Office of Inspector General Corporation for National and Community Service

EVALUATION OF THE FISCAL YEAR 2008 BUDGET PROCESS

OIG REPORT 09-16

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This report was issued to Corporation management on August 7, 2009. The Corporation's response to the draft report agreed with the recommendations and is considered to be the Management Decision. Under the laws and regulations governing follow-up, the Corporation is to complete its corrective actions by August 9, 2010. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Corporation for NATIONAL & COMMUNITY SERVICE

OFFICE OF INSPECTOR GENERAL

August 7, 2009

TO: Nicola Goren
Acting Chief Executive Officer

FROM: Stuart Axenfeld /s/
Assistant Inspector General for Audit

SUBJECT: Office of Inspector General's (OIG) Final Report 09-16: *Evaluation of the Fiscal Year 2008 Budget Process*

Attached is the OIG's final report on the *Evaluation of the Fiscal Year 2008 Budget Process*.

Under the Corporation's audit resolution policy, the notice of final action is due by August 9, 2010.

If you have questions pertaining to the final report, please contact Jim Elmore, Audit Manager, at (202) 606-9354 or j.elmore@cncsoig.gov.

Enclosure

cc: Frank Trinity, General Counsel
William Anderson, Acting Chief Financial Officer
Rocco Gaudio, Deputy Chief Financial Officer, GFFM
Marlene Zakai, Senior Advisor to the Acting CEO
Sherry Blue, Audit Resolution Coordinator

Evaluation of the Fiscal Year 2008 Budget Process

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I. EXECUTIVE SUMMARY

Acting on a request from staff of the House Appropriations Committee, Subcommittee on Labor, Health & Human Services, Education, and Related Agencies, the Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), conducted an *Evaluation of the Fiscal Year 2008 Budget Process* (Evaluation). We conducted the evaluation, which included an analysis of the formulation and execution of the Fiscal Year (FY) 2008[1] Budget, to determine whether the Corporation properly and efficiently used the appropriated funds it was provided.

While the Corporation generally accomplished the purposes for which it received appropriations, it insufficiently managed the funds that it received in FY 2008. As a result, the Corporation was forced to curtail needed hiring, training, and the acquisition of needed supplies during the second half of FY 2008. If it had not drastically cut back on its spending, the Corporation would have ended up in violation of the legal constraints on spending by Federal agencies, *i.e.*, an Anti-Deficiency Act (ADA) violation.

Many of the issues identified in this report resulted from a corporate organizational structure that may no longer be adequate in view of the size of current programs and operations. The organizational structure needs to provide a means to focus the attention of the Chief Executive Officer (CEO) on overall Corporation operations, not only program operations. The absence of a Deputy Chief Executive Officer, an operationally focused Chief Operating Officer (COO), or other senior official with responsibilities over organizational-wide administrative functions, along with budget pressures and significant information technology (IT) problems that occurred, placed a severe strain on the organization and its CEO. This focus on program operations left a void in managing other operations.

The Corporation was advised of this void in its management structure in 2005; however, it did not address this void, which contributed to the problems that occurred in 2008. A Congressionally authorized report, published by the National Academy of Public Administration (NAPA) in October 2005, stated that the CEO was spread too thin, causing the Corporation to operate without all the management direction it required. However, the Corporation did not take appropriate steps to fix this condition, which was still hampering Corporation operations in FY 2008.

Before the NAPA report was published, the Corporation filled the Chief Operating Officer (COO) position in July 2005. With this COO focused exclusively on program operations as stated in the COO's new position description, the then CEO was overburdened with non-program operational matters. The CEO also did not have the analytical support he needed to assure himself that the information he received was timely and correct. This lack of management support for the CEO, combined with a similar deficiency in human capital resources independent of his Department heads to address non-program internal matters, contributed to, and/or delayed the early resolution of, the FY 2008 budget and IT problems. While overburdened with operational matters and emerging information technology issues, the CEO, apparently recognizing he was overburdened, improperly directed that his then Chief Information Officer (CIO) report to the Chief Financial Officer (CFO), contrary to 44 U.S.C. § 3506.

[1] FY 2008 began October 1, 2007, and ended September 30, 2008.

Problems stemming from the formulation and execution of the FY 2008 budget had an adverse impact on the Corporation, its basic operations and its employees. Overspending early in the fiscal year resulted in financial shortfalls in the second half which forced a near hiring freeze, a halt to personnel training and travel, and a ban on the purchase of the most basic office supplies. Morale suffered, as evidenced by plummeting scores on the 2008 Federal Human Capital Survey conducted by the Office of Personnel Management. Prior to 2008, favorable responses had been rising. In contrast, the 2008 results, when compared to the prior year's Human Capital Survey, showed an average drop in the percentages of favorable/positive responses of 5.4 percent. In the 2008 survey, 31 of the 40 responses were more unfavorable/negative than the responses of the prior year. Survey questions that yielded the largest drop in favorable/positive results, with declines greater than 10 percent, related to personnel training, employee perception of the Corporation's senior leaders, recruiting, and performance recognition.

Budget areas of concern that emerged during FY 2008 included:

- Corporation Policy on Budget Execution: The Corporation lacked a current procedure manual or policy manual that identified the roles of personnel in monitoring budget execution. The Corporation also did not update budget personnel titles and functions in the policy.

- Corporation Policy on Budget Formulation: The Corporation does not have any formal written policies and procedures to govern the overall internal budget formulation process.

- Human Capital Issues: The Office of Budget experienced significant turnover in its personnel, and the Corporation did not accurately assess whether any new and reassigned personnel were matched directly and appropriately to the required competencies, experience, and technical knowledge of operations. Training was not provided that directly addressed the needs of Corporation personnel. Such training would have allowed them to gain adequate knowledge and skills to address the budget process for which they were responsible.

- Salaries & Expenses (S&E): The Corporation expended funds in its S&E account at an unsustainable rate during the first half of FY 2008. This was caused by hiring of employees without considering projections of the impact on annual budget marks. As a result, the dollar amounts for personnel, compensation, and benefits for the number of personnel hired would have exceeded budget limits had the Corporation not severely curtailed hiring and other operating expenses in the last half of the year, resulting in strained operations at that time.

- National Civilian Community Corps (NCCC): The Corporation did not adequately document its decision-making and rationale during the NCCC budget formulation process, particularly with regard to $5 million dollars that was provided for two new campuses. It was also unable to provide timely and accurate budget forecasting related to NCCC costs, and policies and procedures. NCCC, contrary to Corporation policy and procedure, publicly announced that member positions were available for a campus prior to obtaining Corporation-required certifications that funding was available for the education awards and other costs that would increase from filling those slots. The results included notices issued to members raising questions as to whether they could come to the campus as scheduled, and NCCC was unable to open one campus in FY 2008 as expected by Congress.

- Incremental Funding in NCCC Lease: A Corporation representative advised that during early FY 2008, the Corporation did not record its obligation in full for the Denver campus lease, as required. We did not review the NCCC lease contracts sufficiently to substantiate the lack of adherence to the full-funding requirement. The Corporation advised that its correction of the funding for NCCC leasing added additional unexpected budget pressures in FY 2008. We substantiated that it renegotiated one or more leases to provide for six-month leasing options in lieu of one-year leasing periods, which should reduce budget pressures, especially during periods in which continuing resolutions are in effect. A new Director of the Office of Procurement Services joined the Corporation on November 25, 2007, and has since directed his contracting officers to follow the full-funding requirement.

- Information Technology: The Corporation did not have an IT strategic plan in place to maintain the IT infrastructure, and to ensure its continued viability with increased volume and the need to adopt next generation modifications. It did not provide any needed guidance on how IT funds would be applied and what priorities would be set. As a result, significant costs incurred to resolve IT issues occurring in FY 2008, may not have been necessary had a strategic plan been in place and which provided for coordination of IT requirements among the Corporation's users.

We make numerous recommendations herein to the Corporation to address these budget issues and prevent their recurrence, which include: (1) evaluating the Corporation's current organizational structure, personnel responsibilities, and reporting relationships, which cover the current roles of the CEO, COO, CFO, Office of Budget personnel, and the CIO's reporting relationship, to ensure needed coordination among personnel; (2) addressing human capital issues to recruit and retain qualified personnel with the required competencies, experience, and technical knowledge, and providing training that directly enhances personnel technical knowledge; (3) updating its policies to reflect its latest budget formulation, execution, and monitoring processes with emphasis on documentation and approval requirements; and (4) imposing fiscal discipline by strictly enforcing budget policies and planned budget marks.

We note that the Corporation recognized after the end of the second quarter of FY 2008, that Departments had to rein in spending so that they would not cause an ADA violation during the remainder of the fiscal year. The Corporation's actions were then, for FY 2008, necessarily drastic, to prevent exceeding its funding authorizations but with adverse effects on its operations; it has since instituted changes in the NCCC program, in its IT operations, and in its budgeting formulation and spending on salaries and expenses which should help avoid a recurrence. It has also developed a Management Action Plan to serve as a blueprint for achieving its mission and preparing for projected growth, and which includes tasks that address some of the budget concerns and issues we found occurred in FY 2008.

The Corporation's response to recommendations in a draft of this report generally met the intent of the recommendations. However, in some instances the responses did not specifically address the recommendations. We summarized the Corporation's responses to each recommendation in the body of the report, which are followed by our comments. The Corporation's verbatim response to the draft report is included as an Appendix.

II. BACKGROUND

A. Overview

Federal agencies including the Corporation are subject to 31 U.S.C. § 1514. **Administrative division of apportionments,** which states, in part:

> (a) The head of each executive agency … shall prescribe by regulation a system of administrative control not inconsistent with accounting procedures prescribed under law. The system shall be designed to -
>
> > (1) restrict obligations or expenditures from each appropriation to the amount of apportionments or reapportionments of the appropriation; and
> > (2) enable the official or the head of the executive agency to fix responsibility for an obligation or expenditure exceeding an apportionment or reapportionment.

