



May 15, 2017

Mr. Mark Reger
Deputy Controller
Office of Management and Budget
725 17th Street, NW
Washington, DC 20503

OIG Memorandum 17-04:
Corporation for National and Community Service's Compliance with the
Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2016

Dear Mr. Reger:

For the sixth consecutive year, the Corporation for National and Community Service (CNCS or the Corporation) did not comply with the Improper Payments Elimination and Recovery Act of 2010, as amended (IPERA), applicable Executive Orders and authoritative implementation guidance from Office of Management and Budget (OMB) in assessing and reporting in its FY 2016 Agency Financial Report (AFR) information concerning improper payments in CNCS programs. The Corporation has acknowledged that it did not meet its obligations in this area.

In light of CNCS's admitted noncompliance and the current status of its evolving improper payment assessment methodology, CNCS's Office of Inspector General (CNCS-OIG) undertook an abbreviated analysis.

Background

CNCS-OIG's annual IPERA audits have consistently found significant flaws at every stage of the Corporation's IPERA process. In its FY 2011 AFR, CNCS estimated that it made less than \$4,000 in improper payments, a result inconsistent with the CNCS-OIG audit findings and not credible on its face for an agency that expends \$1 billion annually. The FY 2012 assessment relied on stale information and excluded from its analysis grantees' use of approximately \$750 million in grant funds, representing 75 percent of the Corporation's budget. In its FY 2012 AFR, CNCS promised to complete a new statistical analysis of payments within each of its programs in FY 2013, perform a new risk assessment, quantify the results for the AmeriCorps State and National Program (ASN) and report the results in the FY 2013 AFR. CNCS was unable to live up to these commitments in 2013, and it promised once again that it would fulfill them in 2014.

In FY 2014, CNCS concluded that ASN, the Foster Grandparents Program (FGP) and the Retired Senior Volunteer Program (RSVP) are each susceptible to more than \$10 million in improper payments annually, but could provide an estimate only for ASN, which it projected to have made \$12.4 million in improper payments, a rate of 4.98 percent. CNCS-OIG identified a number of

fundamental weaknesses that called into question the reliability of the results and recommended that it be performed *ab initio* the following year.

For FY 2015, CNCS quantified the necessary information for only one program, ASN. According to CNCS, ASN made an estimated \$14.5 million in improper payments, representing 6.5 percent of program outlays. CNCS-OIG determined that these results were not statistically valid, complete or accurate, so that the actual figures may have been higher. The Corporation could not produce estimates for FGP and RSVP, each of which it had determined were susceptible to more than \$10 million in improper payments. Our audit of the results found that CNCS continued to employ a sampling and testing methodology that had proven unsuccessful in the past and which the Corporation lacked the resources to execute. Overall, we recommended that CNCS either abandon that approach in favor of an alternative capable of timely execution or that it marshal the resources needed to bring its methodology to completion, working with Congress or OMB if necessary. CNCS acknowledged forthrightly that it had not complied with IPERA. While the Corporation promised a number of improvements, detailed in its FY 2015 AFR, senior leaders acknowledged that CNCS might be unable to meet IPERA's requirements in FY 2016.

FY 2016: CNCS Made Limited Progress But Remained Noncompliant, with Extraordinary Levels of Improper Payments in Senior Corps

CNCS lacked the capability to execute on the promises made in the FY 2015 AFR and did not achieve compliance in FY 2016. Delays, an absence of leadership for most of the year and a decrease in resources devoted to IPERA contributed to this result. Once again, CNCS leaders were candid about the shortcomings.

