regulations (CFR) and CNCS policies and procedures. We noted a variety of weaknesses in CNCS's test plan evaluation sheets and the criminal history check (CHC) spreadsheet for key testing areas such as staff/member timesheets, staff/member eligibility, and other program operating costs. See Finding 5, *CNCS did not properly identify improper payments*, in Appendix A of this report for detailed examples of the weaknesses identified.

We sampled 45 transactions tested by CNCS and used CNCS's detailed testing plans and transaction evaluation spreadsheets to evaluate whether the payment should be deemed proper or improper. We identified two transactions that CNCS deemed to be proper payments but that should have been classified as improper and one transaction that CNCS deemed to be an improper payment but that should have been classified as proper. In addition, we identified eight transactions in which we were unable to verify CNCS's conclusion as to whether the payment should have been deemed proper or improper.

CNCS did not develop adequate test plans and did not follow all developed test plan procedures to ensure that all sampled payments were verified as proper or improper in accordance with CFR and CNCS policies and procedures. Specifically, the CNCS Office of Grants Management (OGM) and Office of the General Counsel (OGC) did not believe that CNCS was required to test certain attributes and therefore removed the testing steps from the proposed test plans, or instructed IPERA reviewers that it was not necessary to examine certain attributes. In addition, CNCS does not have adequate procedures in place or adequate staff, supervision, or oversight available to ensure that it obtained and reviewed all supporting documentation before the IPERA reporting results were due.

We recommend that CNCS develop a comprehensive testing methodology and consistently apply that methodology to selected sample items. Specifically, CNCS should update its test plan evaluation sheets to address all allowability/eligibility criteria applicable to CNCS-sponsored payments per the applicable sections of the CFR. It should also update its mandatory training for all CNCS reviewers to include the more comprehensive test plans, to ensure that all reviewers share a consistent testing methodology and documentation retention plans.

**Finding 6: CNCS did not meet the annual reduction target for the AmeriCorps State and National Program.**

CNCS did not meet the FY 2015 reduction target for the AmeriCorps State and National Grant Program. CNCS's FY 2014 AFR included a reduction target of 2.7 percent for the AmeriCorps State and National Grant Program for FY 2015; however, the FY 2015 AFR reported an estimated FY 2015 improper payment rate of 6.5 percent, 2.4 times higher than the reduction target.

CNCS has not implemented appropriate programmatic corrective actions to address the root cause of the improper payments identified in the AmeriCorps State and National Grant Program. In addition, CNCS significantly modified its improper payment statistical estimation and testing processes for FY 2015; as a result, it lacked a stable improper payment measurement process. Under its new approach, CNCS accurately concluded that certain CHC-related issues were improper payments in FY 2015, while in prior years it had not considered these issues to be improper. CNCS's improper payment estimate for the AmeriCorps State and National Grant Program therefore increased in FY 2015 due to the improvements made in the measurement process.

We recommend that CNCS take appropriate programmatic corrective actions to address the root cause of improper payments identified in the AmeriCorps State and National Grant Program. In addition, CNCS should implement a statistically valid sampling and extrapolation methodology and improved testing approach that results in a complete and accurate improper payment estimate. CNCS should then develop and report realistic reduction targets for subsequent fiscal years and provide a rationale and justification for the target as part of the improper payments reporting in the AFR.

### **Other Matters to Be Reported**

As part of our review, we evaluated CNCS's efforts to reduce and recapture improper payments. The three findings noted below are related to this objective.

#### **Finding 7: CNCS did not adequately report on high-dollar overpayments.<sup>10</sup> [Modified repeat finding for FY 2015]**

For the first and second quarters of FY 2015, CNCS did not report to OMB and the CNCS OIG regarding high-dollar overpayments identified, or a lack of high-dollar overpayments, for the following programs that CNCS identified as susceptible to significant improper payments: AmeriCorps State and National Grant Program, FGP, and RSVP. Further, for the third and fourth quarters of FY 2015, CNCS only reported to the CNCS OIG regarding its lack of high-dollar overpayments; it did not report to OMB.

CNCS management did not have a complete understanding of all of its reporting responsibilities and did not have adequate supervision and oversight over the reporting process. As a result, CNCS did not meet OMB's reporting requirements for high-dollar overpayments.

We recommend that CNCS improve its process for reporting high-dollar overpayments. Specifically, CNCS should implement effective controls to ensure that it reports to both the CNCS OIG and OMB on a quarterly basis regarding any high-dollar overpayments identified in programs susceptible to significant improper payments, or report that CNCS did not have any high-dollar overpayments in such programs.

#### **Finding 8: CNCS did not complete a cost-benefit assessment for payment recapture audits. [Modified repeat finding for FY 2015]**

CNCS did not complete an assessment to determine whether conducting payment recapture audits on its programs that expend \$1 million or more annually<sup>11</sup> would be cost-effective, as required by IPERA. The FY 2015 AFR reported that CNCS had begun reviewing payment recapture activities for programs expending \$1 million or more annually and that preliminary results indicated that a payment recapture audit was not warranted; however, CNCS did not provide any documentation to support that it had conducted such a review. CNCS indicated

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<sup>10</sup> A high-dollar overpayment is an overpayment that is more than 50 percent of the correct amount of the intended payment and that meets the following criteria: (a) Where the total payment to an individual exceeds \$25,000 as a single payment or in cumulative payments for the quarter; or (b) where the total payment to an entity exceeds \$100,000 as a single payment or in cumulative payments for the quarter.

<sup>11</sup> For purposes of IPERA reporting, CNCS identified the following programs as spending \$1 million or more annually: AmeriCorps State and National Grants, FGP, RSVP, Vendor Payments, Trust, Travel, Volunteers in Service to America (VISTA) Member Payroll, SCP, SIF, Employee Payroll, Debit Cards, and Credit Cards.

that it is in the process of beginning the analysis and plans to report the results in the FY 2016 AFR.

CNCS management did not have a complete understanding of all of its reporting responsibilities and did not have adequate supervision and oversight over the reporting process. As a result, CNCS may not be performing recapture audits or other recovery activities for all applicable programs for which it would be cost-effective to do so and may not be effectively recovering Federal funds that were improperly paid.

We recommend that CNCS conduct an assessment to determine whether payment recapture audits or other recovery activities are cost-effective for programs that expend \$1 million or more annually, and that it retains adequate supporting documentation of the analysis performed.

**Finding 9: CNCS did not complete the reporting required as a result of its non-compliance with IPERA for three consecutive fiscal years.**

CNCS was required to submit a report to Congress as a result of its non-compliance with IPERA for three consecutive fiscal years (FYs 2012 through 2014); however, it did not do so. In response to our inquiry, CNCS management stated, "CNCS has not yet submitted its proposal to Congress. CNCS is working to determine a feasible way to incorporate the IPERA workload into an agency of its size. After this extensive development is completed and a formal plan is prepared, CNCS will submit the required report to Congress."

CNCS management did not have a complete understanding of all of its reporting responsibilities and did not have adequate supervision and oversight over the process for meeting reporting requirements applicable to agencies not compliant with IPERA. Because CNCS did not meet these reporting requirements, OMB and Congress do not have the appropriate level of awareness regarding the issues that resulted in CNCS's non-compliance with IPERA, or of potential additional support and resources that CNCS may need to become compliant with IPERA.

We recommend that CNCS take appropriate action to meet the reporting requirements for agencies that have been unable to comply with IPERA for three consecutive fiscal years. Specifically, CNCS should submit a plan to OMB and Congress, as appropriate, outlining the milestones for achieving compliance; designating a senior agency official accountable for achieving compliance; and assessing whether additional funding, program reauthorization, or statutory changes would help bring CNCS into compliance with IPERA.

**IV. SUMMARY OF CNCS MANAGEMENT'S RESPONSE**

CNCS management generally concurred with the overall findings and recommendations in the audit report and stated that it has already begun implementing many of the recommendations, primarily redesigning the IPERA process to make it achievable and valuable for CNCS. The response included a list of 16 corrective actions that CNCS plans to implement over the coming three years beginning in FY 2016. These corrective actions include updating the statistical sampling plan, revisiting the improper payment testing and reporting approach, improving policies and procedures, and developing more training.

**V. AUDITOR'S COMMENTS ON CNCS MANAGEMENT'S RESPONSE**

The corrective actions that CNCS plans to implement will improve its ability to comply with IPERA; however, the corrective actions identified did not address all of our recommendations. We recommend that CNCS management ensure that appropriate corrective actions are taken in a timely manner and that those actions will address all of the recommendations in the audit report.

Cotton & Company LLP

A handwritten signature in black ink, appearing to read "Michael W. Gillespie".

Michael W. Gillespie, CPA, CFE  
Partner  
May 12, 2016

## DETAILED NOTICES OF FINDINGS AND RECOMMENDATIONS

**Finding 1: CNCS did not complete its improper payments reporting in the FY 2015 AFR in accordance with OMB A-136 reporting requirements. [Modified repeat finding for FY 2015]**

**CONDITIONS:** CNCS did not report improper payments information in the AFR Section IV, *Other Information*, in accordance with OMB Circular No. A-136 reporting requirements, and the information reported was not complete and accurate. Specifically,

1. In the AFR Section IV, *Improper Payment Reporting*, Table 1: *Improper Payment Reduction Outlook*:
  - a. In its FY 2015 risk assessment, CNCS determined that SCP is susceptible to significant levels of improper payments; however, CNCS did not include SCP in the improper payments reporting table or indicate when it expected to produce an estimated improper payment error rate for SCP. CNCS is required to list all risk-susceptible programs whether or not it reports an error measurement; where it does not report such a measurement, CNCS should indicate when it expects to complete the measurement.
  - b. CNCS reported a CY outlays amount for the AmeriCorps State and National Grant Program that differed from the fiscal year covered by the AFR. This is acceptable with OMB approval; however, CNCS was unable to provide evidence that OMB had approved the alternative reporting period. The reporting period for determining the improper payments estimate was April 1, 2014, through March 31, 2015.
2. In the AFR Section V, *Recapture of Improper Payments Reporting*:
  - a. CNCS did not provide a summary of the justification and analysis supporting its determination that it was not cost-effective to conduct a payment recapture audit program for its programs or activities and that these programs or activities would therefore be excluded from any such audits. In addition, CNCS did not indicate whether it had notified OMB of this determination (including the month and year of notification).