To implement 31 U.S.C. § 1514 and other applicable Office of Management and Budget (OMB) instructions, the Corporation established Corporation Policy CFO-06-001, *Administrative Control of Funds* (Budget Policy), in October 2006. It provides policies for Corporation personnel to follow in executing the budget and presents basic fund control principles and concepts. The Budget Policy also outlines specific procedures to be used to report violations of the ADA.

Under provisions of the Corporation's Budget Policy and OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, the Corporation budget process consists of formulation, execution, and monitoring.

The Corporation Budget Office began its Corporation FY 2008 budget formulation process in March 2006. During this process, the three Corporation Departments -- (1) Office of the CEO; (2) Office of the COO; and (3) Office of the CFO -- worked with their program offices and operating units to identify needs, determine associated costs, and make decisions for the FY 2008 budget. Budgets for each subordinate unit were formulated using a "current services" budget formulation model. Each unit was asked to develop a budget, starting with the baseline amount for the FY 2007 President's Budget request, and to justify any proposed expenses above current services. Based on the information submitted by the units and Department Heads (CEO, CFO, and COO), a budget was formulated for the CEO's review. After the CEO's final content review and approval, the FY 2008 Budget and Performance Plan was delivered to OMB in September 2006. OMB performed its review of the Corporation FY 2008 budget from September to November 2006. On February 5, 2007, the Corporation formally released its FY 2008 Budget Justification to the public.

While Congress considered the government-wide FY 2008 budget, the Corporation started developing its FY 2008 Operating Plan in July 2007. To prepare for the anticipated Continuing Resolution (CR) period, the Corporation issued a memorandum before the CR period and two additional memoranda during the CR period to provide guidance on the operating plan as well as budget execution processes and procedures during the CR period. During the CR period from October 1, 2007, to December 26, 2007, the Corporation operated at a funding level equal to the prior year's funding levels.

The Corporation's FY 2008 budget was finalized when the President signed the Consolidated Appropriations Act, 2008 (Public Law 110-161) on December 26, 2007. The Corporation was provided with approximately $850.5 million,[2] with the required 1.747 percent rescission. Details of the Corporation's FY 2008 budget for S&E and NCCC are shown in the table that follows:

Appropriation Accounts	Budget Requested	Appropriation Language	Appropriation Enacted (With 1.747% Rescission)
S&E	$ 69,520,000	$ 68,964,000	$ 67,759,000
Domestic Volunteer Service Act (DVSA)	294,226,000	313,054,000	307,585,000
National & Community Service Act (NCSA):			
(a) NCCC	11,620,000	24,205,000	23,782,000
(b) Other Programs	447,802,000	459,403,000	451,377,000
Total Budget[3]	**$ 823,168,000**	**$ 865,626,000**	**$ 850,503,000**

The Corporation's budget execution process begins after the enactment of the appropriation legislation or CR, with the receipt of the Treasury Warrant, and subsequent receipt of OMB's approved quarterly apportionments on forms SF 132, "Apportionment and Reapportionment Schedule" – often one for S&E and one or more for program funds. The Budget Policy provides that the "CEO delegates administrative control of funds through allotment to the CFO for further … [re-delegation] through the … [sub-allotment] process to the Department Heads." The CFO will be the allottee for Corporation-wide allotments and the CEO, COO, and CFO, as Department Heads, are designated as sub-allottees to function as Fund Administrators, supported by designated Executive Officers. An allottee or sub-allottee is a recipient of an Advice of Funds. The Budget Policy also provides for the CFO's Budget Office to issue allotments and sub-allotments via written Advice of Funds to the CFO and Department Heads functioning as Fund Administrators. The Budget Office also enters apportionments, allotments, and sub-allotments into the accounting system (Momentum).

B. Salaries & Expenses

The S&E appropriation provides the salaries and operating expense funding needed to enable the Corporation to administer its programs and meet its strategic and management goals. The Corporation's S&E appropriation is maintained as a separate Treasury account.

The FY 2008 S&E appropriation, after the 1.747 percent rescission, represented a reduction of $2.5 million from the prior year funding level after taking into account mandated increases, such as an increase in the cost-of-living allowance. The Corporation's strategy to meet this lower funding level included: (1) freeing up $3.5 million intended for personnel

[2] The OIG's appropriation account is excluded for purposes of this report.

[3] *Ibid*

compensation and benefits by projecting an 8.5 percent salary lapse rate[4] for FY 2008; and (2) planning reductions in non-pay discretionary spending ($.7 million). In addition, the Corporation sought and obtained legislative authority to offset electronic grant management costs previously covered by S&E with up to one percent of program grant funds ($2 million).

C. National Civilian Community Corps

NCCC is a full-time, team-based, residential AmeriCorps program that provides local public and nonprofit organizations, having limited resources, with access to flexible, quick response teams to meet sudden unpredictable community needs. NCCC members live on campuses, but are deployed in partnership with nonprofit organizations, state and local agencies, and faith-based and other community organizations in all 50 states and some U.S. territories, as needed.

The Corporation's original FY 2008 NCCC Budget Justification provided for member support and program operations at three NCCC campuses: Denver, Colorado; Sacramento, California; and Perry Point, Maryland. The Corporation, upon the passage of the Consolidated Appropriations Act, 2008, received within its Operating Expenses Appropriation, Treasury Symbol 95-8-2728, a separate amount for its NCCC program. However, this amount, $24,205,000 ($23,782,000 after the 1.747 percent rescission) was available for obligation until September 30, 2009, one more year than the appropriation for all of the Corporation's other program and operating funds. In addition, the Act directed the Corporation to open new campuses at Vinton, Iowa, and at Vicksburg, Mississippi. Specifically, the Consolidated Appropriations Act, 2008, stated "not less than $5,000,000 shall be for the acquisition, renovation, equipping and startup costs for a campus located in Vinton, Iowa and a campus in Vicksburg, Mississippi to carry out subtitle E of title I of the [National and Community Service Act of] 1990 Act." The $5 million that was allocated for the two new campuses was also subject to the 1.747 percent rescission as part of the overall FY 2008 NCCC budget.

Congress described its expectation regarding these campuses in the Joint Explanatory Statement,[5] which states, "The Appropriations Committees expect that an NCCC class will be operating out of each facility by the end of fiscal year 2008 [September 30, 2008] as proposed by the Senate." The Vinton campus opened in July 2008, and its first class graduated on April 30, 2009. However, the Vicksburg campus did not open until August 2009, which is ten months later than anticipated by Congress.

D. Information Technology

The Corporation budget for IT is typically funded through S&E for Office of Information Technology (OIT) functions and through individual programs for their respective related IT systems. The Corporation's FY 2008 budget included funding for specific IT projects on development of IT system architecture, accounting system (Momentum) upgrades, and

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[4] The Corporation defines salary lapse rate as, "The period of time between when a position becomes vacant and when it is backfilled, during which the position consumes no payroll funds. The lapse rate is driven by personnel turnover and the speed with which the agency [Corporation] is able to hire new personnel. Another factor is the differential between the salaries of departing and replacement personnel."

[5] The Joint Explanatory Statement on the Consolidated Appropriations Act, 2008, Committee Print of the House Committee on Appropriations on H.R. 2764 / Public Law 110-161 (*see* Book 2, Division G, Page 1605) is available at http://www.gpoaccess.gov/congress/house/appropriations/08conappro.html.

Phase II release of the My AmeriCorps Portal. As stated above, the Corporation obtained legislative authority to offset electronic grant management costs previously covered by S&E with up to one percent of program grant funds.

During FY 2008, the Corporation had a series of challenges related to IT systems and management. First, at the beginning of FY 2008, Infonetic, the contractor that provided primary IT services to the Corporation, filed for bankruptcy, and the Infonetic personnel assigned to the Corporation were laid off. Infonetic had managed the helpdesk function of the OIT as well as the Corporation's grant electronic information systems, eGrants and eSpan. Infonetic also provided support staff for Corporation IT projects, including the My AmeriCorps Portal, the Data Warehouse,[6] and many of the Corporation's Business Intelligence Dashboard[7] (Dashboard) initiatives. In late November 2007, the Corporation secured a contract novation, substituting Engenius as the new contractor. This unforeseen loss of a substantial portion of IT contract personnel impacted the Corporation services at various levels and delayed IT project initiatives, including the forced postponement of the launch date for Phase II of the My AmeriCorps Portal until January 2008.

In addition, starting after the first quarter of FY 2008, there were a series of substantial failures of Corporation IT systems. New or modified systems did not perform as expected with intermittent failure of systems, such as Momentum, eGrants, and My AmeriCorps Portal to interoperate correctly and concurrently. Consequently, the Corporation's routine work and customer service delivery were adversely impacted. Not only did the Corporation delay the My AmeriCorps Portal Phase II implementation, Corporation personnel and grantees experienced difficulties in accessing the Corporation's IT systems to perform their work. These IT issues contributed to the significant deficiency designation on the OIG's FY 2008 Independent Auditor's Report on Internal Control.

In March 2008, the Corporation took positive steps to determine the causes of IT issues. It awarded a contract to an independent IT consultant, Fred Thompson, to review the incidents that occurred during the first half of FY 2008 and to make recommendations to improve the IT operations. The final report, *Recommendations for Improving Information Technology Operations and Management at the Corporation for National and Community Service* (Fred Thompson IT Report), dated May 23, 2008, listed numerous recommendations. The purpose of this evaluation is not to repeat what is in the Fred Thompson IT Report (although we take its findings into account), but to recognize some of those findings which created the budget pressure that the Corporation encountered in FY 2008.

E. About this Evaluation

This evaluation came about as a result of a Congressional request. In September 2008, we received inquiries from Congressional staff regarding the Corporation's budget formulation and execution practices during FY 2008. As we performed pre-engagement interviews with current Corporation personnel and preliminary research from November through early

[6] The Data Warehouse is a Corporation information system, which includes historical data received from Momentum and eSPAN to enable Corporation personnel to examine past conditions within the data and to facilitate trend and variance analyses.

