

CORPORATION FOR NATIONAL & COMMUNITY SERVICE

OFFICE OF INSPECTOR GENERAL

PERFORMANCE AUDIT OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S COMPLIANCE WITH THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT OF 2010 (IPERA) FOR FISCAL YEAR 2017

OIG Report 18-04

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This report was issued to Corporation management on May 23, 2018. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than November 23, 2018, and complete its corrective actions by May 23, 2019. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



May 23, 2018

TO: Barbara Stewart
Chief Executive Officer

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

SUBJECT: Office of Inspector General (OIG) Final Report 18-04: *Performance Audit of the Corporation for National and Community Service's Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2017*

Attached is the OIG Final Report 18-04: *Performance Audit of the Corporation for National and Community Service's Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2017*. The performance audit was conducted by Cotton & Company LLP in accordance with standards established by the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Under the Corporation's audit resolution policy, a final management decision on the findings and recommendations in this report is due by November 23, 2018. Notice of final action is due by May 23, 2019.

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

Attachment

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I. EXECUTIVE SUMMARY

Despite a continuous focus on improving its Improper Payments Elimination and Recovery Act of 2010 (IPERA) compliance program, the Corporation for National and Community Service (CNCS) remains unable to reliably estimate the amount

Background:

IPERA requires Federal agencies to identify and reduce improper payments and report annually on their efforts in the Annual Financial Report (AFR) or an alternative report (AMR for CNCS). IPERA also requires each agency's Inspector General to perform an audit of the agency's compliance with IPERA. CNCS's Office of Inspector General (OIG) contracted with Cotton & Company LLP (referred to as "we" in this report) to conduct the performance audit of CNCS's compliance with IPERA for FY 2017.

or the rate of improper payments in the AmeriCorps State and National Program (AmeriCorps), Foster Grandparent Program (FGP), Retired and Senior Volunteer Program (RSVP), and Senior Companion Program (SCP). Specifically, we noted that the improper payments information reported in CNCS's fiscal year (FY) 2017 Annual Management Report (AMR) is unreliable and incomplete; CNCS therefore did not comply with IPERA. As in the past, we identified flaws in multiple stages of CNCS's improper payments assessment process; many of these flaws resulted from insufficient time and personnel to perform the FY 2017 IPERA testing.

CNCS implemented a new alternative sampling methodology in FY 2017, as well as other corrective actions to address findings noted in the FY 2015 IPERA audit report, which was the most recent full IPERA compliance audit performed.¹ We noted that CNCS made progress in resolving some of its long-standing

issues in the following areas:

- Improving the completeness and accuracy of the improper payments reporting in the AMR according to the Office of Management and Budget (OMB) A-136 reporting requirements.
- Developing an alternative sampling methodology, proposing it to OMB, and obtaining OMB's approval.
- Improving the comprehensiveness of the testing methodology and corresponding test plans and implementing mandatory training for personnel conducting test procedures.
- Implementing a process to begin quarterly reporting on high-dollar overpayments.

¹ In FY 2016, the CNCS OIG deferred a full-scope FY 2016 IPERA audit and undertook an abbreviated analysis because of CNCS's admitted noncompliance and the status of its evolving improper payment assessment methodology during FY 2016. See CNCS's [OIG Memorandum 17-04, Corporation for National and Community Service's Compliance with the Improper Payments Elimination and Recovery Act of 2010 \(IPERA\) for Fiscal Year 2016](#) for details.

- Implementing guidance for disallowing grantee costs due to non-compliance with National Service Criminal History Checks (NSCHC).
- Publishing improper payment estimates for all programs and activities identified as susceptible to significant improper payments.

As a result of this progress, CNCS has met an additional OMB criterion for IPERA compliance,² with two prior audit findings fully resolved in FY 2017. CNCS’s efforts also reduced the severity of some the issues, which are mainly limited to the sufficiency and adequacy of documentation as of FY 2017.