**CRITERIA:** OMB Circular No. A-136, Section II.5.8 provides the following guidance with respect to improper payments reporting in the AFR:

***Subsection III. Improper Payment Reporting***

- a. *The table that follows (Table 1) is required for each agency that has programs or activities reporting under OMB Circular A-123 Appendix C Part I.A.9.Step 2 or Part I.A.14 or for programs that OMB has automatically deemed susceptible to significant IPs (please see footnote 8 under Part I.A.9.Step 2) for reporting timing expectations) regardless of whether the program or activity has IPs exceeding the statutory*



*thresholds listed in OMB Circular A-123 Appendix C Part I.A.9.Step 1. Agencies must include the following information:*

- i. All programs susceptible to significant IPs must be listed in this table whether or not an error measurement is being reported;*
- ii. All Agency programs susceptible to significant IPs must be listed in one table. This table may be repeated to highlight specific programs throughout this section if the agency chooses to display their programs in that manner, however there also must be one table in the beginning of this section that contains ALL of the programs susceptible to significant IPs for the agency.*
- iii. Where no measurement is provided, the agency should indicate the date by which a measurement is expected and add a note to explain why there was no measurement;*
- iv. If the Current Year (CY) is the baseline measurement year, and there is no Previous Year (PY) information to report, indicate by either note or by "n/a" in the PY column;*
- v. If any of the dollar amount(s) included in the estimate correspond to newly established measurement components in addition to previously established measurement components, separate the two amounts to the extent possible;*
- vi. Agencies are expected to report on CY activity, and if not feasible, then PY activity is acceptable if approved by OMB. (Agencies should clearly indicate [such as with a note] when the CY is different from the FY covered by the PAR/AFR.) Agencies should include future year outlay and IP estimates for CY+1, +2 and +3 (future year outlay estimates should match the outlay estimates for those years as reported in the most recent President's Budget) Activity for improper payments reporting in Table 1 is defined as the time frame of the payments tested;*
- vii. Reduction targets for out years must be lower than CY IP percentages as is implied by the word 'reduction', unless otherwise approved by OMB. If an agency establishes a reduction target that does not decrease (e.g. a target that is constant or increasing), the reason(s) for establishing such a target must be clearly explained in a footnote to the table (A constant reduction target at 0% does not require a footnote). The OMB approval process for reduction targets will occur when OMB reviews the draft AFR or PAR;*
- viii. Dollars shall be displayed in millions and shall be carried out by at least two decimal points or be carried out to as many decimal points as the agency deems necessary to convey accurate information beyond two decimal points; and*
- ix. Percentages shall be carried out by at least two decimal points or carried out to as many decimal points as the agency deems necessary to convey accurate information beyond the two decimal points.*

### **Subsection X. Recapture of Improper Payments Reporting**

- b. *Programs Excluded from the Payment Recapture Audit Program. If the agency has excluded any programs or activities from review under its payment recapture audit program (including any programs or activities where the agency has determined a payment recapture audit program is not cost-effective), the agency must:*
1. *List all of the programs and activities where it has been determined conducting a payment recapture audit program would not be cost effective (whether determination occurred in the current year or in a prior year),*
  2. *Indicate when OMB was notified (month and year) that it was not cost effective to conduct a payment recapture audit and the program would be excluded from a payment recapture audit program, and*
  3. *Provide the justification and a summary of the analysis that is used to determine that conducting a payment recapture audit program for the program or activity was not cost effective (i.e., a discussion of the analysis conducted to determine that a payment recapture audit program would not be cost-effective).*

**CAUSE:** CNCS did not have adequate procedures in place or adequate supervision and oversight to ensure that information reported in the AFR was completed in accordance with OMB Circular No. A-136 requirements.

**EFFECT:** CNCS is not compliant with the IPERA requirements as outlined in OMB Memorandum M-15-02. In addition, the information reported in the FY 2015 AFR Section IV, *Other Information*, is not in full compliance with the requirements of OMB Circular No. A-136, and the information reported is not complete and accurate. Users of CNCS's AFR were therefore unable to obtain a complete picture of CNCS's improper payment assessment and results.

**RECOMMENDATIONS:** We recommend that CNCS take appropriate action to implement internal controls and review procedures over the *Improper Payments* subsection of AFR Section IV, *Other Information*, to ensure that the elements required by OMB Circular No. A-136 are reported and that the information is complete and accurate. Specifically, CNCS should:

- 1a. Implement a process to ensure that management has obtained and reviewed the most recent revision of OMB Circular No. A-136, which is typically published before the end of each FY, to verify the completeness of the information reported in the AFR. (Conditions 1 and 2)
- 1b. Report all programs identified by the CNCS risk assessment as susceptible to significant improper payments in Table 1, *Improper Payment Reduction Outlook*, and report the year in which CNCS expects to produce an estimated improper payment error rate for those programs for which it does not produce an estimate in the current FY. (Condition 1a)
- 1c. Maintain documentation that OMB has approved the use of an alternative reporting period for developing the improper payment estimate. (Condition 1b)

- 1d. Report the appropriate information if it determines that payment recapture audits are not cost-effective, including a summary of the justification and analysis used in reaching this determination and a record of the month and year in which it notified OMB of the determination. (Condition 2)

**Finding 2: CNCS's risk assessment for the Senior Companions Program and Social Innovation Fund may not be valid. [Modified repeat finding for FY 2015]**

**CONDITIONS:** The results of CNCS's risk assessment over SCP and SIF may not be valid. CNCS based its risk assessment conclusions for SCP and SIF on a qualitative assessment of the risk factors outlined in OMB M-15-02 and on a statistical sample. We identified the following issues relating to the statistical sample:

1. CNCS's qualitative assessment of SCP identified potential risk in three of the nine qualitative risk factors, and its statistical projection identified \$17,801,835 in potential improper payments, exceeding the \$10 million susceptibility threshold. CNCS may have appropriately concluded that SCP is susceptible to significant risk of improper payments; however, the improper payment estimate upon which it based this conclusion is not complete or accurate due to the following:
  - a. CNCS used an MPU projection rather than a PPS projection. This is inconsistent with CNCS's use of an MUS approach, which is a PPS sampling method. As a result, CNCS understated the improper payment amount and inaccurately calculated its precision.
  - b. CNCS did not properly report all errors identified in its samples. We found that CNCS reported only those errors in which it was able to select an appropriate transaction, test it, and identify the transaction as an improper payment.
    - i. We reviewed the 55 SCP sample items selected by CNCS and found 38 instances in which the grantee did not provide the required supporting documentation for the FFR to enable CNCS to select a transaction for testing. CNCS categorized these instances as non-response errors, but incorrectly assumed that non-respondents had the same error rate as did respondents. CNCS should have either treated non-response errors as improper payments and added these errors to the other improper payments in calculating the projection and precision, or disclosed that the improper payment estimate applied only to the population of grantees that responded.
    - ii. We reviewed the 55 SCP sample items selected by CNCS and found 7 instances in which the grantee provided documentation to support the FFR or GL, but the documentation did not reconcile. CNCS categorized these instances as unmatched errors, but incorrectly excluded the differences from its calculation of the total improper payment rate. CNCS should have treated unmatched errors as a full or partial improper payment and added them to the other improper payments in calculating the projection and precision.
2. CNCS's qualitative assessment for SIF identified potential risk in four of the nine qualitative risk factors, and its statistical projection identified \$8,824,003 in potential

improper payments, which does not exceed the \$10 million susceptibility threshold. However, CNCS may have incorrectly concluded that SIF is not susceptible to significant risk of improper payments, as the improper payment estimate upon which CNCS based this conclusion is not complete or accurate due to the following:

- a. CNCS used an MPU projection rather than a PPS projection. This is inconsistent with its MUS sampling approach, and as a result, CNCS understated the improper payment amount and inaccurately calculated its precision.
- b. CNCS did not properly report all errors identified in its samples. We found that CNCS reported only those errors in which it was able to select an appropriate transaction, test it, and identify the transaction as an improper payment.
  - i. We reviewed the 55 SIF sample items selected by CNCS and found 25 instances in which the grantee did not provide the required supporting documentation for the FFR to enable CNCS to select a transaction for testing. CNCS categorized these instances as non-response errors, but incorrectly assumed that non-respondents had the same error rate as did respondents. CNCS should have either treated non-response errors as improper payments and added these errors to the other improper payments in calculating the projection and precision, or disclosed that the improper payment estimate applied only to the population of grantees that responded.
  - ii. We reviewed the 55 SIF sample items selected by CNCS and found 15 instances in which the grantee provided documentation to support the FFR or GL, but the documentation did not reconcile. CNCS categorized these instances as unmatched errors, but incorrectly excluded the differences from the calculation of the total improper payment rate. CNCS should have treated unmatched errors as a full or partial improper payment and added them to the other improper payments in calculating the projection and precision.

**CRITERIA:** Part I, Section A, Subsection 9 of OMB Memorandum M-15-02, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, dated October 20, 2014, and effective beginning FY 2014, provides the following guidance for conducting the risk assessment:

*Unless an agency has specific written approval from OMB to deviate from the steps explained below, agencies are required to follow these steps to determine whether the risk of improper payments is significant and to provide valid annual estimates of improper payments. The agency is responsible for maintaining the documentation to demonstrate that the following steps (if applicable) were satisfied.*

*Step 1: Review all programs and activities and identify those that are susceptible to significant improper payments.*

*[...]*

- b. Systematic Method. All agencies shall institute a systematic method of reviewing all programs and identify programs susceptible to significant improper payments. This systematic method could be a quantitative evaluation based on a statistical*

*sample or a qualitative method (e.g., a risk-assessment questionnaire). At a minimum, agencies shall take into account the following risk factors likely to contribute to improper payments, regardless of which method (quantitative or qualitative) is used:*

- i. Whether the program or activity reviewed is new to the agency*
- ii. The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts*
- iii. The volume of payments made annually*
- iv. Whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office*
- v. Recent major changes in funding, authorities, practices, or procedures*
- vi. The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate*
- vii. Inherent risks of improper payments due to the nature of agency programs or operations*
- viii. Significant deficiencies in the audit reports of the agency including, but not limited to, the agency Inspector General or the Government Accountability Office (GAO) audit report findings, or other relevant management findings that might hinder accurate payment certifications, and*
- ix. Results from prior improper payment work*

*Step 2: Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities for those programs that are identified in Step 1 as susceptible to significant improper payments.*

**CAUSE:** CNCS does not have adequate procedures and controls in place to ensure that it has implemented a complete, accurate, and systematic method of performing the IPERA risk assessment for all programs. Specifically, when using a statistical sample to evaluate programs' susceptibility to improper payments, CNCS lacks adequate procedures to ensure that the statistical methodology used to extrapolate the estimated improper payment amount results in a complete and accurate estimate.

**EFFECT:** CNCS may not have accurately identified all programs that are in fact susceptible to significant improper payments and are therefore subject to the requirement to obtain a statistically valid improper payment estimate.