[7] The Dashboard was designed as a management tool that communicated large quantities of information and is a component of the Data Warehouse. The Dashboard includes management metrics (examples include purchase card delinquency rate, number of program participants, financial activities baseline summary, etc.) and is only available internally for Corporation personnel.

December 2008, we noted indications of various potential issues related to the Corporation's FY 2008 budget process. Based on our preliminary observations, we determined the format of the engagement to be an evaluation and developed the engagement's objective and scope. We communicated our evaluation objective and scope to Congressional staff and Corporation management in late December 2008.

III. OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this evaluation is to evaluate the Corporation's management and budgetary controls to determine whether it effectively accomplished the purposes for which it received appropriations. We did this by analyzing the Corporation's formulation and execution of its budget for FY 2008.

Our evaluation focused on the Corporation's management of budget process and budget pressures that emerged in FY 2008, which took into account the Corporation's allocation and reallocation of its apportionment to various Program Offices. Our evaluation addressed the appropriation account for the Corporation's programs and the account for S&E. We also focused on budget pressures, such as salaries and the impact of hiring, the opening of two new NCCC campuses, and IT issues that impacted accounts in FY 2008.

Our scope excludes a full analysis of NCCC leasing contracts, and their impact on legal and administrative funding authorization limitations that apply to or within the Corporation. We excluded this information from the scope in order to issue this report as early as possible, and plan to later review contracting and funding aspects related to NCCC leases.

The methodology included in-person and telephone interviews with 32 current or departed Corporation employees, and the then Chairman of the Board of Directors, as well as reviews of Corporation correspondence, e-mails, memoranda, and budget work documents. We obtained an understanding of the Corporation's budget process, issues, and events that impacted the FY 2008 budget during our interviews. We also compiled and examined supporting documents used for formulating, executing, and reporting the Corporation's budget process. In addition, we identified, documented, and reviewed laws, policies, and procedures that relate to the Corporation's budget process. We did not validate figures from supporting documentation or otherwise verify whether data and information provided by the Corporation were correct. However, we reviewed supporting documentation for reasonableness and re-interviewed Corporation personnel to get clarification and new information as deemed necessary.

We conducted our work from December 2008 to May 2009 and in accordance with Quality Standards for Inspections (January 2005) issued by the President's Council on Integrity and Efficiency (currently the Council of the Inspectors General on Integrity and Efficiency).

IV. CRITERIA

We identified, documented, and reviewed laws, policies, and procedures that relate to the Corporation's budget process. The criteria we reviewed included:

- Corporation Policy: Administrative Control of Funds (CFO-06-001)
- Corporation Policy: Capital Planning and Investment Control (OIT-07-002)

- Corporation Policy: Procuring Supplies and Services (350 REV02)
- OMB Circular A-11, Preparation, Submission, and Execution of the Budget
- OMB Circular A-130, Management of Federal Information Resources
- Anti-Deficiency Act (Title 31 U.S.C. §§ 1341-1342, 1349-1351, 1511-1519)
- The Corporation's FY 2008 Budget Justification
- Consolidated Appropriations Act, 2008 (Public Law 110-161)
- A Glossary of Terms Used in the Federal Budget Process (published by Government Accountability Office [GAO] in September 2005)
- GAO Standards for Internal Control in the Federal Government
- Paper Reduction Act (Title 44 U.S.C. § 3506)
- Federal Acquisition Regulation (Title 48 C.F.R. § 32.7)

V. RESULTS

A. Corporation Policy on Budget Execution

The Corporation's Budget Policy has not been updated since its effective date of October 1, 2006. This version is the most recently cleared policy on Corporation fund control and budget matters. As a result of a series of changes in personnel and budget processes during FY 2008, portions of the Budget Policy do not reflect actual current reporting structures and budget practices at the Corporation. For example:

- There are references to the "Deputy CFO for Planning and Program Management" throughout the Budget Policy that outline roles and responsibilities in the Corporation budget process for the Deputy CFO for Planning and Program Management. When the Deputy CFO for Planning and Program Management departed from the Office of the CFO in January 2008, these responsibilities were transitioned to other personnel, including the Deputy CFO for Financial Management, the Deputy CFO for Grants and Field Financial Management Center, and the Staff Director/Associate CFO;

- In accordance with the Budget Policy, Executive Officers are designated by their respective Department Heads to manage budget execution. However, during the second half of FY 2008, the Office of CFO was restructured to centralize all budget personnel and to move all Executive Officers under the Office of CFO;

- The Budget Policy provides the basic controls over budget execution that are intended to provide a system for positive control of funds, but the guidance is not only contradictory but the essential root control of its allotments is not followed at the CEO level. Paragraph VI.2.a. of the Budget Policy describes the responsibilities of the CEO:

  > [A]ll funds available for obligation must be authorized by the CEO. The CEO delegates administrative control of all funds available for obligation through allotment to the [CFO] for further redelegation through the suballotment process to Department Heads. Department Heads are responsible for ensuring that obligations against funds suballotted to them do not exceed the amount available for other than allowable and authorized purposes.

  In practice, however, we found no delegation from the CEO, and the Office of Budget delegated both allotments and sub-allotments to Department Heads. We also found the

Advice of Funds, which is the delegation document, did not differentiate between an allotment and sub-allotment or any other authorization of funds. None of the Advice of Funds documents, at any level, described penalties that could apply even if not subject to the ADA or even whether the funding authorization was subject to the ADA.

- Functions of the Budget Director were divided into two separate positions, the Chief of Budget Execution, and the Chief of Budget Formulation and Performance, at the beginning of FY 2009; and

- The Corporation implemented iBudget[8] and Salary Management System (SMS)[9] as required systems for budget execution and payroll projections in FY 2008.

None of the above changes in the Corporation's reporting structures and budget practices has been incorporated in the Corporation's Budget Policy. While we believe that centralizing the control over the Executive Officers was a positive step, such changes in personnel reporting relationships need to be reflected in the Budget Policy. Keeping the Budget Policy current with roles and responsibilities helps ensure that the Corporation is functioning within the controls it has established and that the established controls remain effective regardless of changes in individuals or position responsibilities.

In addition, the current Budget Policy does not adequately address budget monitoring procedures in depth. Such details as budget monitoring procedures, oversight mechanisms, and tracking budget projections during and across fiscal years are not addressed in the current Budget Policy.

The Budget Policy provides for administrative penalties for anyone who violates 31 U.S.C. §§ 1341(a), 1342, or 1517(a) (*see* text of the code following this paragraph). While some Federal agencies apply these sections below the allotment level for greater control, the Corporation has chosen to apply these sections solely at the apportionment and allotment levels, *i.e.*, those funds for which the CEO and CFO are responsible. The Budget Policy also provides that, at the CEO's discretion, similar penalties may be applied "to any Corporation officer or employee responsible for over-obligation of an internal administrative sub-division of funds below the allotment level." The Advice of Funds form, used to distribute sub-allotments and allocations, does not contain language that would make the recipient aware of the potential for penalties described in the Budget Policy. As a best practice, the language should be contained in The Advice of Funds form or its supporting attachments to ensure the recipient is aware of the penalties for exceeding obligational authority. The Corporation, after giving such notice, should, in the future, impose such penalties where circumstances so warrant.

31 U.S.C. § 1341. **Limitations on expending and obligating amounts** states, in part:

> (a)
> (1) An officer or employee of the United States Government … may not—

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[8] The iBudget software is a Corporation production tool that allows budget personnel to perform budget execution. It allows the Office of Budget to record financial information on the Corporation's Operating Plan.

[9] SMS is a payroll budgeting tool that records and projects payroll, replacing a spreadsheet-based payroll budgeting and tracking system. It contains all personnel data that affect the payroll budget, including base pay, locality pay percentages, health benefits, etc.

> (A) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation;
> (B) involve … [United States] government in a contract or obligation for the payment of money before an appropriation is made unless authorized by law;
> (C) make or authorize an expenditure or obligation of funds required to be sequestered under section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985; or
> (D) involve … [United States] government in a contract or obligation for the payment of money required to be sequestered under section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985.

31 U.S.C. § 1342. **Limitation on voluntary services** states, in part:

> An officer or employee of the United States Government … may not accept voluntary services for either government or employ personal services exceeding that authorized by law except for emergencies involving the safety of human life or the protection of property.

31 U.S.C. § 1517. **Prohibited obligations and expenditures** states, in part:

> (a) An officer or employee of the United States Government … may not make or authorize an expenditure or obligation exceeding—
> (1) an apportionment; or
> (2) the amount permitted by regulations prescribed under section 1514 (a) of this title.

GAO Standards for Internal Control in the Federal Government states that:

> [I]nternal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives, such as the process of adhering to requirements for budget development and execution.

Without up-to-date internal control policies that are documented, articulated, and enforced throughout the Corporation, personnel may not clearly understand their responsibilities and the proper procedures to follow regarding the budget execution process. As a result, there is a higher risk of losing control and accountability over appropriated funds.

Corporation management noted that the Budget Policy is under review as of this evaluation report date.

B. Corporation Policy on Budget Formulation

While the Corporation followed OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, that addresses the responsibilities of Federal agencies in budget submissions to OMB and Congress, it does not have any formal written policies and procedures to govern the overall internal budget formulation process. Also, the Corporation does not define, in writing, the roles and responsibilities of its personnel or the approval procedures regarding the budget formulation process.

The same relevant criterion from the *GAO Standards for Internal Control in the Federal Government* that was mentioned in the previous section (Corporation Policy on Budget Execution) is also applicable to our finding on the Corporation's policy on budget formulation.

Without a written budget formulation policy that is communicated throughout the Corporation, personnel may not clearly understand their responsibilities and/or the proper procedures to follow regarding the budget formulation process. As a result, Corporation management may have difficulties in establishing the basis of its budget submissions, determining budget requirements, and tracking details of budgets submitted by its operating units.