Compliance Issues³

Although welcome, these partial improvements did not substantially improve CNCS’s IPERA compliance, as CNCS still failed to meet four of the six OMB IPERA compliance criteria. Specifically, we identified the following compliance issues and other matters, all of which are recurring from the prior year:

| Publish IPERA Results in an AMR | Conduct Risk Assessment | Publish Improper Payment Estimates | Publish Corrective Action Plans | Publish/Meet Reduction Targets | Achieve an Improper Payment Rate of Less Than 10% | Total Non-Compliances |
|---------------------------------|-------------------------|------------------------------------|---------------------------------|--------------------------------|---|-----------------------|
| ✓ | ✗ | ✗ | ✓ | ✗ | ✗ | 4 |

- CNCS did not properly identify improper payments, and the published improper payment estimates are not statistically valid, complete, or accurate. Specifically, we noted significant errors in CNCS’s sampling selection for its stratified sample and found that CNCS did not always follow, or document how it followed, its OMB-approved alternative sampling methodology.
- CNCS did not fully comply with the IPERA risk assessment requirements, as it did not maintain documentation to support that it had performed additional procedures to verify that the FY 2015 risk assessment results were still valid for FY 2017.
- CNCS did not meet its annual improper payment reduction targets for AmeriCorps, as the actual improper payment error rate reported was nearly twice the reduction target rate.
- CNCS published an improper payment estimate that was greater than the acceptable threshold for IPERA compliance, or 10 percent, for three of its four programs (i.e., AmeriCorps, FGP, and SCP).

² OMB IPERA compliance criteria requires that agencies “published a PAR [Performance and Accountability Report] or AFR [or alternative report] for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.”

³ To be compliant with IPERA reporting requirements, Federal agencies are required to comply with all six applicable OMB criteria.

Other Matters to Be Reported⁴

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

- CNCS did not adequately report on high-dollar overpayments, as it did not specify the risk-susceptible programs subject to high-dollar overpayments included in its report.
- CNCS did not complete a cost-benefit assessment for payment recapture audits.
- CNCS did not complete the reporting required as a result of its programs not complying with IPERA for three consecutive fiscal years.

Recommendations

We recommend that CNCS take the following corrective actions:

- Improve the IPERA risk assessment process in order to fully comply with the IPERA requirements.
- Implement a statistically valid method for extrapolating and evaluating the improper payment estimate, and provide oversight throughout the planning and estimation process to comply with IPERA.
- Develop a comprehensive testing methodology supported by criteria and documentation and consistently apply and document the use of that methodology when testing the selected sample items.
- Take programmatic corrective actions to address the root cause of improper payments identified in the AmeriCorps, FGP, RSVP, and SCP programs.
- Strengthen supervision and oversight of the high-dollar overpayment reporting process to ensure that CNCS adequately reports on and maintains adequate documentation to support high-dollar overpayments, as required by OMB.
- Conduct and adequately document the results of an annual assessment to determine whether payment recapture audits or other recovery activities are cost-effective for programs that expend \$1 million or more annually.
- Take corrective action to meet the reporting requirements for agencies that have programs that have not complied with IPERA for three consecutive fiscal years.

⁴ Although these matters do not relate to specific IPERA compliance requirements, they relate to other relevant IPERA guidance and are therefore included in our report.

II. BACKGROUND

The Improper Payments Elimination and Recovery Act of 2010 (IPERA), Public Law (PL) 111-204, dated July 22, 2010, amended the Improper Payments Information Act of 2002 (IPIA), PL 107-300. IPERA requires agencies to periodically review and identify programs and activities that may be susceptible to significant improper payments, and to report on their actions to reduce and recover improper payments. As directed under IPERA, the Office of Management and Budget (OMB) issued Memorandum M-11-16, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123*, on April 14, 2011. This memorandum provides agencies with detailed guidance on the implementation of IPERA. The enactment of the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), PL 112-248, dated January 10, 2013, provided an opportunity for OMB to re-examine existing guidance to ensure that agencies are effectively reducing improper payment rates while also complying with multiple legislative and administrative requirements. OMB issued Memorandum M-15-02, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, on October 20, 2014. OMB Memorandum M-15-02 modifies all prior OMB Circular A-123, Appendix C guidance. In August 2017, OMB issued a revised Circular A-136, *Financial Reporting Requirements*, which contained streamlined IPIA (as amended by IPERA and IPERIA) reporting requirements within Section II.5.5.

We discussed the contents of this report with Corporation for National and Community Service (CNCS) management in an exit conference held on May 3, 2018.