**RECOMMENDATION:** We recommend that CNCS take action to improve the IPERA risk assessment process to ensure that its method is complete, accurate, and systematic. Specifically, CNCS should:

2. Implement the following procedures when using a statistical sample to evaluate whether programs are susceptible to significant improper payments:
  - i. Update its statistical sampling and extrapolation methodology to ensure that the improper payment estimate is complete and accurate. See Finding 4, *CNCS's published improper payment estimate is not statistically valid and may not be complete and accurate*, for detailed recommendations relating to the statistical sampling and extrapolation methodology. (Conditions 1 and 2)

**Finding 3: CNCS did not publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments.**

**CONDITIONS:** CNCS did not publish improper payment estimates for FGP and RSVP, although both programs were deemed susceptible to significant risk of improper payments in prior-year risk assessments. As stated in the FY 2015 AFR Section IV, *Other Information*, page 120, CNCS began the sampling and estimation process in FY 2015; however, it was unable to complete the sampling process and produce an estimate of improper payments with the required precision. The sampling and testing procedures that CNCS did complete include:

1. Selecting a sample of 500<sup>12</sup> FGP items and completing testing on 154 of the items. Of the sample items for which CNCS was unable to complete testing, 345 could not be tested because CNCS did not receive the required supporting documentation from the grantees for the FFR. As a result, CNCS was unable to select transactions for testing.
2. Selecting a sample of 800<sup>13</sup> RSVP items and completing testing on 246 of the items. Of the sample items for which CNCS was unable to complete testing, 551 could not be tested because CNCS did not receive the required supporting documentation from the grantees for the FFR. As a result, CNCS was unable to select transactions for testing.

**CRITERIA:** IPERA, PL 111-204, Section 2, Subsection (b), Paragraphs (1) and (2) state the following with regard to the requirements for the estimation of improper payments:

*b) Estimation of Improper Payments - With respect to each program and activity identified under subsection (a), the head of the relevant agency shall –*

*(1) produce a statistically valid estimate, or an estimate that is otherwise appropriate using a methodology approved by the Director of the Office of Management and Budget, of the improper payments made by each program and activity; and*

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<sup>12</sup> Of the 500 FGP sample items selected, CNCS tested 154 items and did not receive adequate supporting documentation to select a sample transaction for 345 items. CNCS categorized the one remaining sample item as an unmatched error and did not test it for improper payments. Due to the issues relating to the statistical methodology, the audit team did not pursue further clarification for this one item. See Finding 4, *CNCS's published improper payment estimate is not statistically valid and may not be complete and accurate*, for further information.

<sup>13</sup> Of the 800 RSVP sample items selected, CNCS tested 246 items and did not receive adequate supporting documentation to select a sample transaction for 551 items. CNCS categorized the three remaining sample items as unmatched errors and did not test them for improper payments. Due to the issues relating to the statistical methodology, the audit team did not pursue further clarification for these three items. See Finding 4, *CNCS's published improper payment estimate is not statistically valid and may not be complete and accurate*, for further information.

*(2) include those estimates in the accompanying materials to the annual financial statement of the agency required under section 3515 of title 31, United States Code, or similar provision of law and applicable guidance of the Office of Management and Budget.*

IPERA Section 3, Subsection (a), Paragraph (3) states the following with respect to IPERA compliance:

*Compliance – The term “compliance” means that the agency –*

*(A) has published an annual financial statement for the most recent fiscal year and posted that report and any accompanying materials required under guidance of the Office of Management and Budget on the agency website;*

*(B) if required, has conducted a program specific risk assessment for each program or activity that conforms with section 2(a) the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note); and*

*(C) if required, publishes improper payments estimates for all programs and activities identified under section 2(b) of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) in the accompanying materials to the annual financial statement;*

*(D) publishes programmatic corrective action plans prepared under section 2(c) of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) that the agency may have in the accompanying materials to the annual financial statement;*

*(E) publishes improper payments reduction targets established under section 2(c) of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) that the agency may have in the accompanying materials to the annual financial statement for each program assessed to be at risk, and is meeting such targets; and*

*(F) has reported an improper payment rate of less than 10 percent for each program and activity for which an estimate was published under section 2(b) of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note).*

**CAUSE:** CNCS was unable to complete sampling and testing due to resource constraints relating to executing its complex statistical sampling process. In FY 2015, CNCS dedicated fewer than five personnel to the improper payments assessment, which included a multi-stage data collection and sampling process and testing of more than 1,500 items for the three programs for which CNCS intended to publish improper payment estimates. Grantee non-responsiveness compounded the difficulties; approximately 69 percent of the grantees for both FGP and RSVP did not provide the required supporting documentation for the FFR, and as a result, CNCS was unable to select the related transactions for testing.

**EFFECT:** CNCS did not publish improper payment estimates for all programs and activities that its risk assessment identified as susceptible to significant improper payments and is therefore not in compliance with IPERA. In addition, because CNCS has not produced a baseline improper payment estimate for FGP or RSVP, it lacks a complete understanding of the root causes of improper payments in these programs, is unable to develop programmatic corrective action plans to reduce improper payments, and has no basis to measure improper payment reduction.

**RECOMMENDATIONS:** We recommend that CNCS:

- 3a. Work with a qualified statistician to implement a straightforward sampling methodology that is statistically valid and realistic to execute. (Conditions 1 and 2)
- 3b. Ensure that it has allocated and committed sufficient resources to complete the sampling process and associated testing within the timeframe required to meet IPERA AFR reporting requirements. (Conditions 1 and 2)
- 3c. Implement procedures to hold grantees accountable for failing to respond to requests for documentation required to support the improper payments assessment. (Conditions 1 and 2)

**Finding 4: CNCS's published improper payment estimate is not statistically valid and may not be complete and accurate. [Modified repeat finding for FY 2015]**

**CONDITIONS:** The improper payment estimate that CNCS published for the AmeriCorps State and National Grant Program is not statistically valid, complete, and accurate, as follows:

1. CNCS used an MPU projection rather than a PPS projection. This is inconsistent with its use of an MUS sampling approach, which is a PPS sampling method. As a result, CNCS understated the improper payment amount and inaccurately calculated its precision.
  - a. In addition, the extrapolation approach that CNCS executed was inconsistent with its extrapolation plan; the extrapolation plan stated that CNCS would use a PPS projection, but instead it used an MPU projection.
2. CNCS did not properly report all errors identified in its samples. CNCS reported only those errors in which it was able to select an appropriate transaction, test it, and identify the transaction as an improper payment. Specifically:
  - a. We reviewed the 250 sample items selected by CNCS and found 55 instances in which the grantee did not provide the required supporting documentation for the FFR, and as a result, CNCS was unable to select the related transactions for testing. CNCS categorized these instances as non-response errors, but incorrectly assumed that non-respondents had the same error rate as did respondents. CNCS should have either treated non-response errors as improper payments and added these errors to the other improper payments in calculating the projection and precision, or disclosed that the improper payment estimate applied only to the population of grantees that responded.
    - i. In addition, we noted that CNCS incorrectly categorized nine sample items as non-response errors when it had obtained sufficient documentation to accurately conclude that the transactions were accruals and should not be tested, as accruals do not represent an actual payment.
  - b. We reviewed the 250 sample items selected by CNCS and found 107 instances in which the grantee provided documentation to support the FFR or GL, but the documentation did not reconcile. CNCS categorized these instances as



unmatched errors, but incorrectly excluded the differences from the calculation of the total improper payment rate. CNCS should have treated unmatched errors as a full or partial improper payment and added them to the other improper payments in calculating the projection and precision.

3. CNCS did not correctly or consistently use its methodology in selecting transactions for testing. We examined the audit trails provided for 45 selected dollar amounts and identified the following issues:
  - a. We found 20 instances in which we were unable to confirm that CNCS sampled the correct dollar amount. Specifically:
    - i. We found 11 instances in which the GL detail provided to support the current Federal outlay amount reported on the FFR did not reconcile.
    - ii. We found nine instances in which the sub-ledgers provided to support the amounts claimed in the FFR did not reconcile.
  - b. We found two instances in which CNCS selected the wrong dollar amount and therefore performed testing on the wrong transaction.
  - c. We found two instances in which CNCS did not select a unique payment, but rather selected a transaction that was comprised of multiple payments.

**CRITERIA:** IPERA Section 2, Subsection (b), Paragraphs (1) and (2) state the following with regard to the estimation of improper payments:

*b) Estimation of Improper Payments - With respect to each program and activity identified under subsection (a), the head of the relevant agency shall –*

*(1) produce a statistically valid estimate, or an estimate that is otherwise appropriate using a methodology approved by the Director of the Office of Management and Budget, of the improper payments made by each program and activity; and*

*(2) include those estimates in the accompanying materials to the annual financial statement of the agency required under section 3515 of title 31, United States Code, or similar provision of law and applicable guidance of the Office of Management and Budget.*

Additionally, OMB Memorandum M-15-02, Part I, Section A, Subsection 9 provides the following guidance with regard to statistical sampling and estimation plans:

*Step 2.2: Content of Statistical Sampling and Estimation Plans. Agencies shall clearly and concisely describe the statistical methods that will be used to design and draw the sample and produce an improper payment estimate for the program in question. The plans shall explain and justify why the proposed methodology is appropriate for the program in question-this explanation must be supported by accurate statistical formulas, tables, and any additional materials to demonstrate how the sampling and estimation will be conducted and the appropriateness of those statistical methods for the program. Agency sampling and estimation plans must be complete and internally consistent. The following aspects must be clearly addressed:*

- a. *Probability Sampling. Improper payment estimates shall generally be based on probability samples and shall provide estimates of the sampling error for the amount of the improper payments. Agencies may use simple random samples if those are appropriate, but many agencies have employed more complex stratified or multi-stage or clustered samples in order to obtain estimates of different components of the program that are more actionable than can be afforded by simpler sample designs. Depending on the nature and distribution of the payments made by a program, many agencies also use unequal probabilities of selection to capture larger payments with higher probability (i.e., probability proportionate to size). If the universe of payments for a program or a component/stratum of the program is small, agencies may review a complete census of payments in those cases and would not have any sampling error for that component or stratum-assuming a statistician is consulted on this approach.*
- b. *Assumptions about the amount of Improper Payments. The agency may use their initial determination of the potential improper payment in Step 1, above, to aid in determining the sample size. Since most agencies have been conducting ongoing reviews of their improper payments for some time, they should utilize results from previous years and make appropriate adjustments to the sample size and even the sample design based on previous findings in order to obtain a more efficient sample or obtain more useful estimates of improper payments by program component.*
- c. *Appropriate Sample Sizes. Because of the imprecision of the risk assessment performed in Step 1, agencies should ensure that they select a sample that will meet the minimum precision requirements in Step 2.2.d below. For initial estimates of improper payments, agencies should take a conservative approach and use higher estimated improper payments in their sample size calculations to ensure that they will meet the precision targets. As noted above, since most agencies have been conducting ongoing reviews of their improper payments for some time, they should utilize results from previous years and make appropriate adjustments to the sample size.*
- d. *Precision. Agencies should design the sample and select a sample size sufficient to yield an estimate of improper payments with a 90 percent confidence interval of plus or minus 2.5 percent of the total amount of all payments for a program around the estimate of the dollars of improper payments. For example, if the total amount of all payments for a program was \$1,000,000,000 and the estimated total of improper payments based upon the statistical sample was \$80,000,000, the 90 percent confidence interval around the estimate should be no more than plus or minus \$25,000,000-i.e., \$55,000,000 to \$105,000,000. These guidelines for precision shall be taken as the minimum, and agencies are encouraged to increase samples above the minimum to achieve greater precision in their estimates in order for agencies to better understand underlying causes of improper payments and creating action plans. Agencies shall maintain documentation to support the calculation of these estimates.*
- e. *Sample Design Documentation. Agency sampling and estimation plans shall generally provide sufficient documentation of the sample design so that a qualified statistician would be able to replicate what was done or so that OMB,*

agency Inspector General, or GAO personnel can evaluate the design. Agencies shall clearly identify the frame or source for sampling payments and document its accuracy and completeness. All stages of selection, any stratification, and/or any clustering shall be clearly described. Explicit strata shall be clearly defined, as should any variables used for implicit stratification. Tables shall generally be provided showing the size of the universe and sample by strata (if applicable). Sampling plans shall also specify whether cases are selected with equal or unequal probabilities and how the probabilities of selection are determined when they are unequal.