C. Human Capital Issues

There was significant turnover in the Office of CFO, particularly in the Office of Budget. During FY 2008, seven employees from the Office of Budget left the Corporation, including the Budget Director, an Executive Officer, and five Budget Analysts. The Staff Director/Associate CFO also left the Corporation shortly after FY 2008. The Corporation filled some vacancies in the Office of Budget. However, according to the draft organization chart dated February 2009 and despite the subsequent hiring of two new Budget Analysts in March 2009, there were still six vacant positions (an Executive Officer, a Senior Budget Analyst, and four Budget Analysts) as of April 2009.

At the leadership level in the Office of CFO, both the CFO[10] and the Deputy CFO for Planning and Program Management departed during FY 2008. The continuous turnover in the budget arena, particularly, but not limited to, the CFO and the Budget Director, contributed to the FY 2008 budget issues. From September 2004 through April 2009 – a total of 56 months -- the Corporation had only one Presidentially appointed CFO, who served for a total of 26 months. For the rest of the 30 months, two Acting CFOs served. Also, the Corporation had three Budget Directors (including the Staff Director/Associate CFO who handled the functions of the Budget Director) over the last five years. This lack of continuity created an environment that contributed to the weakened control environment.

In addition to personnel turnover, the imprudent, informal, but tacit, assignment of the Staff Director/Associate CFO to function as the Budget Director contributed to the budget challenges in FY 2008. As previously discussed, the Staff Director/Associate CFO served as the Budget Director after the Budget Director left the Corporation in April 2008. Our review showed that the Staff Director/Associate CFO's résumé did not match the duties and required competencies of the Budget Director's position description. The Staff Director/Associate CFO lacked specific experience in technical budget matters and did not have any previous management experience. While lacking the necessary qualifications to function effectively as Budget Director, the Staff Director/Associate CFO initially had the confidence of the CEO and, unlike others in the Corporation, convinced the CEO of the need to cut back on spending or face an ADA violation. None of budgeting deficiencies that resulted in the need for drastic cutbacks in spending were the direct result of actions by the Staff Director/Associate CFO.

[10] While the CFO technically left on a detail to another Federal agency on September 10, 2008, the reality was that it was known to be a permanent departure, as it turned out to be.

During FY 2008, we noted an instance that the Corporation did not accurately assess if the newly designated and reassigned position/responsibility was matched directly and appropriately to a Corporation employee in the budgeting function who possessed the required specific competencies, experience, and technical knowledge. To ensure proper segregation of duties and administrative control over the budget process, it is critical that employees, assigned to positions designated with specific responsibilities, have the corresponding competencies, experience, and technical knowledge in management administration in the respective type of work or combination of functions of the position. As reflected in the FY 2008 Human Capital Survey, only 60.5 percent of Corporation personnel believed their work units were able to recruit people with the right skills, which was a decrease of 11.5 percent from the FY 2007 Human Capital Survey.

Numerous interviewees, including budget personnel and Executive Officers, stated that budget personnel did not receive sufficient training that directly addressed their needs by enhancing technical skills and knowledge in the budget area. As FY 2008 progressed, due to the S&E budget issues discussed later in this evaluation report, the Corporation significantly reduced its discretionary spending, including curtailing personnel training funding following the second quarter of FY 2008. As shown from the results of Human Capital Surveys in FY 2007 and FY 2008, the percentage of personnel who thought their training needs were properly assessed decreased from 53.8 percent in FY 2007 to 37.3 percent in FY 2008. Also, the percentage of personnel who were satisfied with the training they received decreased from 51.2 percent in FY 2007 to 41.9 percent in FY 2008. These deficiencies in training and matching the knowledge and expertise of personnel with the positions to which they were assigned most likely contributed to the Corporation's budgetary problems.

We also noted that the COO position was not a true COO, as the title implies, and focused exclusively on program operations as intended by the CEO and as stated in the COO's new position description. Without a true COO or a senior official focused on broad internal administrative operations, the CEO was overburdened with non-program operational matters. The CEO also did not have the analytical support he needed to assure himself that the information he received was timely and correct. The lack of management support for the CEO, combined with significant turnover at the Office of Budget, contributed to, and/or delayed the early resolution of, the FY 2008 budget and information technology problems.

In October 2008, the COO was detailed to another agency, and the Corporation assigned an employee to assume duties of both the COO and the newly created Chief of Program Operations (CPO) position. In April 2009, the Corporation changed the position title from COO to CPO on an undated organizational chart. However, the Corporation mistakenly changed the position title from CPO back to COO in May 2009. As a result, the incorrect undated Corporation organizational chart was posted on the intranet and was published in the FY 2010 Budget Justification.

It is clear that the Corporation did not comply with *GAO Standards for Internal Control in the Federal Government*, which states:

> ... effective management of an organization's workforce - its human capital - is essential to achieving results and an important part of internal control … Only when the right personnel for the job are on board and are provided the right training, tools, structure, incentives, and responsibilities is operational success possible. Management should ensure that skill needs are

> continually assessed and that the organization is able to obtain a workforce that has the required skills that match those necessary to achieve organizational goals. Training should be aimed at developing and retaining employee skill levels to meet changing organizational needs. Qualified and continuous supervision should be provided to ensure that internal control objectives are achieved ... As a part of its human capital planning, management should also consider how best to retain valuable employees, plan for their eventual succession, and ensure continuity of needed skills and abilities.

The Corporation has recognized its shortcomings in this regard in the budget area, and has now undertaken an effort to fill all needed positions in the Office of the CFO. Staffing changes as of April 2009 included recent hiring of: (1) a Chief of Budget Execution to replace the acting personnel; (2) a Chief of Budget Formulation and Performance; and (3) two Budget Analysts. In addition, the Corporation has established a training budget for FY 2009 and proposed one for FY 2010 and plans to work with a management consultant to review the Corporation's organizational structure.

D. Salaries & Expenses

During the first half of FY 2008, the Corporation expended the S&E at an unsustainable rate, unaligned with its budget marks. The Corporation noted the problem after the mid-year review. As disclosed in a Corporation internal memorandum dated July 2008, if it did not take immediate corrective actions, the projected balance of S&E at FY 2008 year-end would be in a $1.3 million deficit at the appropriation level, which, if allowed to happen, would place the Corporation in a violation of the ADA. The inability to manage the S&E during the first half of FY 2008 was due, in part, to the human capital issues described above, but also caused by an inaccurate S&E budget projection (salary lapse rate), a lack of discipline in executing the S&E budget, and an ineffective process to monitor S&E projections.

When the Corporation formulated the FY 2008 S&E budget, it projected an 8.5 percent salary lapse rate, which was equivalent to $3.5 million, more than twice the 3.8 percent salary lapse rate experienced in FY 2007. However, the Corporation personnel did not document the calculation or justifications of the 8.5 percent lapse rate. This raises the question as to whether this enlarged salary lapse rate was plugged in for the purpose of artificially closing the gaps in S&E budget, or just poor planning. Senior Corporation personnel had early on communicated to the then CEO that the 8.5 percent salary lapse rate would not be obtainable, but the CEO overrode those concerns, relying upon past performance of lapse rate and without knowledge of the IT issues that would emerge and other unforeseen budget pressures such as correcting incrementally funded NCCC leases and a higher-than-expected cost-of-living allowance that was approved by Congress.

The impact of these events was exacerbated by an excess of hiring at the Corporation, particularly for the Office of the COO. For example, the Corporation hired 65 new employees during the first half of FY 2008, compared with 53 new employees during the same period in FY 2007. Among the 65 new employees hired in FY 2008, 37 new employees were assigned to the Office of the COO. As the hiring took place, the Corporation did not strictly enforce the established budget marks among its Departments and they competed with each other for limited budget resources.

To compensate for the excess hiring and to align the S&E budget with the marks, the Corporation placed significant limitations on spending rates for the second half of FY 2008, which adversely affected the Corporation's operations. Specifically, the Corporation instituted a plan with projected savings of $2 million in non-payroll expenses and $1 million in salaries. The plan was implemented and provided for:

- Reduced discretionary spending across all Corporation Departments, which limited personnel travel, supplies, printing, and training;
- Slowed hiring to mission-critical positions only;
- Eliminated approximately 30 percent of discretionary positions; and
- Took up to one percent from program grant funds, which had been projected for program operations, to cover electronic grant management costs, which was authorized by the Consolidated Appropriations Act, 2008.

Subsequently, the Corporation monitored S&E through biweekly S&E meetings, which included involvement of the Corporation Department Heads and required the personal approval of the CEO for all new hires. The Corporation held these biweekly S&E meetings from May 2008 to the end of FY 2008 to discuss personnel levels and plan for S&E for mission-critical hires. Through these actions, the Corporation ended the fiscal year on budget and within the spending limits, but also helped create the operational deficiencies which resulted in the Congressional request to OIG for this evaluation.

The relevant criterion governing the need for monitoring among Corporation personnel for the S&E issue come from the *GAO Standards for Internal Control in the Federal Government*. Those Standards state, in part:

> Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities ... and other actions people take in performing their duties.

E. National Civilian Community Corps

The Corporation had weaknesses in estimating its costs, monitoring and executing its NCCC budget, and funding its leasing contracts for NCCC campuses. In addition, the Corporation lacked detailed support for its budget estimates and lacked documentation of its decision-making. The Corporation has taken positive action to strengthen NCCC weaknesses exposed during FY 2008, and has addressed some of the causes. In addition, the new Vicksburg, Mississippi campus was not opened in FY 2008 as expected by Congress.

1. Estimating Costs. The Corporation budgeting staff and its NCCC staff did not document their decision-making and rationale, or otherwise have available support, for the $5 million figure which it gave as necessary to open the two new campuses. With regard to the development of the $5 million funding estimate that was later the amount appropriated for the new campuses at Vinton and Vicksburg, the Corporation's representatives advised that the $5 million figure, as suggested and provided to the congressional appropriations committee staffers for their consideration, rested on historic data and past experience in setting up NCCC campuses. But, they made no attempt to determine if that past experience was in fact applicable to the different venues of the two new campuses. The Corporation also was unable to provide documentation showing its review and approval for the suggested budget estimate. Although the Corporation discussed the funding for the two new NCCC campuses during various internal meetings, it did not document the decisions made at these meetings. In addition, our interviews established that there was a division of understanding among Corporation personnel whether the $5 million figure included solely the campus set-up cost (bricks and mortar), or the campus set-up cost plus operational costs for that year. Confusion and miscommunication among Corporation personnel hindered the effort to provide timely and accurate figures to parties inside and outside the Corporation.