Why We Did This Review

IPERA, as amended, requires that the Inspector General of each agency determine whether the agency is in compliance with the law and submit a report on that determination each fiscal year. In addition, OMB Memorandum M-15-02 states that the Office of Inspector General (OIG) may evaluate the accuracy and completeness of agency improper payment reporting and the agency's performance in reducing and recapturing improper payments. Our audit focused on CNCS's compliance with these requirements.

III. AUDIT RESULTS

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

| OMB Criteria for IPERA Compliance | Results ⁵ | Explanation of Results |
|---|----------------------|---|
| Published a PAR [Performance and Accountability Report] or AFR [Annual Financial Report] for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website. | Compliant | CNCS published an Annual Management Report (AMR) on its website that contained all materials required by OMB. |

⁵ OMB Memorandum M-15-02 requires that the compliance review clearly state the agency's compliance status (i.e., compliant or non-compliant). We have reported the results in accordance with this requirement and provide further explanation to support instances in which CNCS partially met compliance criteria.

| OMB Criteria for IPERA Compliance | Results ⁵ | Explanation of Results |
|---|----------------------|---|
| Conducted a program-specific risk assessment for each program or activity that conforms with Section 3321 of Title 31 U.S.C. (if required). | Not Compliant | CNCS did not maintain documentation to support that it had performed additional procedures to verify that the results of the fiscal year (FY) 2015 risk assessment were still valid for FY 2017. See Finding 1. |
| Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under the agency's risk assessment (if required). | Not Compliant | CNCS published improper payment estimates for all programs and activities identified in its risk assessment as susceptible to significant improper payments; however, the estimates were not statistically valid, complete, or accurate, and we were unable to rely on the results of the testing. See Findings 2 and 3. |
| Published programmatic corrective action plans in the PAR or AFR (if required). | Compliant | CNCS published programmatic corrective action plans in the AMR. |
| Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments. | Not Compliant | CNCS published annual reduction targets for each program assessed to be at risk and measured for improper payments; however, it did not meet the reduction target for the AmeriCorps State and National Program (AmeriCorps). See Finding 4. Although CNCS published that it had met the reduction targets for the Retired and Senior Volunteer Program (RSVP), Foster Grandparent Program (FGP), and Senior Companion Program (SCP), the estimates for these programs are not statistically valid, complete, or accurate, and we were unable to rely on the results of CNCS's testing for these programs. See Findings 2 and 3. |
| Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR. | Not Compliant | CNCS reported a gross improper payment rate of greater than 10 percent for the AmeriCorps, FGP, and SCP programs. See Finding 5. CNCS reported a gross improper payment rate of less than 10 percent for the RSVP program; however, the estimate is not statistically valid, complete, or accurate, and we were unable to rely on the results of CNCS's testing for this program. See Findings 2 and 3. |

Compliance Findings

CNCS did not meet four of the six applicable OMB criteria for IPERA compliance for FY 2017. We discuss the detailed findings below.

Finding 1. CNCS did not fully comply with the IPERA risk assessment requirements. [Modified repeat finding for FY 2017]

CNCS did not maintain documentation to support that it had performed additional procedures to verify that the FY 2015 risk assessment results were still valid for FY 2017. Specifically, CNCS was unable to provide documentation to support that it performed any procedures to verify that (1) the FY 2015 risk assessment covered all programs and activities administered in FY 2017, or (2) none of CNCS's programs experienced significant changes in legislation and/or significant increases in funding levels from FY 2015 to FY 2017 that would require CNCS to reassess the program.

CNCS stated that the FY 2015 risk assessment is reliable because (1) CNCS's total funding decreased in FY 2017 and (2) there were no major legislative changes to its programs in FY 2017; however, CNCS did not maintain documentation to support when or how it reached these conclusions.

OMB Memorandum M-15-02, Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*, provides the following guidance for conducting the risk assessment:

Part I, Section A, Subsection 9 states, in part:

...The agency is responsible for maintaining the documentation to demonstrate that the following steps (if applicable) were satisfied.

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

Part I, Section A, Subsection 10 states:

*For programs that are deemed to be low risk of significant improper payments, agencies must perform risk assessments at least once every three years thereafter... **However, if a low risk program experiences a significant change in legislation and/or a significant increase in its funding level, agencies are required to re-assess the program's risk susceptibility during the next annual cycle, even it is less than three years from the last risk assessment. [Emphasis added]***

CNCS did not have adequate procedures and controls in place to produce or maintain documentation to support how it concluded that the risk assessment it relied on was still valid in FY 2017. As a result, we are unable to verify that CNCS accurately identified all programs that were in fact susceptible to significant improper payments in FY 2017 and, accordingly, cannot verify that CNCS complied with IPERA risk assessment requirements.