- f. *Documentation of Estimation Formulas.* Agency sampling and estimation plans shall include documentation of the statistical formulas that will be used to estimate the amount of improper payments (and the associated confidence intervals for the sample) and to project those results to the entire program. Documentation should include appropriate citations for these formulas. Agency sampling and estimation plans must be complete and internally consistent (for instance, estimation formulas must appropriately reflect the complexity of the sample design).
- g. *Updates and Changes to Agency Plans.* Agencies should update their sampling and estimation plans, as needed, to reflect the current design and methods being used and incorporate refinements based on previous results, consultations with others, and/or recommendations from Inspectors General, GAO, or OMB. Any updated plans will need to be submitted to OMB no later than June 30 of the fiscal year for which the estimate is being produced (e.g., the sampling methodology to be used for the FY 2014 reporting cycle must be submitted by June 30, 2014). The plans shall include all the components described in steps 2.1 and 2.2 above. A plan that is being updated or changed should include some language explaining why the plan is changing and how the plan is different from the one previously submitted.

**CAUSE:** CNCS did not have adequate procedures, supervision, oversight, or quality control procedures in place to ensure that the statistical methodology used to extrapolate the improper payment estimate was valid and resulted in a complete and accurate estimate.

**EFFECT:** The estimated improper payment rate and dollar amount presented in AFR Section IV, *Other Information*, were produced based on a statistical extrapolation approach that was not statistically valid; the results are therefore not in compliance with IPERA. In addition, the estimated improper payment rate and dollar amount are not complete or accurate and cannot be relied upon.

By presenting an improper payment estimate in AFR Section IV, *Other Information*, CNCS management is erroneously implying to the user of the AFR that the estimate of improper payments for the AmeriCorps State and National Grant Program is statistically valid and in compliance with IPERA.

**RECOMMENDATIONS:** We recommend that CNCS work with a qualified statistician to implement a statistically valid sampling and extrapolation methodology, and provide oversight throughout the planning and estimation process to ensure that it is in compliance with IPERA. Specifically, CNCS should:

- 4a. Update its statistical sampling methodology and extrapolation approach to ensure that:
- i. The statistical sampling plan is straightforward and realistic to execute. (Condition 1, 2, and 3)
  - ii. The extrapolation approach (e.g., MPU or PPS) is consistent with the sample selection approach. (Condition 1)
  - iii. The calculation of the achieved precision is accurate at the 90 percent confidence level, and, if the achieved precision exceeds the desired precision, that it considers additional actions as necessary. (Condition 1)
  - iv. The extrapolation approach appropriately considers all types of errors identified in the sample, including non-response and unmatched errors, as well as sample items that do not represent payments and are deemed untestable. (Condition 2)
  - v. The methodology clearly defines the criteria that must be met for a transaction to be deemed untestable. (Condition 2)
- 4b. Implement controls, including supervision and oversight, to ensure that if CNCS makes any changes to the methodology documented in the certified sampling and extrapolation plan, it documents and obtains approval for the change and the rationale for the change and modifies the plan to reflect the actual methodology used. (Condition 1a)
- 4c. Implement controls, including supervision and oversight, to ensure that it correctly and consistently selects sample items in accordance with its sampling methodology, and that it selects the correct dollar amount. (Condition 3)

**Finding 5: CNCS did not properly identify improper payments. [Modified repeat finding for FY 2015]**

**CONDITIONS:** CNCS did not develop a comprehensive testing methodology to determine the estimated rate and dollar amount of improper payments reported in the FY 2015 AFR for the AmeriCorps State and National Program, and was inconsistent in applying the test plans that it did develop. Further, CNCS either did not verify or did not appropriately document verification that it had examined all applicable allowability/eligibility requirements to support that the sampled payments were proper or improper in accordance with applicable sections of the CFR and CNCS policies and procedures.

1. We reviewed the test plan evaluation sheets and CHC testing spreadsheet that CNCS used to document its improper payment assessment for each sampled transaction and determined that these documents did not support that CNCS evaluated all allowability/eligibility requirements to verify whether the sampled payments were proper or improper per CFR and CNCS policies. Specifically:

**Staff/Member Timesheets:**

- a. Neither CNCS's testing plans nor its testing checklists required the reviewer to examine the supporting documentation to affirm that each timesheet reflected an after-the-fact distribution of each employee's actual activity, or to verify that

timesheets were prepared at least monthly and coincided with one or more pay periods.

**Staff/Member Eligibility:**

- a. The CNCS testing spreadsheet does not document the type of review performed on the documentation to ensure that the grantee completed the required background checks properly and prior to the date of the transaction. Specifically, the spreadsheet does not support:
  - i. How the reviewer determined that the grantee searched the appropriate repositories for those sampled members/staff for whom the grantee performed reviews using Alternative Search Protocols (ASPs).
  - ii. How the reviewer determined that the grantee searched the appropriate repositories in performing State or vendor background checks for sampled members/staff.
  - iii. If or how the reviewer examined murder certifications for staff members for whom the grantee did not perform State or FBI background checks.
    1. CNCS stated that it did not specifically request these documents for testing and provided the following response from the OGC and the OGM to justify its review methodology:

*A grantee is not required to pay money back to CNCS if we [CNCS] find that individuals did not complete a self-certification statement that they had not been convicted of murder; because we wouldn't request money, the lack of a self-certification statement would not be the basis of an improper payment.*

- b. CNCS's CHC test plan requires that CNCS perform certain reviews as part of its improper payment assessment to properly evaluate whether grantees had appropriately performed CHCs; however, CNCS indicated that it did not perform those reviews. These reviews included:
  - i. Verify that the grantee had performed a National Sex Offender Public Website (NSOPW) check prior to the transaction date.
    1. During the testing process, CNCS determined that an FBI check was sufficient to support that the grantee had performed a proper NSOPW check; it therefore used FBI checks to satisfy the requirement to verify that the grantee had performed an NSOPW check. CNCS provided the following justification for this methodology:

*Because the FBI Check includes information on the NSOR [NSOPW], CNCS considered it a substantially equivalent check for purposes of determining whether a payment was proper. It provided a reasonable basis for determining*

*eligibility, even though the grantee may have not conducted a check that was compliant with the regulation.*

- ii. Verify that the grantee reviewed and had adjudicated all NSOPW name-based hits to ensure that the sampled employee/member was not identified as a “hit” on the NSOPW search.

1. CNCS provided a copy of its response to an e-mail that the IPERA CHC reviewer had sent to CNCS OGM staff regarding NSOPWs with hits that had not been adjudicated. CNCS’s response stated the following:

*NSOPWs with no indication of adjudication are acceptable to me [CNCS OGM staff]. Benefit of the doubt that they [NSOPW results] were reviewed*

CNCS also provided the following response from its OGC and OGM staff:

*Unadjudicated NSOPW checks were proper because it would be unreasonable to presume that an organization went through the effort of conducting the check and printing it out before but didn’t review the results. Additionally, we could determine that the individual was eligible based on a review of the results.*

- c. Neither the CHC detailed testing plan nor the testing spreadsheet required the reviewer to examine supporting documentation to affirm that the grantee had completed each of the following activities; this examination is necessary to properly evaluate whether the grantee had appropriately performed the CHCs.
  - i. Verify the member/employee’s identity by examining government-issued photo IDs.
  - ii. Verify that the grantee obtained prior, written authorization to conduct a CHC.
  - iii. Verify that the grantee obtained support that staff/members provided written authorization for the grantee to perform CHCs.
  - iv. Verify that sampled employees did not have an employment gap of more than 30 days between service periods in instances in which the grantee used background checks from prior service/employment years.
  - v. Verify whether sampled employees or members had access to vulnerable populations.

## Other Program Operating Costs

- a. The testing sheet does not address how the CNCS reviewer should examine documentation related to other program operating costs to ensure that all costs are reasonable, allocable, and allowable per the applicable sections of the CFR.
2. We sampled 45 transactions tested by CNCS and used CNCS's detailed testing plans and transaction evaluation spreadsheets to evaluate whether the payment should be deemed proper or improper. As the purpose of our testing was to evaluate CNCS's conclusions, we used CNCS's testing plans rather than testing each sampled payment against all applicable CFR criteria. Our re-performance testing arrived at different conclusions from those arrived at by CNCS. Specifically:
    - a. For three of the sampled transactions, we disagreed with CNCS's conclusion regarding whether the payment should be deemed proper or improper. Specifically:
      - i. We determined that two transactions that CNCS deemed to be proper payments should have been classified as improper, based on the CNCS testing documents. Specifically:
        1. Documentation supporting that the grantee had performed the required background checks on a sampled member did not include the actual results of the check. The documentation only included a letter from a school district verifying that it had performed the State and FBI background checks without including the results of the check. Per CNCS's testing guidance, this documentation would only have been acceptable if the grantee had an approved ASP; however, CNCS did not identify whether this was the case. This transaction therefore should have been identified as an improper payment.
        2. The documentation provided did not indicate whether the grantee had performed all required background checks for a sampled member prior to the transaction date. CNCS's testing methodology assumes that all sampled members have access to vulnerable populations and therefore require both a State and an FBI background check before the member begins serving, if they began serving after April 20, 2011. Despite this, we found that CNCS did not note an exception for one sample in which the grantee only provided a State background check to support CHCs performed on a sampled member; instead, CNCS updated its testing spreadsheet to indicate that the sampled member did not have access to vulnerable populations, in which case only one of the checks must be performed. Based on CNCS's assumption methodology, the testing spreadsheet should have indicated that the member had access to vulnerable populations, and we reviewed the member's timesheets and confirmed that they did have access to vulnerable populations. As such, the grantee should have performed both a State and an FBI check; however, it did not provide CNCS with support that it had performed the FBI check.