With regard to opening the campuses in accordance with the timing and monetary expectations expressed in the Joint Explanatory Statement:[11] no documentation was provided to us to support or explain the $5 million figure. Moreover, through our interviews with various Corporation personnel, it became clear that they initially, but privately, questioned whether the $5 million figure was sufficient to cover the two new campuses. The CEO explained that the $5 million was used as a practical matter because Congress would not provide more money. In spite of the concerns expressed to us by some NCCC personnel, none of them expressed their concerns to the CEO that the $5 million was an insufficient amount to open and/or operate these campuses in FY 2008. We have been informed in interviews that some employees believed that the CEO did not want to hear criticisms of his policies or decisions, and that many Corporation personnel worried that if they expressed their concerns, it could adversely affect their careers. As of March 2009, approximately $5.7 million had been obligated to open the two new campuses.

Lacking budget-forecasting and financial-management tools, the Corporation was unable to provide timely and accurate budget forecasting related to NCCC costs as requested by Congressional appropriations committee staffers. NCCC budget data, including assumptions used for formulating the budget, were not fully organized and documented, causing the Corporation to spend much effort and time researching budget data and responding to inquiries from Congressional appropriations committee staffers. Consequently, when budget forecast requests were made in a time-sensitive manner, the quality of budget forecast data was unreliable.

2. Monitoring and Executing the Budget. The Corporation also lacked sufficient internal controls or discipline to follow existing controls applicable to the NCCC budget execution process. Such insufficient management controls could, and did, affect NCCC campus operations. For example, the then Director of NCCC did not submit the certification package[12] for the incoming NCCC members at the Sacramento, California, and Denver, Colorado, NCCC campuses in a timely manner. The then Director of NCCC provided the certification package to the Office of Budget, CFO, COO, and CEO, on the eve of the scheduled opening date for the classes at Sacramento and Denver campuses. As a result, there was not sufficient time for the Office of Budget, CFO, COO, and CEO to certify the availability of funds and complete the review process of the certification package. To resolve the issue, the Corporation worked with OMB in late September 2008 and obtained an exception apportionment through SF 132 "Apportionment and Reapportionment Schedule" on October 3, 2008. Without these corrective actions, classes at the

[11] See footnote 5.

[12] The Corporation prepared internal documents (certification package) to certify sufficient funds and slots for the incoming NCCC members. Corporation personnel, including CEO, CFO, COO, and Director of NCCC, approve and sign off on the certification package before completing the NCCC member enrollment process.

Sacramento, and Denver campuses, scheduled to open October 6, 2008, would have been delayed, which would have affected the overall operations of the NCCC Program. The Corporation was also unable to confirm with its NCCC members, who had scheduled their arrivals before the opening day, that the Sacramento and Denver campuses would be able to secure them, until after business hours October 3, 2008. Although the Corporation managed to start the classes as scheduled on October 6, 2008, the problem exposed weaknesses in managing the NCCC Program, showed that certain required policies and procedures were not being followed as part of the NCCC budget execution process, and weakened the confidence of NCCC members in the program.

The NCCC operated under a decentralized environment. In such an environment, the assigned Executive Officer, who had responsibility for managing sub-allotments for Program Offices under each Department, worked with and reported to NCCC program officials, and each NCCC campus received its own spending authority. However, there was a lack of coordination and communication among the Office of Budget, the Executive Officer, and the then Director of NCCC. Within the NCCC Program Office, many of the budget decisions were made by the Executive Officer and the then Director of NCCC with few consultations with the Office of Budget or leaders from NCCC campuses. The former Director of NCCC had difficulty at times understanding and following budget requirements and related policies and procedures, as shown from the problems with certifying incoming NCCC members, described above.

3. Leasing Campuses. Corporation Policy 350 REV02, *Procuring Supplies and Services*, dated October 1, 2006, requires that sufficient funds be available at the time acquisitions, including leases, take place. We were advised by Corporation representatives that the Corporation had a practice of incrementally funding its leases. Neither the NCCC Program Office personnel nor Office of Procurement Services personnel knew, at that time, that contracts of this nature must be fully funded at contract award absent other authority in accordance with the Federal Acquisition Regulation. The Corporation's Office of General Counsel (OGC) detected this incremental funding practice and brought it to the attention of the CEO and others.

Subsequently, OGC reviewed a similar lease for the Sacramento, California, campus but found no under-recorded obligation. Because of the incident involving the Denver campus, however, the Corporation took steps to prevent a repetition. The CEO orally directed that leases be fully funded, which added to the budget pressures. The new Director of Office of Procurement Services orally communicated to his staff in the summer 2008 that leases should be fully funded. In addition, the new Director of Procurement Services prepared a memorandum, dated March 12, 2009, which emphasized to his contracting officers that all procurement requests, including leases, had to be fully funded.

4. Corporation's Corrective Actions. After the series of NCCC budget issues described above, the Corporation took the following corrective actions:

- Developed a budget forecasting tool: Starting in FY 2009, the Corporation provides monthly budget updates to OMB to show and track its NCCC budget status;
- Restructured reporting of the Executive Officers, including the one assigned to NCCC, so that they reported to the Office of the CFO;
- Centralized NCCC operations to ensure coordinated management;

- Appointed a new Acting Director of NCCC with many years of experience in the program and management experience in other Corporation programs;
- Put in place the planning procedures to ensure that NCCC maintains member levels that are sustainable under its apportionments; and
- Required full funding of leases at contract award or, in the alternative, the contracts were structured with options for additional six-month periods.

5. Relevant Criteria. The relevant criterion for the NCCC budget issue governing documentation requirements includes the *GAO Standards for Internal Control in the Federal Government*, which states, in part:

> Internal control … and other significant events need to be clearly documented, and the documentation should be readily available for examination … All documentation and records should be properly managed and maintained.

Criterion addressing the NCCC budget issue that the certification package was not completed in a timely manner come from the *GAO Standards for Internal Control in the Federal Government*, which lists "accurate and timely recording of events" as one of the control activity examples. The *GAO Standards for Internal Control in the Federal Government* also states that "for an entity to run and control its operations, it must have relevant, reliable, and timely communications relating to internal … events."

Other relevant criteria for the NCCC budget issues include the Federal Acquisition Regulation. Specifically, 48 C.F.R. § 32.703-1 **General.** states, in part:

> (a) If the contract is fully funded, funds are obligated to cover the price or target price of a fixed-price contract or the estimated cost and any fee of a cost-reimbursement contract.

48 C.F.R. § 32.703-2 **Contracts conditioned upon availability of funds.** states, in part:

> (a) *Fiscal year contracts*. The contracting officer may initiate a contract action properly chargeable to funds of the new fiscal year before these funds are available, *provided* that the contract includes the clause at 52.232–18, Availability of Funds (see 32.705–1(a)). This authority may be used only for operation and maintenance and continuing services (*e.g.*, rentals, utilities, and supply items not financed by stock funds) (1) necessary for normal operations and (2) for which Congress previously had consistently appropriated funds, unless specific statutory authority exists permitting applicability to other requirements.

F. Information Technology

We determined that the Corporation did not have an IT strategic plan. The Fred Thompson IT Report stated that the Corporation had a draft OIT Strategic Plan, which was written before the then CIO started with the Corporation, but it contained only very broad goals and mission statements that did not provide any specific guidance on how IT funds would be applied and what priorities would be set. Without a single authoritative source to outline the overall Corporation IT strategies, priorities, and development plans, each operating unit decided on its own as to how IT systems were developed and funded.

For example, we noted that an IT project, the Dashboard, was initiated and developed under the direction of the then CFO. Although currently the Dashboard is still up and currently running, it has limited use by Corporation personnel. While the Corporation invested much time and funding to build the Dashboard, its value to its overall IT operations has not been determined. The Corporation's published policy, dated February 29, 2008, on IT investments, Corporation Policy OIT-07-002, *Capital Planning and Investment Control* (CPIC), mainly addresses technical procedures on selecting and managing IT investments. Due to the lack of an overall Corporation IT strategic plan, IT planning and investment priorities are not aligned with the Corporation's actual business needs and its budget process.

As the Corporation experienced a series of difficult IT challenges during FY 2008, it obligated and spent approximately $1 million[13] in FY 2008 to address those IT issues more than it anticipated in the original IT budgets from all Corporation Departments. While the Corporation obtained legislative authority from the Consolidated Appropriations Act, 2008 to offset electronic grant management costs previously covered by S&E with up to one percent of program grant funds, it also used projected non-pay discretionary savings to cover unforeseen IT costs and emergency IT system fixes. As a result, this use deprived the Corporation of funding that was initially intended for other purposes.

A portion of the costs used to resolve those IT issues was unanticipated and therefore no advance planning could have been performed or foreseen. For example, as stated in the Fred Thompson IT Report, the Infonetic bankruptcy caused substantial disruption in IT services and the loss of critical expertise and detailed application knowledge within the technical support team. The Corporation also incurred additional costs in securing EnGenius as the substitute contractor to provide Corporation IT support services.

However, some of the significant costs incurred to resolve FY 2008 IT issues might have been prevented if adequate planning had been accomplished with clear accountability and defined roles for the Corporation's IT management. As the Fred Thompson IT Report pointed out, the technical test planning and its testing environment were inadequate, in that they did not mirror the production environment. Applications and systems were not fully tested before they went into production, increasing the risk of implementation issues and resulting in additional time and costs spent to resolve the issues. Also, the Fred Thompson IT Report found that Momentum and My AmeriCorps Portal Phase II were brought into production with such rapidity that it strained technical and application resources. As a result, there were multiple concurrent failures in both systems that were difficult to isolate and diagnose. There were also issues with user training that could have been anticipated and mitigated with better coordination and planning. Further, the Fred Thompson IT Report found that a number of IT projects were under multiple leadership responsibilities, inefficiently diffusing accountability for program success.