Recommendations: We recommend that CNCS:

1. Take action to improve the IPERA risk assessment process to fully comply with the IPERA requirements. Specifically, this should include:
 - a. Performing procedures to confirm the completeness and validity of the prior-year risk assessment, if relying on a risk assessment from a prior year.

- b. Ensuring that CNCS maintains documentation to support that it verified the completeness and validity of the risk assessment that it is relying upon for the current year.

Finding 2: CNCS’s published improper payment estimate is not statistically valid, complete, or accurate. [Modified repeat finding for FY 2017]

CNCS intended to report statistically valid improper payment estimates in FY 2017⁶ as required by IPERA and OMB guidance; however, it failed to do so. Specifically, we noted that the improper payment estimates that CNCS published for the AmeriCorps, RSVP, FGP, and SCP programs are not statistically valid, complete, or accurate, as follows:

A. CNCS’s improper payment estimate was not statistically valid.

CNCS did not properly project and evaluate the estimated error rate and precision for AmeriCorps, FGP, SCP, and RSVP. CNCS performed the extrapolation for these programs as though it selected all of the items from one population; however, the sample was actually stratified between the two half-year Federal Financial Report (FFR) populations; as such, there is no statistical basis for the extrapolation. Further, the calculation of precision did not consider the fact that the probability-proportional-to-size (PPS)⁷ sampling method resulted in CNCS selecting 80 percent of its samples from the first half-year FFR population and 20 percent from the second half-year FFR population, but applied the extrapolation of the errors on a combined basis to the entire full-year population. Accordingly, this extrapolation method was not statistically valid.

B. CNCS’s improper payment estimate was not complete or accurate.

1. CNCS did not always follow the methodology outlined in its alternative sampling methodology. Specifically, CNCS did not always:

- Report improper payments for non-response errors⁸ as outlined in its methodology.
- Appropriately report unmatched errors⁹ identified when selecting the sampled transactions.
- Replace samples as outlined within its methodology.

⁶ CNCS’s Chief Risk Officer and a contracted statistician signed a certification stating that CNCS’s alternative sampling methodology would produce a statistically valid estimate for FY 2017.

⁷ Probability-proportional-to-size sampling is a sampling technique that selects sample items in proportion to their relative size, usually their monetary amounts. [Source: AICPA Audit Guide, Audit Sampling, Appendix G, Glossary]

⁸ According to CNCS’s OMB-approved alternative sampling methodology, a non-response error occurs when CNCS does not receive the requested support for the FFR selected in the first stage after multiple inquiries or follow-ups.

⁹ According to CNCS’s alternative sampling methodology, an unmatched error occurs when the total amount on the documentation from the grantee’s accounting system (e.g., the general ledger or trial balance) does not match the dollar amount submitted on the FFR or reported for the prior stage of FFR selection.

- Select its sample from the population outlined within its methodology.
- Select sampled transactions in accordance with its methodology.
- Properly extrapolate improper payments in accordance with its methodology.

2. CNCS did not always appropriately obtain and maintain documentation that supported that the improper payment estimate was complete or accurate. Specifically, CNCS did not always:

- Maintain sufficient documentation to support the sampled population.
- Request sufficient documentation to support the reconciled population.
- Maintain adequate documentation to support how or why changes occurred between the conclusions included in the “final” testing results, the corrected testing results, and its final extrapolation.

CNCS did not have adequate procedures in place or adequate supervision, oversight, and quality control to ensure that the statistical methodology used to extrapolate the improper payment estimate would be valid and result in a complete and accurate estimate, or that it would appropriately follow and document its statistical sampling methodology. As a result, the estimated improper payment rates and amounts reported in the FY 2017 AMR were not statistically valid and cannot be relied upon. CNCS is therefore not in compliance with the following relevant IPERA requirements:

IPERA Section 2, Subsection (b), Paragraphs (1) and (2) state:

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

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

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

OMB Memorandum M-15-02 Part I, Section A, Subsection 9 states:

Sample Design Documentation. Agency sampling and estimation plans shall generally provide sufficient documentation of the sample design so that a qualified statistician would be able to replicate what was done or so that OMB, agency Inspector General, or GAO personnel can evaluate the design. Agencies shall clearly identify the frame or source for sampling payments and document its accuracy and completeness. All stages of selection, any stratification, and/or any clustering shall be clearly described. Explicit strata shall be clearly defined, as should any variables used for implicit stratification....