- ii. We determined that one transaction that CNCS deemed to be an improper payment should have been classified as proper, based on the CNCS testing documents. Specifically:
  - 1. CNCS did not note a date on the clearance letter provided as support that the grantee had completed the necessary background checks prior to the date of the transaction; it therefore deemed the payment improper due to a lack of supporting documentation. As we were able to verify that the clearance letter was provided prior to the date of the transaction using the documentation received by CNCS, we determined that this transaction should have been identified as a proper payment.
- b. For eight of the sampled transactions, we were unable to verify CNCS's conclusions regarding whether a payment should be deemed proper or improper. Specifically:
  - i. We identified six instances in which the documentation that CNCS obtained was insufficient to support all of the conclusions it reached in its testing results. CNCS concluded that two of the transactions related to improper payments and four of the transactions related to proper payments; however, we were unable to confirm these conclusions based on the documentation available.
  - ii. We identified two instances in which CNCS requested the wrong documentation to support the sampled transactions, as it selected the wrong member for testing based on the sample dollar amount.

**CRITERIA:** OMB Memorandum M-15-02, Part I, Section A, Subsection 2 states the following:

*An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.*

OMB Memorandum M-15-02, Part I, Section A, Subsection 11 states the following:

*IPERIA requires OMB to instruct agencies to give persons or entities producing improper payment estimates access to all necessary payment data, including access to relevant documentation. In order to produce accurate improper payment estimates, agencies must provide full documentation to persons or entities producing their improper payment estimates. In addition, this documentation must be maintained for the length of time required by the National Archives and Records Administration for the particular type of*



*material being held in order for post-payment audits to be performed and to allow internal and external auditors to replicate reported results.*

Generally Accepted Government Auditing Standards (GAGAS) require that documentation be prepared in sufficient detail to enable an experienced auditor, having no previous connection with the engagement, to understand from the documentation the nature, timing, extent, and results of procedures performed and the evidence obtained and its source and conclusions reached, including evidence that supports the auditor's significant judgments and conclusions.

GAGAS provides specific field work standards and requirements for non-financial statement audit engagements, including planning and documentation. These standards require the development and documentation of criteria specific to achieving audit objectives and the retention of sufficient and appropriate documentation related to testing audit objectives to enable re-performance.

Per 2 CFR 220, Appendix A, Section J.10.b.(2), educational institution salaries allocated to Federal awards must be supported by a payroll distribution system that (1) reasonably reflects the activity for which the employee is compensated by the institution, (2) recognizes an after-the-fact confirmation of determination of the actual activity of each employee, (3) is confirmed by responsible persons with suitable means of verification that the work was performed, and (4) prepares reports each academic term, but no less frequently than every six months for professional employees, and no less frequently than monthly for other employees.

Per 2 CFR 225, Appendix B, Section 8.h.(5), state, local, and tribal government salaries allocated to Federal awards must be supported by a personnel activity report (or timesheet) that (1) reflects an after-the-fact distribution of the actual activity of each employee, (2) accounts for the total activity for which each employee is compensated, (3) is prepared at least monthly and coincides with one or more pay periods, and (4) is signed by the employee.

Per 2 CFR 230, Appendix B, Section 8.m.(2), not-for-profit agency salaries allocated to Federal awards must be supported by personnel activity reports that (1) reflect an after-the-fact distribution of the actual activity of each employee, (2) account for the total activity for which each employee is compensated, (3) are signed by the individual employee, or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee, and (4) are prepared at least monthly and coincide with one or more pay periods.

Per 45 CFR § 2540.201, an individual is ineligible to serve in a covered position if the individual (1) is registered, or required to be registered, on a State sex offender registry or the National Sex Offender Registry, or (2) has been convicted of murder, as defined in section 1111 of title 18, United States Code.

Per 45 CFR § 2540.204, the grantee is responsible for following these procedures related to verifying member eligibility by conducting background checks: (1) verifying the individual's identify by examining their government-issued photo identification card, and (2) obtaining prior, written authorization for the State criminal registry check and the appropriate sharing of the results of that check within the program from the individual. (Specifically, § 2540.207 states that an individual who refuses to consent to a State criminal registry check is not eligible to serve in a covered position.)

Per 2 CFR 220, Appendix A, Section C.2, all costs allocated to Federal grants by educational institutions must be (1) reasonable, (2) allocable to sponsored agreements, (3) given consistent

treatment through application of those generally accepted accounting principles (GAAP) appropriate to the circumstances, and (4) in conformity with any limitations or exclusions set forth in 2 CFR 220 or in the sponsored agreement as to types or amounts of cost items.

Per 2 CFR 225, Appendix A, Section C, for costs incurred by a state, local, or tribal government to be allowable under a Federal award, they must (1) be necessary and reasonable for proper and efficient performance and administration of Federal awards, (2) be allocable to Federal awards, (3) conform to any limitations or exclusions set forth in 2 CFR 225, (4) be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit, (5) be accorded with consistent treatment, (6) be determined in accordance with GAAP, and (7) not be included as a cost or used to meet cost-sharing requirements of any other Federal award.

Per 2 CFR 230, Appendix A, Section A, for costs incurred by a not-for-profit organization to be allowable under a Federal award, they must (1) be reasonable for the performance of the award, (2) be allocable to the award, (3) conform to any limitations or exclusions set forth in 2 CFR 230, (4) be consistent with policies, regulations, and procedures that apply uniformly to both Federally-financed and other activities of the organization, (5) be accorded with consistent treatment, (6) be determined in accordance with GAAP, and (7) not be included as a cost or used to meet cost-sharing requirements of any other Federal award.

National Service Criminal History Check, Frequently Asked Questions, Updated December 11, 2014, states:

- *Question 1.1. What is a National Service Criminal History Check (NSCHC)?*
  - *CNCS regulations require its grantees to conduct an NSCHC on people who work or serve in covered positions. A covered position is a position in which a person receives a living allowance, stipend, education award, salary, through a national service program.*
  - *All NSCHCs must include two components: (1) A nationwide name-based check of the National Sex Offender Public Website (NSOPW). The NSOPW is a centralized system that identifies people who are registered as sex offenders in states, territories, or with many federally recognized Tribes (2) Either a name- or fingerprint-based search of the statewide criminal history registry in the candidate's state of residence and in the state where the person will serve or work; OR a fingerprint-based FBI check.*
- *Question 7.1. What steps are required to conduct the NSCHC*
  - *The regulations require that you: (1) Verify identity against government photo identification (2) Obtain written authorization from the person to perform the check (3) Document understanding that selection is subject to the checks (4) Determine the types of checks required and from where they are to be obtained; (5) Pay for the checks (6) Perform the NSOPW check before service/work begins (7) Initiate the criminal history information check(s) no later than the start of service/work (8) Provide opportunity for review of findings (9) Keep the information confidential (10) Accompany those with pending checks when in contact with vulnerable populations (11) Maintain the results of the checks (12) Document that you verified identity and conducted*

*the required checks (13) Document that you considered the results of the checks.*

- Question 5.4. Does an FBI check satisfy the state criminal registry check requirement?
  - *If the person does have recurring access to vulnerable populations, then the fingerprint-based FBI check must be obtained in addition to the state check(s). If the person does not have recurring access to vulnerable populations, a fingerprint-based FBI check will satisfy the state check(s) requirement. An FBI check does not satisfy the requirement to search the NSOPW.*

**CAUSE:** CNCS did not develop adequate test plans and did not follow all developed test plan procedures to ensure that all sampled payments were proper or improper in accordance with the CFR and CNCS policies and procedures. Specifically, CNCS OGM and OGC did not believe that CNCS was required to test certain attributes and therefore removed the testing steps from the proposed test plans, or instructed IPERA reviewers that it was not necessary to examine certain attributes.

In addition, CNCS does not have adequate procedures in place or sufficient staff, supervision, or oversight available to ensure that it received and reviewed adequate supporting documentation before the IPERA reporting results were due.

**EFFECT:** The estimated improper payment error rate and dollar amount may be inaccurate.

**RECOMMENDATIONS:** We recommend that CNCS develop a comprehensive testing methodology and consistently apply that methodology to selected sample items. Specifically, the agency should:

- 5a. Update its test plan evaluation sheets to address all allowability/eligibility criteria applicable to CNCS-sponsored payments per the applicable sections of the CFR. Specifically, CNCS should require that each reviewer:
  - i. Verify the member/employee's identity by examining government-issued photo IDs. (Condition 1)
  - ii. Verify that the grantee obtained support that staff/members provided written authorization for the grantee to perform CHCs. (Condition 1)
  - iii. Verify that sampled employees did not have an employment gap of more than 30 days between service periods in instances in which the grantee used background checks from prior service/employment years. (Condition 1)
  - iv. Verify whether sampled employees or members had access to vulnerable populations. (Condition 1)
  - v. Verify that the grantee reviewed and had adjudicated all NSOPW name-based hits to ensure that the sampled employee/member was not identified as a "hit" on the NSOPW search. (Condition 1)

- vi. Document how the reviewer determined that the grantee searched appropriate repositories for those sampled members/staff for whom the grantee performed reviews using ASPs. (Condition 1 and Condition 2)
  - vii. Document how the reviewer determined that the grantee searched the appropriate repositories in performing State or vendor background checks for sampled members/staff. (Condition 1 and Condition 2)
  - viii. Document if or how the reviewer examined murder certifications for staff members for whom the grantee did not perform State or FBI background checks. (Condition 1 and Condition 2)
- 5b. Update its mandatory training for all CNCS reviewers to include the more comprehensive test plans, to ensure that all reviewers share a consistent testing methodology and documentation retention plans. (Condition 2)

**Finding 6: CNCS did not meet the annual reduction target for the AmeriCorps State and National Program.**

**CONDITION:** CNCS did not meet the FY 2015 reduction target for the AmeriCorps State and National Grant Program. CNCS's FY 2014 AFR included a reduction target of 2.7 percent for the AmeriCorps State and National Grant Program for FY 2015; however, the FY 2015 AFR reported an estimated FY 2015 improper payment rate of 6.5 percent, 2.4 times higher than the reduction target.