Due to poor sample planning and methodological errors, CNCS could not determine either the rate or the amount of improper payments in ASN, a program susceptible to significant improper payments. The Corporation was therefore unable to report whether it met its annual reduction target or whether the rate and amount of ASN's improper payments declined or increased from prior years.¹

For the first time, CNCS reported IPERA results for the three Senior Corps programs, though the confidence interval did not meet OMB requirements. The estimated levels of improper payments in these programs were extraordinary:

- 34 percent, or \$ 26.8 million, in FGP;
- 23 percent, representing \$ 9.5 million, in RSVP; and
- 33 percent, representing \$ 10.6 million, in SCP, whose susceptibility CNCS had clearly underestimated in prior years.

All told, improper payments comprised 30 percent of Senior Corps' outlays, and improper payments in each of these programs exceed 10 percent.² The Corporation identified the root cause of these payments as insufficient documentation of the National Service Criminal History Check (NSCHC) required for grant-funded staff and volunteers at CNCS grantees. CNCS

¹ An internal assessment conducted by the Chief Risk Officer suggested that the use of complete testing attributes would show that ASN's improper payments are nearly double those reported in FY 2015. This also calls into question CNCS's assertion about the quality of ASN's controls to prevent improper payments. In the absence of reportable FY 2016 IPERA data for ASN and the results of the CRO study, it is difficult to see how CNCS can be confident that ASN's improper payment controls are more than "minimal."

² An internal assessment by the Chief Risk Officer suggests that the actual figures may be higher and also indicate that ASN's improper payments may be nearly double the rate and amount reported in FY 2015.

concluded that minimal controls were in place to prevent the improper payments. Because of the lack of an accurate baseline, there is no way to assess the effectiveness of the corrective actions taken by CNCS in FYs 2015 and early FY 2016.

CNCS has not performed any payment recapture audits, nor has it produced analysis regarding the cost-effectiveness of doing so. In 2015, CNCS indicated that it would assess the cost-effectiveness of payment recapture audits and report the results in the FY 2016 AFR. It did not do so. The FY 2016 AFR represents that this analysis will be performed “by FY 2018.” Three tables in the AFR regarding payment recapture audits describe the required data items as not applicable or “N/A.” It would be more accurate to say that CNCS did not complete the actions.

Although CNCS remained noncompliant with IPERA requirements in FY 2016, we note progress in some important areas, which may improve future results. Specifically, CNCS

- Hired an experienced Chief Risk Officer in April 2016, and dramatically expanded the staff devoted to strengthening internal controls, risk management, and identifying and reducing improper payments;
- Contracted with independent accounting firm KPMG to improve sampling and testing in its improper payment assessments;
- Conducted a non-statistical assessment of the susceptibility of the Social Innovation Fund to significant improper payments;
- Is conferring with OMB to develop a better approach to sampling and testing for improper payments in FY 2017; and
- Reported quarterly on high-dollar overpayments as required by OMB, and posted the results on the Corporation’s website.

These developments are positive but have not yet improved CNCS’s IPERA compliance status. With the lone exception of the high-dollar overpayment reporting issue, nearly all of the IPERA compliance issues that we reported in the FY 2015 audit report remain unresolved. We therefore reiterate the recommendations made in our audit of CNCS’s IPERA compliance for FY 2015, except as regards to high-dollar overpayments. Those recommendations can be found in *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 No. 16-04, available at <https://www.cncsoig.gov/sites/default/files/16-04.pdf>.

We will continue to monitor the status of the Corporation’s improper payment assessments and determine whether an audit of the FY 2017 efforts would be useful and productive. We look forward to working with the Corporation to facilitate a complete and reliable assessment of improper payments for FY 2017, together with effective plans to reduce and recapture improper payments.

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

Sincerely,

A handwritten signature in dark ink, appearing to read "Stuart Axenfeld". The signature is fluid and cursive, with the first name "Stuart" and last name "Axenfeld" clearly distinguishable.

Stuart Axenfeld
Assistant Inspector General for Audit

cc: Kim Mansaray, Acting Chief Executive Officer
Jeffrey Page, Chief Operating Officer
Lori Giblin, Chief Risk Officer
Monica Kitlas, Agency Audits and Investigations Coordinator