Updates and Changes to Agency Plans. Agencies should update their sampling and estimation plans, as needed, to reflect the current design and methods being used and incorporate refinements based on previous results, consultations with others, and/or recommendations from Inspectors General, GAO, or OMB. Any updated plans will need to be submitted to OMB no later than June 30 of the fiscal year for which the estimate is being produced (e.g., the sampling methodology to be used for the FY 2014 reporting cycle must be submitted by June 30, 2014). The plans shall include all the components described in steps 2.1 and 2.2 above. A plan that is being updated or changed should include some language explaining why the plan is changing and how the plan is different from the one previously submitted.

In response to our finding on the validity of its statistical extrapolation using a combined approach, CNCS recalculated the improper payment estimates and relative precision using a stratified approach to compare these estimates to the improper payment error rates and amounts reported in the FY 2017 AMR. As shown in the table below,¹⁰ if CNCS had used a stratified approach to calculate the improper payment estimate, the improper payment and relative precision rates reported would have increased significantly. Specifically, the improper payment rate for the RSVP program would have been higher than the 10 percent reporting threshold for IPERA and therefore would have been reported as an exception in Finding 5.

| Program | Combined Approach, as Reported in the FY 2017 AMR | | | Stratified Approach | | |
|------------|---|--------------------|------------------------------------|-----------------------|--------------------|------------------------------------|
| | Improper Payment Rate | Relative Precision | Improper Payment Dollars (Million) | Improper Payment Rate | Relative Precision | Improper Payment Dollars (Million) |
| AmeriCorps | 10.8% | 2.43% | \$26.78 | 18.4% | 5.79% | \$45.46 |
| FGP | 17.1% | 6.87% | 14.07 | 43.0% | 42.99% | 35.46 |
| RSVP | 7.4% | 3.08% | 3.02 | 12.1% | 6.73% | 4.95 |
| SCP | 16.8% | 3.57% | 5.68 | 31.2% | 11.60% | 10.53 |

Recommendations: We recommend that CNCS:

2. Implement a statistically valid method for extrapolating and evaluating the improper payment estimate and strengthen oversight throughout the planning and estimation process to comply with IPERA. Specifically, this should include:
 - a. Consulting with OMB, as necessary, to:
 - i. Update its alternative sampling methodology and extrapolation approach to consider whether:
 - CNCS should select a stratified sample and evaluate the results as a stratified sample, but not as a sample from one stratum.

¹⁰ The scope of our audit was limited to the improper payment estimates published in the FY 2017 AMR, and we therefore did not audit the recalculated improper payment estimates using the stratified approach. CNCS provided these recalculated estimates to the auditors during audit fieldwork, and we have presented the estimates in this audit report for informational purposes only.

- If selecting a stratified sample, CNCS should use a minimum sample size in each stratum to obtain a reasonable measure of the variance.
 - An alternative population of FFRs or an alternative allocation of FFRs to the strata might result in a realistic statistical approach, given CNCS's resource constraints. All programs do not need to be subject to the same split of strata.
 - The extrapolation approach appropriately considers all types of errors (unmatched and non-responsive) identified in the sample.
- ii. Have an alternative non-statistical sampling methodology approved.
 - iii. Determine any steps necessary to publish corrected FY 2017 improper payment rates and amounts.
- b. Strengthening the supervision and oversight surrounding sampling processes to ensure that employees and consultants correctly and consistently execute the approved sampling methodology and that employees appropriately document and obtain approval for any changes to the approved methodology.
 - c. Strengthening the administrative and management controls and processes for maintaining sufficient documentation to support the results of the IPERA sampling and testing processes.

Finding 3: CNCS did not properly identify improper payments. [Modified repeat finding for FY 2017]

CNCS did not develop a comprehensive testing methodology to determine the estimated rate and amount of all improper payments reported in the FY 2017 AMR and was inconsistent in applying its developed test plans. Further, CNCS did not verify, or adequately document that it verified, and/or examined all applicable allowability/eligibility requirements to support that the sampled payments were proper or improper in accordance with the applicable Code of Federal Regulations (CFR) and CNCS policies and procedures.