As described in the CIO's position description and shown in the Corporation's organizational chart, the CIO was to report directly to the CEO. This reporting relationship is also required by 44 U.S.C. § 3506. Contrary to that requirement, during FY 2008, and concurrent with

[13] This amount, which included the amount of staff time redirected to respond to the Corporation's IT issues, is a conservative estimate provided by the Corporation. We did not substantiate this estimate.

establishment of the Project Management Office (PMO),[14] the CEO directed that the CIO functionally report to the CFO, who also managed IT systems competing for resources and separate from the CIO's systems. As a result, the CEO was no longer in a position to be directly and independently advised on the Corporation's IT development, implementation, and maintenance, as well as budgetary implications of information resource decisions. While the Corporation went through a series of IT challenges in FY 2008, the reporting structure between CIO and CFO further hindered the Corporation's ability to resolve those challenges, as well as IT budgetary issues, in a timely manner.

After the series of significant IT challenges faced during FY 2008, the Corporation made the following changes:

- Personnel Changes: Appointment of an interim CIO was made in May 2008 to replace the CIO. Subsequently, the Corporation appointed a new permanent CIO reporting directly to the Acting CEO, effective April 2009;

- The Corporation is currently developing an IT Strategic Plan and Enterprise Architecture, including priority setting for infrastructure investments. A draft plan is scheduled for review by the end of calendar year 2009.

- Aligned the OIT focus on three priorities:

    - Moving the core of IT infrastructure out of the Headquarters and into a managed service environment, with the contract for this purpose expected to be awarded by summer 2009;
    - Upgrading Corporation IT software and applications to newer, more stable versions;
    - Preparing the Corporation for delivery of the third release of the My AmeriCorps Portal, which was released in late July 2009.

The relevant criteria for the IT budget issues come from the *GAO Standards for Internal Control in the Federal Government*, which states that:

> Management needs to comprehensively identify risks ... Risk identification methods may include … forecasting and strategic planning.
>
> It [agency's organizational structure] provides management's framework for planning, directing, and controlling operations to achieve agency objectives. A good internal control environment requires that the agency's organizational structure clearly define key areas of authority and responsibility and establish appropriate lines of reporting.
>
> Effective information technology management is critical to achieving useful, reliable, and continuous recording and communication of information.

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[14] PMO was a service organization for the entire Corporation, and was intended to elevate the usage of project planning throughout the Corporation and to eliminate overlapping systems. PMO was designed to focus on key projects and initiatives associated with grants, programs (for example, My AmeriCorps Portal and replacement WBRS functionality), and enterprise systems (for example, Momentum upgrade, Data Warehouse, eTravel, etc.). The PMO was dissolved by the then CEO in June 2008.

Other relevant criteria for the IT budget issues include 44 U.S.C. § 3506. **Federal agency responsibilities**, which states, in part:

> (a)
> (1) The head of each agency shall be responsible for—
> (A) carrying out the agency's information resources management activities to improve agency productivity, efficiency, and effectiveness; and
>
> (B) complying with the requirements of this subchapter and related policies established by the Director.
>
> (2)
> (A) … the head of each agency shall designate a Chief Information Officer who shall report directly to such agency head to carry out the responsibilities of the agency under this subchapter.
>
> (3) The Chief Information Officer designated under paragraph (2) shall head an office responsible for ensuring agency compliance with and prompt, efficient, and effective implementation of the information policies and information resources management responsibilities established under this subchapter, including the reduction of information collection burdens on the public. The Chief Information Officer and employees of such office shall be selected with special attention to the professional qualifications required to administer the functions described under this subchapter.
>
> (4) Each agency program official shall be responsible and accountable for information resources assigned to and supporting the programs under such official. In consultation with the Chief Information Officer designated under paragraph (2) and the agency Chief Financial Officer (or comparable official), each agency program official shall define program information needs and develop strategies, systems, and capabilities to meet those needs.

G. Management Action Plan

In December 2008, the Acting CEO directed the development of a Management Action Plan (MAP) to ensure readiness of the Corporation to meet its priorities. The MAP is to serve as a blueprint for achieving the Corporation's mission and preparing for growth under the new Administration. The MAP was developed with input from the Corporation's senior leadership and the Corporation's Board of Directors. The MAP includes tasks that address certain budget issues that the Corporation experienced in FY 2008. These tasks include staffing, budget forecasting and tracking, technology projects, and NCCC management competencies. The MAP also includes specific tasks on implementation of the American Recovery and Reinvestment Act as well as the Edward M. Kennedy Serve America Act, which was signed into law on April 21, 2009. The Edward M. Kennedy Serve America Act authorizes a series of new initiatives, creates new programs for social innovation and volunteering, and makes significant changes to existing Corporation operations. It provides greater opportunities for service, making even more crucial the implementation of adequate budgeting procedures.

VI. RECOMMENDATIONS

We recommend that the Corporation:

1. Update its Corporation Policy CFO-06-001, *Administrative Control of Funds*, on a timely and regular basis. Specifically, the Corporation Policy should be updated whenever necessary to reflect the latest:

    a. Corporation organizational structures;

    b. Corporation budget execution process and monitoring procedures; and

    c. Personnel roles, responsibilities, and their reporting structures.

Corporation's Response

The Corporation concurred with the recommendations. The Corporation stated that it should regularly review policies to ensure they remain current and is reviewing all of its policies. The revised Corporation policy on *Administrative Control of Funds* was considered by the Corporation's Policy Council on July 20, 2009. The Corporation will adopt this new policy after considering OIG's input and receiving OMB's approval.

OIG's Comment

The Corporation is partially responsive to the recommendations. The Corporation is taking steps to revise its policies, including *Administrative Control of Funds*, to cover the current operational environment, but it has yet to address specific mechanisms on how and when the Corporation will update its policies in the future. Without establishing specific automatic mechanisms, such as providing for a specific review cycle for this policy and perhaps for other policies, the Corporation is not in a position to preclude the same situation from recurring in the future, that is, actual practices differing from written policies and procedures.

With regard to this policy, OMB Circular A-11, Section 150.7, provides in part:

> Agency fund control regulations are in effect only to the extent approved by OMB.
>
> * * *
>
> You should review your fund control regulations periodically to determine whether improvements should be made. **At a minimum**, review the system whenever:
>
> - OMB issues revised guidance on budget execution.
> - **Your agency is reorganized**.
> - Staff from your agency has violated the Antideficiency Act [**Emphasis Added**].

Although OMB provides that agency fund control regulations are in effect only to the extent approved by OMB, the Corporation should not ignore the fact that, with its internal reorganization, it effectively changed how it operated, whether or not it documented it in the *Administrative Control of Funds*. As a matter of practicality, it needs to issue interim written guidance to describe its **actual practices**, pending review and approval by OMB, in its proposed policy. Its actual practices should reflect its written policies at all times; otherwise, the Corporation is more susceptible to violations of the ADA.

In addition, the Corporation's guidance on *Preparing and Clearing Internal and Program Policies and Procedures*, CEO-03-100-7, effective April 27, 2009, is too general to ensure that its policies remain current. It provides for a Program Policy Council to be involved in the policy review process, but requires that "policies should be submitted for review . . . for inclusion on the agenda. It does not require that each policy, including the *Administrative Control of Funds* policy, include a specific frequency/cycle of Corporation policy review. However, the Corporation Policy Council usually becomes involved only when officials responsible for the policy submit it for review. The policy also states in paragraph D.1, ***Who decides when a policy is updated?***:

> Some policies are issued with an expiration date and some are not. The office with substantive responsibility for the policy should calendar policies that expire for timely review, and should periodically review it and consult with the department head and the Office of the CEO on other policies to determine whether they should be updated.

The Corporation would benefit from an action plan that will prevent recurrence, and not merely a one-time update of policies.

2. Expand the Corporation Policy CFO-06-001, *Administrative Control of Funds*, or create a separate Corporation policy to address the Corporation's budget formulation process, including standardized procedures and requirements on preparation, documentation (budget rationale, assumptions, and decisions), review, and approval during the budget formulation process.

Corporation's Response

The Corporation stated that it has not issued a separate policy on budget formulation because policy direction is taken directly from the OMB Circular A-11 and supplemented with specific guidance from OMB for each budget cycle. Instead, the Corporation annually issues a memorandum with guidance and procedures to implement budget formulation policies. The Corporation also stated that supporting budget documents will be centrally maintained by the Office of Budget Formulation and Performance.

OIG's Comment

The Corporation's response does not satisfy the intent of the recommendation. We reviewed the Corporation's budget formulation memorandum, dated July 13, 2009, for FY 2011 budget. Although the budget formulation memorandum contained instructions on management and programmatic priorities, timeline, narrative format and contents, and budget and program personnel responsibilities, the memorandum did not address: (1) review and approval process of the overall budget by Corporation's management; (2) specific documentation requirements to support budget justifications and amounts; and (3) budget formulation processes and policies **within** each department or program office.

In addition, the memorandum did not address how the Corporation should respond to out-of-cycle budget inquiries from Congress regarding budget matters. As illustrated earlier in this report, the Corporation was unable to provide support for the dollar figures for two new

NCCC campuses that it provided to Congress. The Corporation should reconsider the recommendation for a written, standing budget formulation policy and procedure that would include a requirement for documenting budget information it provides to Congress.

3. Add the language in the Advice of Funds forms or its supporting attachments to ensure fund recipients are aware of the penalties for exceeding obligational authority.

Corporation's Response

The Corporation added specific language to the Advice of Funds documents to remind employees of penalties related to any violation of exceeding obligational authority.

OIG's Comment

The Corporation's action meets the intent of the recommendation.