**CRITERIA:** IPERA Section 2 states the following with respect to reporting reduction targets:

- c. *Reports on Actions to Reduce Improper Payments – With respect to any program or activity of an agency with estimated improper payments under subsection (b), the head of the agency shall provide with the estimate under subsection (b) a report on what actions the agency is taking to reduce improper payments, including—*
  - (5) *a description of the steps the agency has taken to ensure that agency managers, programs, and, where appropriate, States and localities are held accountable through annual performance appraisal criteria for –*
    - (A) *meeting applicable improper payments reduction targets; and*
    - (B) *establishing and maintaining sufficient internal controls, including an appropriate control environment, that effectively –*
      - (i) *prevent improper payments from being made; and*
      - (ii) *promptly detect and recover improper payments that are made.*

In addition, OMB Memorandum M-15-02, Part I, Section A, Step 9, Sub-Step 3 provides the following guidance for reduction targets:

- b. *Reduction Targets. When compiling plans to reduce improper payments, agencies shall set reduction targets for future improper payment levels and a timeline within which the targets will be reached. Reduction targets must be approved by the*

*Director of OMB (this approval process will take place during the OMB review and approval process of draft AFRs and PARs). In cases in which a program needs a few years to fully establish an improper payment rate baseline (for example, state administered programs with a "rolling rate" in which only a fraction of the states report each year), OMB does not expect the program to publish a reduction target until a full baseline has been established and reported.*

IPERA Section 3, Subsection (a), Paragraph (3) states the following with respect to IPERA compliance:

*Compliance – The term “compliance” means that the agency –*

*(A) has published an annual financial statement for the most recent fiscal year and posted that report and any accompanying materials required under guidance of the Office of Management and Budget on the agency website;*

*(B) if required, has conducted a program specific risk assessment for each program or activity that conforms with section 2(a) the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note); and*

*(C) if required, publishes improper payments estimates for all programs and activities identified under section 2(b) of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) in the accompanying materials to the annual financial statement;*

*(D) publishes programmatic corrective action plans prepared under section 2(c) of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) that the agency may have in the accompanying materials to the annual financial statement;*

*(E) publishes improper payments reduction targets established under section 2(c) of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) that the agency may have in the accompanying materials to the annual financial statement for each program assessed to be at risk, and is meeting such targets; and*

*(F) has reported an improper payment rate of less than 10 percent for each program and activity for which an estimate was published under section 2(b) of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note).*

**CAUSE:** CNCS has not implemented appropriate programmatic corrective actions to address the root cause of the improper payments identified in the AmeriCorps State and National Grant Program. In addition, CNCS significantly modified its improper payment statistical estimation and testing processes for FY 2015. As a result, it lacked a stable improper payment measurement process. Under its new approach, CNCS accurately concluded that certain CHC-related issues were improper payments in FY 2015, while in prior years it had not considered these issues to be improper.

**EFFECT:** CNCS did not meet the published reduction target for the AmeriCorps State and National Grant Program and is therefore not compliant with IPERA. While IPERA is intended to reduce improper payments, CNCS's improper payment estimate for the AmeriCorps State and National Grant Program increased in FY 2015 due to the improvements made in the measurement process.

**RECOMMENDATIONS:** We recommend that CNCS:

- 6a. Take appropriate programmatic corrective actions to address the root cause of improper payments identified in the AmeriCorps State and National Grant Program.
- 6b. Implement a statistically valid sampling and extrapolation methodology and improved testing approach that results in a complete and accurate improper payment estimate. See Finding 4, *CNCS's published improper payment estimate is not statistically valid and may not be complete and accurate*, and Finding 5, *CNCS did not properly identify improper payments*.
- 6c. CNCS should then develop and report realistic reduction targets for subsequent fiscal years and provide a rationale and justification for the target as part of the improper payments reporting in the AFR.

**Other Matters to Be Reported**

As part of our review, we evaluated CNCS's efforts to reduce and recapture improper payments. The three findings noted below are related to this objective of the performance audit.

**Finding 7: CNCS did not adequately report on high-dollar overpayments. [Modified repeat finding for FY 2015]**

**CONDITIONS:** For the first and second quarters of FY 2015, CNCS did not report to OMB and the CNCS OIG regarding high-dollar overpayments identified, or a lack of high-dollar overpayments, for the following programs that CNCS identified as susceptible to significant improper payments: AmeriCorps State and National Grant Program, FGP, and RSVP. Further, for the third and fourth quarters of FY 2015, CNCS only reported to the CNCS OIG regarding its lack of high-dollar overpayments; it did not report to OMB.

**CRITERIA:** OMB Memorandum M-15-02, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, dated October 20, 2014, and effective starting in FY 2014, provides the following guidance for high-dollar overpayment reporting:

OMB M-15-02 Part III, Section D, Step 1 states:

*A high-dollar overpayment can be made to an individual or an entity. A high-dollar overpayment is any overpayment that is in excess of 50 percent of the correct amount of the intended payment under the following circumstances:*

- a. Where the total payment to an individual exceeds \$25,000 as a single payment or in cumulative payments for the quarter; or*
- b. Where the total payment to an entity exceeds \$100,000 as a single payment or in cumulative payments for the quarter.*

OMB M-15-02, Part III, Section D, Step 4 states:

*Agencies with programs susceptible to significant improper payments under the IPIA are required to report quarterly on high-dollar overpayments that occurred within those specific programs. Agencies may report this information to the public on their own website, or through other mechanisms designed to allow the public to access agency information. For any given quarter, if an agency with programs susceptible to significant improper payments has had no high-dollar overpayments, then the agency should inform OMB and the agency's Inspector General that the agency had no high-dollar overpayments in that quarter. Agencies without any programs susceptible to significant improper payments do not need to report or notify either OMB or the Inspector General.*

**CAUSE:** CNCS management did not have a complete understanding of all of its reporting responsibilities and did not have adequate supervision and oversight over the reporting process.

**EFFECT:** CNCS did not meet OMB's reporting requirements for high-dollar overpayments, as described in OMB Memorandum M-15-02. As a result, CNCS has not made OMB aware of any identified high-dollar overpayments, or notified it that CNCS did not have any high-dollar overpayments for all four quarters of FY 2015. In addition, CNCS did not notify the CNCS OIG that CNCS did not have any high-dollar overpayments for the first two quarters of FY 2015.

**RECOMMENDATION:** We recommend that CNCS:

- 7) Improve its process for reporting high-dollar overpayments. Specifically, CNCS should implement effective controls to ensure that it reports to both the CNCS OIG and OMB on a quarterly basis regarding any high-dollar overpayments identified in programs susceptible to significant improper payments, or report that CNCS did not have any high-dollar overpayments in such programs.

**Finding 8: CNCS did not complete a cost-benefit assessment for payment recapture audits. [Modified repeat finding for FY 2015]**

**CONDITIONS:** CNCS did not complete an assessment to determine whether conducting payment recapture audits on its programs that expend \$1 million or more annually would be cost-effective, as required by IPERA. For the purposes of IPERA reporting, CNCS identified the following programs as spending \$1 million or more annually: AmeriCorps State and National Grants, FGP, RSVP, Vendor Payments, Trust, Travel, Volunteers in Service to America (VISTA) Member Payroll, SCP, SIF, Employee Payroll, Debit Cards, and Credit Cards. The FY 2015 AFR reported that CNCS had begun reviewing payment recapture activities for programs expending \$1 million or more annually and that preliminary results indicated that a payment recapture audit was not warranted; however, CNCS did not provide any documentation to support that it had conducted such a review. CNCS indicated that it is in the process of beginning the analysis and plans to report the results in the FY 2016 AFR.

**CRITERIA:** IPERA Section 2, Subsection (h), Paragraph 2(A) states the following with regard to recovery audits:

- (A) *Conduct of Audits – Except as provided under paragraph (4) and if not prohibited under any other provision of law, the head of each agency shall conduct recovery audits with respect to each program and activity of the agency that expends \$1,000,000 or more annually if conducting such audits would be cost effective.*

OMB Memorandum M-15-02, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, Part I, Section D, Step 2 provides the following clarifying guidance:

*Agencies shall have a cost-effective program of internal control to prevent, detect, and recover overpayments. A program of internal control may include policies and activities such as prepayment reviews, a requirement that all relevant documents be made available before making payment, and performance of post-award audits. Effective internal controls could include payment recapture auditing techniques such as data matching with Federal, State and local databases; and data mining and predictive modeling to identify improper payments. However, for agencies that have programs and activities that expend more than \$1 million in a fiscal year, a payment recapture audit program is a required element of their internal controls over payments if conducting such audits is cost-effective. These payment recapture audits should be implemented in a manner designed to ensure the greatest financial benefit to the Federal government.*

**CAUSE:** FY 2014 was the first year in which CNCS management performed a complete and comprehensive risk assessment to identify programs as susceptible to significant improper payments. It therefore lacked a complete understanding of its reporting responsibilities and did not have adequate supervision and oversight over the process.

**EFFECT:** CNCS may not be performing recapture audits or other recovery activities for all applicable programs for which it would be cost-effective to do so, as required by IPERA. In addition, CNCS may not be effectively recovering Federal funds that were improperly paid.

**RECOMMENDATIONS:** We recommend that CNCS conduct an assessment to determine whether payment recapture audits or other recovery activities are cost-effective for programs that expend \$1 million or more annually. Specifically, CNCS should:

- 8.a. Conduct an assessment of all programs that expend \$1 million or more annually to determine if payment recapture audits would be cost-effective.
- 8.b. Maintain adequate supporting documentation of the analysis performed, as well as of its justification if it determines that payment recapture audits are not cost-effective.
- 8.c. Report the results of the cost-benefit assessment in the AFR in accordance with OMB Circular A-136 requirements, and ensure that the information is properly supported by documentation.

**Finding 9: CNCS did not complete the reporting required as a result of its non-compliance with IPERA for three consecutive fiscal years.**

**CONDITION:** CNCS was required to submit a report to Congress as a result of its non-compliance with IPERA for three consecutive fiscal years (FYs 2012 through 2014); however, it did not do so. In response to our inquiry, CNCS management stated, “CNCS has not yet submitted its proposal to Congress. CNCS is working to determine a feasible way to incorporate the IPERA workload into an agency of its size. After this extensive development is completed and a formal plan is prepared, CNCS will submit the required report to Congress.”

**CRITERIA:** OMB Memorandum M-15-02, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, Part II, Section B, Step 1 provides the following guidance:



*Agencies that are not compliant under IPERA must complete several actions, as described below:*

- a. For agencies that are not compliant for one fiscal year, within 90 days of the determination of non-compliance, the agency shall submit a plan to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, and the OMB, describing the actions that the agency will take to become compliant. The plan shall include:
  - i. Measurable milestones to be accomplished in order to achieve compliance for each program or activity*
  - ii. The designation of a senior agency official who shall be accountable for the progress of the agency in coming into compliance for each program or activity; and*
  - iii. The establishment of an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the senior agency official in leading agency efforts to achieve compliance for each program and activity.**
- b. For agencies that are not compliant for two consecutive fiscal years for the same program or activity, the Director of OMB will review the program and determine if additional funding would help the agency come into compliance. This process will unfold as part of the annual development of the President's Budget. If the Director of OMB determines that additional funding would help the agency become compliant, the agency shall obligate an amount of additional funding determined by the Director of OMB to intensify compliance efforts. When providing additional funding for compliance efforts, the agency shall
  - i. Exercise reprogramming or transfer authority to provide additional funding to meet the level determined by the Director of OMB;*
  - ii. Submit a request to Congress for additional reprogramming or transfer authority if additional funding is needed to meet the full level of funding determined by the Director of OMB.**
- c. For agencies that are not compliant for three consecutive fiscal years for the same program or activity, within 30 days of the determination of non-compliance, the agency will submit to Congress the following, in order to bring the program or activity in question into compliance:
  - i. Reauthorization proposals for each (discretionary) program or activity that has not been in compliance for three or more consecutive fiscal years;*
  - ii. Proposed statutory changes necessary to bring the program or activity into compliance.**

**CAUSE:** CNCS management did not have a complete understanding of all of its reporting responsibilities and did not have adequate supervision and oversight over the process for meeting reporting requirements applicable to agencies not compliant with IPERA.