A. CNCS's test plans did not appropriately identify improper payments.

We determined that the test plan evaluation sheets (checklists) and the National Service Criminal History Check (NSCHC) testing spreadsheet¹¹ did not demonstrate that CNCS evaluated all allowability/eligibility requirements for staff payroll, AmeriCorps member payments, FGP/SCP volunteer payments, other program operating costs, and staff/member/volunteer eligibility to ensure that it had appropriately identified the payments as proper or improper, as follows:

¹¹ CNCS used IPERIA checklists and NSCHC testing spreadsheets to document its assessment of whether each sampled transaction was a proper or improper payment.

- According to OMB Memorandum M-15-02, Part I, Section A, Subsection 2, an improper payment is any payment that should not have been made or that was made in an incorrect amount. However, the checklists that CNCS developed to test staff payroll, AmeriCorps member payments, and FGP/SCP volunteer payments do not require the reviewer to recalculate the payment amount to ensure it was appropriate. CNCS therefore may not be in compliance with the OMB requirement.
- According to 2 CFR § 200.309, a non-Federal entity may only charge Federal awards for allowable costs incurred during the period of performance (POP). However, the checklists that CNCS developed to test staff payroll, AmeriCorps member payments, FGP/SCP volunteer payments, and other direct costs do not require the reviewer to verify that the member or volunteer earned their payroll/member stipend/volunteer stipend during the POP or that CNCS incurred the other direct cost expense during the POP. CNCS therefore may not be in compliance with this requirement.
- According to NSCHC Frequently Asked Questions (FAQs), Updated December 11, 2014, Question 7.8, organizations must perform a new NSCHC on any person that has a break in service greater than 120 days. However, the NSCHC checklist does not require the reviewer to verify that the tested member did not have a break in service greater than 120 days. CNCS therefore may not be in compliance with the NSCHC requirement.
- According to NSCHC FAQs Question 7.1, when conducting an NSCHC, the grantee must verify the person's identify against a government photo identification. However, CNCS did not require its reviewers to ensure that the grantee verified individuals' identities using government photo identification for IPERA purposes. Without confirming that grantees verified individuals' identities, CNCS is unable to confirm that grantees appropriately performed the background checks on the correct person. CNCS therefore may not be in compliance with the NSCHC requirement.
- According to NSCHC FAQs Question 5.1, CNCS has a specific registry in each state and most territories and provides a list of CNCS repositories that should be used to conduct the Statewide Criminal History Check. Although the NSCHC Testing Spreadsheet instructions provide guidance regarding the correct vendor/repository to use for state criminal history checks, the NSCHC Testing Spreadsheet does not require reviewers to document which approved repository they used. CNCS therefore may not be in compliance with the NSCHC requirement.

B. CNCS did not verify, or did not appropriately document that it verified, that it had examined all applicable allowability/eligibility requirements.

We sampled 99 transactions tested by CNCS (37 AmeriCorps, 25 FGP, 15 RSVP, and 22 SCP), then used CNCS's detailed testing plans and transaction evaluation spreadsheets to evaluate whether the payment should be deemed proper or improper and compared our conclusions with CNCS's conclusions. OMB Memorandum M-15-02 Part I, Section A, Subsection 11 states that agencies must maintain sufficient documentation to allow auditors to replicate reported results; however, based on our re-performance testing, we arrived at conclusions that differed from CNCS's conclusions, as follows:

- We identified four instances in which we disagreed with CNCS's conclusion regarding whether the payment should be deemed proper or improper.
- We identified nine instances in which we were unable to verify CNCS's conclusions regarding whether a payment should be deemed proper or improper.
- We identified 26 instances in which we agreed with CNCS's conclusion as to whether a payment should be deemed proper or improper; however, we noted that CNCS did not appropriately complete the IPERA testing checklist.

CNCS does not have sufficient procedures in place or sufficient staff, supervision, or oversight to ensure that it adequately developed test plans and thoroughly documented testing results in a clear and organized manner to support all final conclusions. As a result, the improper payment error rate reported may be inaccurate. CNCS therefore did not comply with IPERA.