4. Strengthen human capital areas through the following:

    a. Prompt recruitment of highly qualified budget personnel to fill existing vacancies in the Office of Budget;

    b. Develop plans to retain highly performing personnel and to minimize personnel turnover in the Office of the CFO;

    c. Ensure that employees and appointees that fill new vacancies or are reassigned to or assume new positions possess the required competencies, experience, and technical knowledge that matches directly and appropriately the needs of such positions;

    d. Revisit the Corporation's organizational structure and evaluate responsibilities of each Corporation management and discretionary position to enhance coordination among personnel for daily Corporation functions, including the budget process;

    e. Ensure that the Corporation's organizational charts are approved, current, accurate, and dated;

    f. Identify and provide training, in-house and external, that directly addresses the needs of personnel and enhances their technical knowledge and/or personnel management skills so that specific guidelines are consistently applied, documented, and personnel know how to perform their tasks; and

    g. Review organizational structure and to include providing for an operationally focused senior official(s), such as a true COO, with organizational-wide responsibilities, who manages the Corporation's administrative functions, thereby allowing the CEO to focus on overall Corporation operations.[15]

[15] We had also intended to recommend that the CFO position change to a career or similar position to provide for continuity of this important position because of the continuing turnover of CFOs. However, the Edward M. Kennedy Serve America Act included a requirement to change the position from a Presidential appointee to a career position, which obviated the need for the recommendation.

Corporation's Response

The Corporation stated that it hired a Director of Budget Formulation and Performance, a Director of Budget Execution, and two budget analysts. The Corporation also plans to hire additional permanent budget staff and utilize temporary staff during the interim period. The Corporation also stated that a management consultant would assist the Corporation in the review and redesign of its organizational structure, including the role of an operationally focused senior official and other agency-wide management positions. In addition, the Corporation's Chief Human Capital Officer is now responsible for review and approval of all organizational charts developed for posting or public availability. Regarding training, the Corporation stated that funding for training has been separately proposed beginning in the FY 2010 budget. Corporation supervisors will also closely monitor and identify mandatory and technical training needs.

OIG's Comment

The Corporation's response generally indicates concurrence. However, Recommendation 4.b. was not specifically addressed. We recognize the difficulty in responding to that recommendation; therefore, we have revised the recommendation to better address the cause, as follows:

> Substitute for **Recommendation 4.b.:** The Corporation should monitor turnover to determine whether there are factors that, if addressed quickly, could stem or reduce further turnover of its personnel.

For Recommendation 4.e., we reviewed organizational charts that the Corporation updated in July 2009. Those organizational charts meet the intent of the recommendation. Other organizational charts were yet to be updated as of July 31, 2009. For Recommendations 4.a. and 4.c., we confirmed the Corporation made additional hires. For Recommendations 4.d. and 4.g., we confirmed that the Corporation prepared a Statement of Work to obtain the services of a management consultant to review Corporation's organizational structure. For Recommendation 4.f., we verified that the FY 2010 budget included a budget line item for training under S&E. We also reviewed the Corporation's budget formulation memorandum, dated July 13, 2009, for the FY 2011 budget and noted that the Corporation included training and professional development as one of the management priorities.

The proposed actions, except for Recommendation 4.b., meet the intent of the recommendations.

5. Strengthen internal control regarding the budget process as follows:

    a. Clearly delineate responsibilities and reporting relationships as well as strengthen accountability for all Corporation personnel who are involved in the budget process;

    b. Enhance cooperation, coordination, and communications among Office of Budget, Departments Heads, CIO, Director of NCCC, and other Program Office personnel to ensure budget procedures are followed and decisions are made only after all have been able to input relevant information, which is clearly understood and communicated in an open, transparent manner;

c. Strengthen documentation on the budget formulation and decision-making process. Budget decisions and assumptions should be explained, documented, and maintained to allow Corporation personnel to track them in the future;

d. Strengthen budgetary controls at allotment and sub-allotment levels and impose fiscal discipline to strictly enforce policies and budget marks as planned; and

e. Continue to adopt, refine, and improve budget forecasting and financial management tools through documenting personnel roles in using and modifying these tools.

Corporation's Response

The Corporation stated that it centralized all budget staff, including NCCC, at the end of FY 2008. The restructuring moved Executive Officers out of the Offices of the CEO and COO into the Office of the CFO. The Corporation also accelerated hiring of new employees. It also implemented a monthly review of expenditures with Department Heads. New forecasting models were also developed to provide a clear understanding of the impact of changes in specific budget lines on the Corporation's total budget. In addition, the Corporation stated that it has established communications across the Office of the CFO specific for operating under a CR. It also reported that a better understanding of the apportionment process has been built into the budget planning and execution process.

OIG's Comment

The Corporation is partially responsive to the recommendations.

The Corporation did not fully address Recommendation 5.a. on how it would strengthen accountability for all those officials (from the CEO down to the personnel who generate budget information) involved in the budget process at different levels, and it did not state how it "clearly delineat[ed] responsibilities." We have no basis to judge whether it plans or has completed satisfactory action to delineate responsibility/authority and hold officials accountable.

For Recommendation 5.b., the Corporation's implementation of a monthly review of agency expenditures with Department Heads and its improved communications across the Office of the CFO meet the intent of the recommendation. However, these changes need to be incorporated into written control processes, such as the budget policy and procedure that we previously recommended.

The Corporation did not address Recommendations 5.c. and 5.d.

For Recommendation 5.e., we reviewed Corporation-created spreadsheet budget tools that show its status of funds. However, the Corporation has yet to document personnel roles in using and modifying these tools.

6. Institute the following in connection with the IT budget:

   a. Develop an overall Corporation IT strategic plan and review it periodically with input from CIO, Corporation Management Team, and Program Office personnel (the same recommendation was made in October 2005 in the report *Corporation* *for National and Community Service: Building a Foundation for the Future* issued by NAPA, but never implemented);

b. With the objective of ensuring the continued viability of the IT infrastructure, set priorities for IT infrastructure investments, including hardware, software, and program planning, to evaluate and formulate the Corporation's IT budget, and ensure that sufficient funds are allowed for that infrastructure;

c. Ensure the CIO directly reports to the CEO and clarify the CIO's authority and responsibilities over the Corporation's IT resources as outlined in 44 U.S.C. § 3506; and

d. Based on the contents of the Corporation IT strategic plan, review and update, if necessary, the Corporation Policy OIT-07-002, *Capital Planning and Investment Control*, to ensure it aligns with other Corporation policies and the Corporation IT strategic plan.

Corporation's Response

The Corporation stated that it hired a new CIO in May 2009. The Corporation anticipates that a draft plan for addressing backlogs in IT operations will be ready for review by the end of July 2009. The Corporation also anticipates a draft IT strategic plan will be ready for review by the end of calendar year 2009. After the completion of the IT strategic plan, the Corporation will revise its policy on *Capital Planning and Investment Control*. The Corporation stated that the CIO leads the OIT and reports directly to the CEO.

OIG's Comment

For Recommendations 6.a., 6.b., and 6.d., the Corporation's planned actions meet the intent of the recommendations. For Recommendation 6.c., the Corporation's comments provide no indication of change. The position descriptions and Corporation organization charts of the current and former CIO are no different with regard to reporting to the CEO, yet this reporting structure was not followed during the tenure of the former CIO. The Corporation needs to take action to provide more assurance to prevent future deviations from the formal reporting structure between CIO and CEO. Although the CIO's position description states that CIO "is part of the CEO's Executive Team and reports directly to the CEO," a positive action would be, for example, to include in the position description, and in the IT strategic plan, a reference to the citation 44 U.S.C. § 3506 and its requirements on reporting.

7. Review and update the Corporation Policy 350 REV02, *Procuring Supplies and Services*, to ensure it aligns with other Corporation policies and emphasizes prohibited procurement practices, including incremental funding of leases.

Corporation's Response

The Corporation stated that it is updating the Corporation's policy on *Procuring Supplies and Services* to reflect changes since the last revision. The Corporation expects to share the new policy on *Procuring Supplies and Services* with the Corporation's Policy Council by the end of FY 2009.

OIG's Comment

The Corporation’s planned actions meet the intent of the recommendation.

VII. EXIT CONFERENCE

We conducted an exit conference with Corporation management on June 3, 2009, and discussed the results of this report. On June 5, 2009, as provided for in the exit conference, the Corporation provided a memorandum, which included additional details on corrective actions taken or planned by the Corporation regarding budget issues. We reviewed the Corporation’s memorandum and incorporated additional information, where appropriate, before we issued the draft report and provided an opportunity for the Corporation to comment on the findings and recommendations. The Corporation’s verbatim response to the draft report is included as an Appendix.

This report is intended for the information and use of the OIG, Corporation management, and the U.S. Congress. However, this report is a matter of public record and its distribution is not limited.

/s/

Stuart Axenfeld
Assistant Inspector General for Audit
August 7, 2009

APPENDIX:

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
RESPONSE TO THE DRAFT REPORT

Corporation for
NATIONAL &
COMMUNITY
SERVICE

MEMORANDUM

Date: July 27, 2009

To: Stuart Axenfeld, Assistant Inspector General for Audit

From: William Anderson, Acting CFO William Anderson

cc: Nicola Goren, Acting CEO
Frank Trinity, General Counsel
Kristin McSwain, Chief of Program Operations
Rocco Gaudio, Deputy Chief Financial Officer, GFFM
Marlene Zakai, Senior Advisor to the Acting CEO
Amy R. Mack, Senior Advisor to the Acting CEO

Subject: Corporation Comment on the Draft OIG Report: Evaluation of the Fiscal Year 2008 Budget Process

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Thank you for the opportunity to comment on the Office of the Inspector General Draft Report: *Evaluation of the Fiscal Year 2008 Budget Process*, dated June 22, 2009. As you note in your report, starting in the second quarter of FY 2008 the Corporation took steps to compensate for higher than projected salaries and expenses costs following receipt of its FY 2008 appropriation, as well as a series of challenges with the Corporation's technology systems. As a result of taking these proactive steps, the Corporation ended the FY 2008 fiscal year on budget and within spending limits.