**EFFECT:** Because CNCS did not meet the reporting requirements for agencies not compliant with IPERA, OMB and Congress do not have the appropriate level of awareness regarding the issues that resulted in CNCS's non-compliance with IPERA and potential additional support and resources that CNCS may need to become compliant with IPERA.

**RECOMMENDATIONS:** We recommend that CNCS take appropriate action to meet the reporting requirements for agencies that have been unable to comply with IPERA for three consecutive fiscal years, as outlined in OMB M-15-02. Specifically, CNCS should:

- 9.a. Submit a plan to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, and OMB describing the actions that it will take to become compliant. The plan should include the following:
  - i. Measureable milestones for achieving compliance.
  - ii. Designation of a senior agency official accountable for achieving compliance.
  - iii. Establishment of an accountability mechanism for the senior agency official that is tied to the official's success in leading CNCS's efforts with regard to IPERA compliance.
  - iv. An assessment regarding whether additional funding would help bring CNCS into compliance with IPERA.
  - v. An assessment regarding whether a reauthorization proposal for the AmeriCorps State and National Program would help bring CNCS into compliance with IPERA.
  - vi. An assessment regarding whether statutory changes would help bring CNCS into compliance with IPERA.
- 9.b. Work with the Director of OMB and Congress, as necessary, to determine the appropriate steps required to implement the proposed plan and bring CNCS into compliance with IPERA.
- 9.c. Implement appropriate management controls to enable it to fulfill its reporting responsibilities resulting from its IPERA non-compliance.

## OBJECTIVES, SCOPE, AND METHODOLOGY

### Objectives

The objective of our performance audit was to determine if CNCS met OMB's criteria for compliance with IPERA as described in OMB Memorandum M-15-02, including:

- Publishing an AFR for the most recent fiscal year and posting that report and any accompanying materials required by OMB on the agency website.
- Conducting a program-specific risk assessment for each program or activity that conforms with Section 3321 of Title 31 U.S.C. (if required).
- Publishing improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).
- Publishing programmatic corrective action plans in the AFR or PAR (if required).
- Publishing, and meeting, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable).
- Reporting a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and publishing the rate in the PAR or AFR.

We also evaluated the accuracy and completeness of agency improper payment reporting, as well as CNCS's performance in reducing and recapturing improper payments.

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

### Scope

As established in OMB Memorandum M-15-02, the scope of this performance audit included the improper payment and reporting details in CNCS's FY 2015 AFR Section IV, *Other Information*. We designed procedures to gain an understanding of the risk assessment that CNCS performed to identify programs susceptible to significant risk of improper payments, as well as the statistical sampling process that it performed to calculate its improper payment estimate. Our procedures also included having a statistical subject matter expert evaluate the statistical validity of the improper payment estimate.

We also designed procedures to evaluate the completeness and accuracy of the information reported in Section IV, *Other Information*, including re-performing testing of 45 randomly selected sample items that CNCS had tested in determining its improper payment estimate.

In addition, we designed procedures to evaluate CNCS's performance in reducing and recapturing improper payments.

We performed this work in Washington, DC during the period from February 18 through April 12, 2016. Our results are as of April 12, 2016.

## **Methodology**

To verify compliance, evaluate completeness and accuracy, and evaluate CNCS's performance in reducing and recapturing improper payments, we:

- Reviewed CNCS's FY 2015 AFR and confirmed that the report and any accompanying materials were posted to the agency website.
- Reviewed CNCS's FY 2015 AFR and confirmed whether the presentation was in accordance with the form and content requirements outlined in OMB Circular No. A-136, *Financial Reporting Requirements*.
- Evaluated the completeness and accuracy of the IPERA reporting details presented in CNCS's FY 2015 AFR.
- Confirmed whether CNCS conducted a program-specific risk assessment and evaluated the results of the assessment.
- Confirmed whether CNCS published improper payment rate and dollar estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment.
- Evaluated the statistical sampling process that CNCS used to obtain the improper payment rate estimates published in its FY 2015 AFR.
- Evaluated the reasonableness of CNCS's conclusions and the sufficiency of documentation supporting the results of testing procedures that CNCS performed on sample items as part of the statistical sampling and risk assessment processes.
- Confirmed whether CNCS was required to publish corrective action plans in its FY 2015 AFR.
- Confirmed whether CNCS has published, and met, improper payment reduction targets for each program assessed and measured to be at risk for improper payments.
- Evaluated whether CNCS reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR.
- Evaluated other activities performed by CNCS to reduce and recapture improper payments.

In performing this methodology, we applied audit techniques such as inquiry, observation, and re-performance to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings related to the audit objectives.

COMPARISON OF FACTORS CONTRIBUTING TO NON-COMPLIANCE FOR FY 2014 AND FY 2015

<b>Compliance Criteria</b>	<b>Results</b>	<b>Factors Contributing to Non-Compliance for FY 2014</b>	<b>Factors Contributing to Non-Compliance for FY 2015</b>
<p>Published a PAR or AFR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website</p>	<p>FY 2014: Not Compliant  FY 2015: Not Compliant</p>	<p><b>Finding 1 – CNCS’s improper payments reporting in the FY 2014 AFR was not complete and accurate, nor was it completed in accordance with OMB A-136 reporting requirements</b></p> <ol style="list-style-type: none"> <li>1. CNCS did not identify and report root-cause information (including error rate and error amount) based on OMB’s required categories.</li> <li>2. CNCS did not describe corrective actions taken to address all root causes.</li> <li>3. CNCS did not include RSVP and FGP in the list of programs in Table 1 of the Improper Payment section in the FY 2014 AFR and indicate when it expected to produce an estimated error rate for these programs.</li> <li>4. CNCS reported inaccurate information for the AmeriCorps State and National Program. Specifically, it:               <ul style="list-style-type: none"> <li>o Did not correctly calculate the CY estimated improper payment dollar value reported.</li> <li>o Made a mathematical error in calculating the CY+1 estimated outlays.</li> <li>o Did not document that it had developed the CY improper payment estimate using a 12-month reporting period other than FY 2014.</li> </ul> </li> <li>5. CNCS did not report on payment recapture audits or recovery auditing efforts for programs that</li> </ol>	<p><b>Finding 1 – CNCS did not complete its improper payments reporting in the FY 2015 AFR in accordance with OMB A-136 reporting requirements [Modified repeat finding of FY 2014 Finding 1]</b></p> <ol style="list-style-type: none"> <li>1. CNCS did not include SCP in Table 1 of the Improper Payment section in the FY 2015 AFR and indicate when it expected to produce an estimated improper payment error rate for the program.</li> <li>2. CNCS reported a CY outlays amount for the AmeriCorps State and National Grant Program that differed from the fiscal year covered by the AFR. This is acceptable with OMB approval; however, CNCS was unable to provide evidence that OMB had approved the alternative reporting period.</li> <li>3. CNCS did not provide a summary of the justification and analysis supporting its determination that it was not cost-effective to conduct a payment recapture audit program for its programs or activities and that these programs or activities would therefore be excluded from any such audits. In addition, CNCS did not indicate whether it had notified OMB of this determination (including the month and year of notification).</li> </ol>

		<p>expend \$1 million or more annually.</p> <p>6. CNCS did not report the actions and methods used to recoup overpayments identified in the FY 2014 IPERA assessment or report a justification of whether any overpayments had been determined not to be collectible.</p> <p>7. CNCS did not report on improper payments identified and recovered through sources other than payment recapture audits.</p> <p>8. CNCS did not report the required narrative discussion or Table 7, <i>Implementation of the Do Not Pay Initiative to Prevent Improper Payments</i>, in FY 2014 AFR Section X, <i>Agency reduction of improper payments with the Do Not Pay Initiative</i>.</p>	
<p>Conducted a program-specific risk assessment for each program or activity that conforms with Section 3321 of Title 31 U.S.C. (if required)</p>	<p>FY 2014: Not Compliant</p> <p>FY 2015: Not Compliant</p>	<p><b>Finding 2 - CNCS's risk assessment was not supported by a complete, accurate, and systematic method to identify programs that are susceptible to significant improper payments</b></p> <ol style="list-style-type: none"> <li>1. CNCS's risk assessment conclusions for all programs were based on a population of disbursements that may not have been complete and accurate.</li> <li>2. CNCS based its conclusion of risk susceptibility for vendor pay (procurement) disbursements on a population that was not supported or reconciled.</li> <li>3. CNCS based its conclusion of risk susceptibility for AmeriCorps Fixed Amount Grants disbursements on a population that was not evaluated for reasonableness.</li> <li>4. CNCS made a \$2 million error in the calculation used to allocate the National Trust Service (Education Awards) between AmeriCorps State and National Service Award and National Civilian Community Corps (NCCC) and VISTA program awards, further demonstrating the lack of accuracy</li> </ol>	<p><b>Finding 2 – CNCS's risk assessment for the Senior Companions Program and Social Innovation Fund may not be valid [Modified repeat finding of FY 2014 Finding 2]</b></p> <ol style="list-style-type: none"> <li>1. CNCS's risk assessment conclusions for SCP and SIF may not be valid.</li> </ol>