While we do not agree with every conclusion drawn in the draft report, the Corporation is pleased that the majority of the recommendations identified in your evaluation align with the work outlined in the Corporation's Management Action Plan (MAP). As you are aware, in December 2008, Nicola Goren, Acting CEO, directed development of the MAP with input from the Board of Directors and senior leadership across the Corporation to serve as a dynamic blueprint for achieving the agency's mission and prepare for its growth.

Below are the Corporation's responses to your recommendations. Many of the responses describe the steps the Corporation has already taken, or is in the process of taking, under the MAP and which are responsive to your recommendations. We believe that our responses meet the general intent of your recommendations, and result in the management improvements that are the objectives of OIG's evaluation. Accordingly, this memorandum constitutes the Corporation's management decision on these recommendations.

Recommendation 1: Update Corporation Policy CFO-06-001, *Administrative Control of Funds*, on a timely and regular basis. Specifically, the Corporation Policy should be updated whenever necessary to reflect the latest:

a. Corporation organizational structures;

b. Corporation budget execution process and monitoring procedures; and

c. Personnel roles, responsibilities, and their reporting structures.

Corporation Response: The Corporation agrees that it should regularly review policies to ensure that they remain current and has a project underway to review all of its policies, including the funds control policy, in response to a similar recommendation made in the fiscal 2008 financial audit. A revised funds control policy was being drafted before this evaluation began, and was initially considered by the Corporation's Policy Council on July 20, 2009. Prior to its final adoption, OIG will have an opportunity to comment on the specifics of the draft policy. The final document also requires OMB approval.

Recommendation 2: Expand Corporation Policy CFO-06-001, *Administrative Control of Funds*, or create a separate Corporation policy to address the Corporation's budget formulation process, including standardized procedures and requirements on preparation, documentation (budget rationale, assumptions, and decisions), review, and approval during the budget formulation process.

Corporation Response: The Corporation has not issued a separate policy on budget formulation; policy direction is taken directly from OMB Circular A-11 as supplemented with specific guidance from OMB for each budget cycle. Annually, the Corporation issues a memorandum to offices with guidance on procedures to implement these budget formulation policies. The memorandum provides specific guidance on management and programmatic priorities, format, funding targets, timeframes, and who is responsible for various tasks. Supporting documents for the budget will be centrally maintained by the Office of Budget Formulation and Performance. The budget formulation memorandum for the fiscal 2011 budget (which focused on the Corporation's operational funding) was issued on July 13, 2009. The CFO's Office of Budget Formulation and Performance is providing procedural guidance on Operation and Maintenance funding in a series of meetings with Corporation managers. The annual memorandum for the fiscal 2012 budget will cover both program and operations and maintenance funding.

Recommendation 3. Add language in the Advice of Funds forms or its supporting attachments to ensure fund recipients are aware of the penalties for exceeding obligational authority.

Corporation Response: The Corporation has added the following language to the advice of funds document:

"Any officer or employee who makes or authorizes obligations or expenditures exceeding the levels included in this document may be subject to administrative discipline as specified in CNCS Policy CFO-09-__, up to and including removal from office. Any

knowing or willful violation could result in a fine of up to $5,000, imprisonment for up to two years, or both."

Recommendation 4. Strengthen human capital areas through the following:

a. Prompt recruitment of highly qualified budget personnel to fill existing vacancies in the Office of Budget;

b. Develop plans to retain highly performing personnel and to minimize personnel turnover in the Office of the CFO;

c. Ensure that employees and appointees that fill new vacancies or are reassigned to or assume new positions possess the required competencies, experience, and technical knowledge that matches directly and appropriately the needs of such positions;

Corporation Response (Recommendations 4 a, b, and c): The Office of the CFO made four highly qualified hires since September of 2008 including the Director of Budget Formulation and Performance, the Director of Budget Execution, and two budget analysts. Announcements for additional budget staff have been posted and qualified candidates will be hired when identified. The Office of the CFO will also utilize temporary staff to bridge its staffing needs until permanent staff can be hired.

d. Revisit the Corporation's organizational structure and evaluate responsibilities of each Corporation management and discretionary position to enhance coordination among personnel for daily Corporation functions, including the budget process;

Corporation Response: The Corporation is engaging a management consultant to assist senior leadership and the Board of Directors in the review and redesign of the Corporation's organizational structure and position the Corporation to successfully implement the provisions of the Serve America Act. The Corporation anticipates having a contract in place in August.

e. Ensure that the Corporation's organizational charts are approved, current, accurate, and dated;

Corporation Response: The Corporation's Chief Human Capital Officer is now responsible for review and approval of all organizational charts developed for posting or public availability, including those published in budgets and reports as well as on the Corporation's website.

f. Identify and provide training, in-house and external, that directly addresses the needs of personnel and enhances their technical knowledge and/or personnel management skills so that specific guidelines are consistently applied, documented, and personnel know how to perform their tasks; and

Corporation Response: Annually, Corporation managers have developed training plans for their staff to meet the needs of the agency and enhance staff members' technical knowledge. Beginning in the fiscal 2010 budget, funding for training has been separately proposed and will continue to be made part of the budget formulation discussions for inclusion each year.

Supervisors will closely monitor and identify mandatory and technical training needs for their respective direct reports.

g. Review organizational structure and include providing for an operationally focused senior official(s), such as a true COO, with organizational-wide responsibilities, who manages the Corporation's administrative functions, thereby allowing the CEO to focus on overall Corporation operations.

Corporation Response: The Corporation is engaging a management consultant to assist senior leadership and the Board of Directors in the review of its management structure including the role of an operationally focused senior official and other agency-wide management positions.

Recommendation 5. Strengthen internal control regarding the budget process as follows:

a. Clearly delineate responsibilities and reporting relationships as well as strengthen accountability for all Corporation personnel who are involved in the budget process;

b. Enhance cooperation, coordination, and communications among Office of Budget, Departments Heads, CIO, Director of NCCC, and other Program Office personnel to ensure budget procedures are followed and decisions are made only after all have been able to input relevant information, which is clearly understood and communicated in an open, transparent manner;

c. Strengthen documentation on the budget formulation and decision-making process. Budget decisions and assumptions should be explained, documented, and maintained to allow Corporation personnel to track them in the future;

d. Strengthen budgetary controls at allotment and sub-allotment levels and impose fiscal discipline to strictly enforce policies and budget marks as planned; and

e. Continue to adopt, refine, and improve budget forecasting and financial management tools through documenting personnel roles in using and modifying these tools.

Corporation Response: The Office of the CFO was re-structured at the end of the last fiscal year to centralize all budget staff (including NCCC), improving the oversight and monitoring of the Corporation's budget and clearly delineating responsibilities moving forward. The restructuring moved Executive Officers out of the Offices of the CEO and COO into the Office of the CFO and accelerated the hiring of new employees as described in response to no. 4 above.

The Corporation also implemented a monthly review of agency expenditures with department heads to address any budget concerns and to ensure that the departments remain within their budgets. The information for these meetings is developed through daily interactions and regular meetings between the CFO, Chief of Budget Execution and Executive Officers. New forecasting models were also developed to ensure a clearer understanding of the impact of changes in specific budget lines on the Corporation's total budget. In addition, as the result of the work of the Corporation's internal control Senior Assessment Team, the Corporation established communications across the offices of the CFO specific for operating under a continuing resolution and better understanding of the apportionment process have been built into the budget planning and execution process.

Recommendation 6. Institute the following in connection with the IT budget:

a. Develop an overall Corporation IT strategic plan and review it periodically with input from CIO, Corporation Management Team, and Program Office personnel (the same recommendation was made in October 2005 in the report *Corporation for National and Community Service: Building a Foundation for the Future* issued by NAPA, but never implemented);

b. With the objective of ensuring the continued viability of the IT infrastructure, set priorities for IT infrastructure investments, including hardware, software, and program planning, to evaluate and formulate the Corporation's IT budget, and ensure that sufficient funds are allowed for that infrastructure;

Corporation's Response (recommendations 6 a and b): The Corporation hired a new CIO in May of this year. Development of an IT Strategic Plan and Enterprise Architecture including priority setting for infrastructure investments is underway. A draft plan is anticipated for review by end of calendar year 2009. A draft plan for addressing backlogs in IT operations is anticipated by end of July.

c. Ensure the CIO directly reports to the CEO and clarify the CIO's authority and responsibilities over the Corporation's IT resources as outlined in 44 U.S.C. § 3506; and

Corporation's Response: The Office of Information Technology (OIT) is responsible for technology for the Corporation. The Chief Information Officer (CIO) leads this office and reports directly to the CEO. The CIO is responsible for technology related infrastructures, software, hardware, technology contracts and staff that support the Corporation's operations. The CIO is a member of the senior leadership team of the Corporation and meets regularly with the CEO as well as the Executive Team to ensure that all information technology issues are addressed.

d. Based on the contents of the Corporation IT strategic plan, review and update, if necessary, the Corporation Policy OIT-07-002, *Capital Planning and Investment Control*, to ensure it aligns with other Corporation policies and the Corporation IT strategic plan.

Corporation's Response: At the completion of the Corporation's IT Strategic Plan, OIT will revise and update the Capital Planning and Investment Control plan to reflect the decision making process around prioritization and spending for IT initiatives.

Recommendation 7. Review and update the Corporation Policy 350 REV02, *Procuring Supplies and Services*, to ensure it aligns with other Corporation policies and emphasizes prohibited procurement practices, including incremental funding of leases.

Corporation Response: The Corporation is updating Corporation Policy 350, *Procuring Supplies and Services,* to reflect changes to business practices since the last revision and our recent conversion to CitiBank© as the Corporation's GSA Smart Card purchasing and travel card vendor. The policy will be in accordance with the Federal Acquisition Regulation and is expected to be shared with the Policy Council by the end of the fiscal year.