		<p>in CNCS's risk assessment.</p> <ol style="list-style-type: none"> <li>5. CNCS's risk assessment conclusions for FGP, RSVP, SCP, and SIF may not be valid.</li> <li>6. CNCS did not appropriately consider the findings reported in the OIG report <i>CNCS's Audit of BPAs for Professional Consulting Services</i> in its qualitative evaluation of vendor pay (procurement) disbursements in the risk assessment.</li> <li>7. CNCS did not consider all relevant risk factors in determining susceptibility to significant improper payments in the National Service Trust (Education Awards) disbursements.</li> </ol>	
<p>Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under the agency's risk assessment (if required)</p>	<p>FY 2014: Not Compliant</p> <p>FY 2015: Not Compliant</p>	<p><b>Finding 3 – CNCS did not prepare a statistically valid estimate of improper payments as required by IPERA</b></p> <ol style="list-style-type: none"> <li>1. CNCS did not develop any policies or procedures for identifying or replacing sample items.</li> <li>2. CNCS's certified sampling plan did not address the types of transactions or the criteria that must be met for a transaction to be deemed a sample failure, nor did it consistently and thoroughly maintain documentation to support the rationale and decisions made.</li> <li>3. CNCS did not consistently apply an approach for dealing with irreconcilable FFR data.</li> <li>4. Of the 17 transactions that CNCS classified as sample failures, 14 should have been subject to IPERA testing.</li> <li>5. CNCS did not consistently select the randomly selected dollar.</li> <li>6. CNCS failed to maintain adequate documentation to support the selection of sample items in accordance with its certified sampling plan.</li> <li>7. CNCS calculated the error rate using a population</li> </ol>	<p><b>Finding 3 – CNCS did not publish an improper payment estimate for all programs and activities identified as susceptible to significant improper payments [New finding]</b></p> <ol style="list-style-type: none"> <li>1. CNCS did not publish improper payment estimates for FGP and RSVP, although both programs were deemed susceptible to significant risk of improper payments in prior-year risk assessments. As stated in the FY 2015 AFR Section IV, <i>Other Information</i>, page 120, CNCS began the sampling and estimation process in FY 2015; however, it was unable to complete the sampling process and produce an estimate of improper payments with the required precision.</li> </ol> <p><b>Finding 4 – CNCS's published improper payment estimate is not statistically valid and may not be complete and accurate [Modified repeat finding of FY 2014 Findings 3 and 4]</b></p> <ol style="list-style-type: none"> <li>1. CNCS used an MPU projection rather than a PPS projection. This is inconsistent with its use of an MUS sampling approach, which is a PPS sampling method. As a result, CNCS understated the improper payment amount and inaccurately</li> </ol>

		<p>of AmeriCorps State and National Grant Program FFR expenditures that did not reconcile to the population of FFR expenditures from which the sample was selected.</p> <p>8. CNCS did not validate whether the results of its statistical sample achieved the desired level of precision at a 90 percent confidence interval, as planned.</p> <p><b>Finding 4 – CNCS did not consistently follow the methodology outlined in its certified sampling plan</b></p> <p>1. CNCS did not follow the methodology outlined in its certified sampling plan, nor did it provide any explanation as to why it did not follow the certified sampling plan.</p> <p>2. The population that CNCS used to select its sample did not represent total costs claimed over a 12-month period, nor did it represent the two most recent FFRs for each grantee, as stated within CNCS's certified sampling plan.</p> <p><b>Finding 5 – CNCS did not properly identify improper payments</b></p> <p>1. CNCS failed to develop a comprehensive testing methodology to determine the estimated rate and dollar amount of improper payments for the AmeriCorps State and National Program reported in the FY 2014 AFR, and was inconsistent in applying the limited test procedures that it did develop.</p> <p>2. CNCS's documentation did not identify the specific attributes tested for all samples in order to determine whether a particular transaction was a proper or improper payment.</p> <p>3. Our re-performance testing of 45 sample items determined that 20 transactions that CNCS deemed to be proper payments should have been</p>	<p>calculated its precision.</p> <p>2. The extrapolation approach that CNCS executed was inconsistent with its extrapolation plan; the extrapolation plan stated that CNCS would use a PPS projection, but instead it used an MPU projection.</p> <p>3. CNCS did not properly report all errors identified in its samples. CNCS reported only those errors in which it was able to select an appropriate transaction, test it, and identify the transaction as an improper payment.</p> <p>4. CNCS did not correctly or consistently use its methodology in selecting transactions for testing.</p> <p><b>Finding 5 – CNCS did not properly identify improper payments [Modified repeat finding of FY 2014 Finding 5]</b></p> <p>1. CNCS did not develop a comprehensive testing methodology to determine the estimated rate and dollar amount of improper payments reported in the FY 2015 AFR for the AmeriCorps State and National Program, and was inconsistent in applying the test plans that it did develop.</p> <p>2. CNCS either did not verify or did not appropriately document verification that it had examined all applicable allowability/eligibility requirements to support that the sampled payments were proper or improper in accordance with the applicable sections of the CFR and CNCS policies and procedures.</p> <p>3. We re-performed testing of 45 sample items; for 3 of the items, we disagreed with CNCS's conclusion regarding whether the payment should be deemed proper or improper. For another eight items, we were unable to verify CNCS's conclusions regarding whether a payment should be deemed proper or improper.</p>
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		classified as improper payments, based on the CNCS testing documents.	
Published programmatic corrective action plans in the PAR or AFR (if required)	FY 2014: Not Compliant  FY 2015: Compliant	1. CNCS did not publish corrective action plans for all identified root causes of improper payments. <b>See discussion of Finding 1.</b>	Not Applicable. CNCS published programmatic corrective action plans in the AFR and therefore met this compliance criterion.
Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments	FY 2014: Compliant  FY 2015: Not Compliant	Not Applicable. CNCS published an annual reduction target. It had not established reduction targets in prior years because it had not previously published an improper payment error rate.	<b>Finding 6 – CNCS did not meet the annual reduction target for the AmeriCorps State and National Program [New finding]</b> 1. CNCS did not meet the FY 2015 reduction target for the AmeriCorps State and National Grant Program.
Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR	FY 2014: Not Compliant  FY 2015: Not Compliant	<b>See discussion of FY 2014 Findings 3, 4, and 5.</b>	<b>See discussion of FY 2015 Findings 4 and 5.</b>
<b>Status of Other Matters to Be Reported</b>			

<p><b>Finding 6 – CNCS did not adequately report on high-dollar overpayments</b></p> <ol style="list-style-type: none"> <li>1. CNCS did not report quarterly to OMB and the CNCS OIG on high-dollar overpayments identified, or a lack of high-dollar overpayments, for the programs that CNCS identified as susceptible to significant improper payments.</li> <li>2. CNCS management did not consider all relevant sources of information available to the agency to identify improper payments subject to high-dollar overpayment reporting.</li> </ol>	<p><b>Finding 7 – CNCS did not adequately report on high-dollar overpayments [Modified repeat finding of FY 2014 Finding 6]</b></p> <ol style="list-style-type: none"> <li>1. For the first and second quarters of FY 2015, CNCS did not report to OMB and the CNCS OIG regarding high-dollar overpayments identified, or a lack of high-dollar overpayments, for the programs that CNCS identified as susceptible to significant improper payments.</li> <li>2. For the third and fourth quarters of FY 2015, CNCS only reported to the CNCS OIG regarding its lack of high-dollar overpayments; it did not report to OMB.</li> </ol>
<p><b>Finding 7 – CNCS does not have a cost-effective program to recover improper payments</b></p> <ol style="list-style-type: none"> <li>1. CNCS did not perform an assessment to determine whether conducting recovery audits on its programs that expend \$1 million or more annually would be cost-effective, as required by IPERA.</li> <li>2. CNCS management indicated that it plans to use existing recovery activities performed as part of ongoing grants oversight and monitoring activities; however, the results and cost-effectiveness of recovery activities are not readily accessible, nor has CNCS performed a meaningful analysis of their effectiveness in recovering improper payments.</li> <li>3. CNCS has not provided evidence showing any recovery activities for the five improper payments identified in the FY 2014 IPERA assessment related to non-CHC issues.</li> </ol>	<p><b>Finding 8 – CNCS did not complete a cost-benefit assessment for payment recapture audits [Modified repeat finding of FY 2014 Finding 7]</b></p> <ol style="list-style-type: none"> <li>1. CNCS did not complete an assessment to determine whether conducting payment recapture audits on its programs that expend \$1 million or more annually would be cost-effective, as required by IPERA.</li> <li>2. The FY 2015 AFR reported that CNCS had begun reviewing payment recapture activities for programs expending \$1 million or more annually and that preliminary results indicated that a payment recapture audit was not warranted; however, CNCS was unable to provide any documentation to support that it had conducted such a review.</li> </ol>
<p>Not Applicable.</p>	<p><b>Finding 9 – CNCS did not complete the reporting required as a result of its non-compliance with IPERA for three consecutive fiscal years [New finding]</b></p> <ol style="list-style-type: none"> <li>1. CNCS was required to submit a report to Congress as a result of its non-compliance with IPERA for three consecutive fiscal years (FYs 2012 through 2014); however, it did not do so.</li> </ol>

## CNCS MANAGEMENT'S RESPONSE

# Corporation for National and Community Service

NationalService.gov



To: Stuart Axenfeld, Associate Inspector General for Audit

From: Jeffrey Page, Chief Operating Officer

CC: Lori Griblin, Chief Risk Officer  
Jeremy Joseph, General Counsel

Date: May 9, 2016

Subject: CNCS management response to OIG Draft Report: Performance Audit of the Corporation for National and Community Service's Compliance with the Improper Payments Elimination and Recovery Improvement Act (IPERIA) for Fiscal Year 2015

Thank you for the opportunity to comment. CNCS generally concurs with the overall findings and recommendations identified by Cotton & Co. CNCS initiated its first IPERIA reporting efforts in FY 2014, and worked to improve the IPERIA program in FY 2015. Nevertheless, there is still much improvement to be made. CNCS agrees that the recommended courses of action are necessary and has already begun implementing many of the recommendations, primarily redesigning the IPERIA process to make it both achievable and valuable for CNCS. CNCS is currently engaging in discussions with statisticians, the OIG, and eventually OMB, to collaboratively meet this objective.

The following are corrective action steps that CNCS plans to implement over the coming three years beginning in FY 2016:

1. Assess updated reporting guidance and report its results accordingly.
2. Continue working with a qualified statistician to update the sampling plan, and to develop an alternative sampling methodology.
3. After finalizing an improved alternative sampling methodology, provide the required audit report.
4. Work with the OIG and OMB to validate the alternative methodology is acceptable under IPERIA law and guidance.
5. Work with contracted statisticians to address deviations as they arise and validate that the ending sampling methodology achieves planned objectives.
6. Work with contracted statisticians to perform quality checks on data processing to ensure the sampling methodology is consistently and accurately applied.

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7. Work with CNCS staff and the statisticians to adequately address, categorize, and report improper payments due to non-responsive grantees and ledger reconciliation issues.
8. Utilize manual holds on grantee funds for failure to respond to IPERIA requests.
9. Revisit testing criteria to ensure they reflect a comprehensive yet risk-based approach to identify financial and other material drivers of payment integrity risk.
10. Improve documented policies and procedures.
11. Develop more comprehensive training for CNCS staff who will complete transaction assessments.
12. Develop more comprehensive training for CNCS grantees who will provide transactional data for testing.
13. Enhance communications among and across CNCS departments to ensure grantee responsiveness.
14. Continue to pursue recovery efforts, as appropriate, for improper payments found in FY 2015.
15. Begin reporting high dollar overpayments to OMB.
16. Document cost-benefit analysis for payment recapture audit program.