Recommendations: We recommend that CNCS:

3. Take corrective action to develop a comprehensive testing methodology and consistently apply that methodology to all selected sample items. Specifically, CNCS should:
 - a. Update its test plan evaluation sheets to remove unnecessary attributes that are not related to the IPERA testing objectives and ensure that it addresses all allowability/eligibility criteria applicable to CNCS payments.
 - b. Update the mandatory training for all CNCS reviewers based on the more comprehensive test plans to ensure that the reviewers use consistent testing methodology and documentation retention plans.
 - c. Implement controls that strengthen supervision and oversight to ensure that CNCS reviewers thoroughly document all testing attributes and final conclusions and maintain adequate supporting documentation, justification, and rationale to support their conclusions.

Finding 4: CNCS did not meet the annual reduction target for AmeriCorps. [Modified repeat finding for FY 2017]

CNCS did not meet the FY 2017 reduction target for AmeriCorps. CNCS's FY 2016 AFR published a reduction target of 5.5 percent for AmeriCorps in FY 2017; however, CNCS reported an estimated improper payment rate of 10.8 percent for AmeriCorps in FY 2017, or nearly twice the reduction target rate set in FY 2016.

CNCS has not yet implemented programmatic corrective actions to address the root cause of the improper payments identified for AmeriCorps. As a result, CNCS did not meet the published reduction target for this program as required by IPERA Section 3, Subsection (a), Paragraph (3)(E), which states that, in order to be compliant with IPERA, an agency must both publish and meet improper payments reduction targets.

CNCS has stated that it is currently in the process of identifying potential solutions to its NSCHC non-compliance issues, which were the root cause for most of the improper payments identified in FY 2017.

Recommendation: We recommend that CNCS:

4. Implement corrective actions to address the root cause of improper payments identified for AmeriCorps. After implementing an improved statistical methodology and improved testing approach, CNCS should develop and report realistic reduction targets for subsequent fiscal years and provide a rationale and justification as part of the reported improper payments targets.

Finding 5: CNCS reported a gross improper payment rate of greater than 10 percent for the AmeriCorps, FGP, and SCP programs.

CNCS reported an improper payment estimate of greater than 10 percent for three of the four programs included in the FY 2017 AMR. Specifically, CNCS reported the estimated gross improper payment rates as follows:

| Program Name | FY 2017 Improper Payment Rate | Less than 10%? |
|--------------------|-------------------------------|----------------|
| AmeriCorps | 10.8% | ✗ |
| FGP | 17.1% | ✗ |
| RSVP ¹² | 7.4% | ✓ |
| SCP | 16.8% | ✗ |

CNCS has not yet implemented programmatic corrective actions to address the root cause of the improper payments identified in the AmeriCorps, FGP, or SCP programs. As a result, CNCS's improper payment estimates remain at high levels. According to IPERA Section 3, Subsection (a), Paragraph (3) (F), in order to be compliant with IPERA, an agency must report an improper payment rate of less than 10 percent for each program and activity for which the agency published an estimate.

As previously noted, CNCS stated that it is currently in the process of identifying potential solutions to its NSCHC non-compliance issues, which were the cause of most of the improper payments identified in FY 2017.

Recommendation: We recommend that CNCS:

5. Implement corrective actions to address the root cause of improper payments identified in the AmeriCorps, FGP, RSVP, and SCP programs.

Other Matters to Be Reported

As part of our audit, we evaluated CNCS's performance in reducing and recapturing improper payments and its compliance with reporting requirements for agencies that are not in compliance with IPERA, as outlined in OMB Memorandum M-15-02. The three findings noted below are related to these audit objectives.

¹² As discussed in Finding 2, when CNCS recalculated its improper payment rate using a stratified approach, the rate of improper payments for RSVP was 12.1 percent, which is greater than the 10 percent threshold and therefore could have been noted as an exception under this finding. Note that the 12.1 percent figure is unaudited.

Finding 6: CNCS did not adequately report on high-dollar overpayments. [Modified repeat finding for FY 2017]

CNCS did not adequately report quarterly high-dollar overpayments (HDOPs)¹³ as required by IPERA. Specifically, we were unable to verify that CNCS reported on all programs susceptible to improper payments each quarter because:

- CNCS did not update its HDOP process document to include SCP as a risk-susceptible program subject to HDOP reporting.
- The HDOP reporting memorandums for the second and third quarters of FY 2017 did not identify the specific programs that CNCS had defined as risk-susceptible and specify these programs in the HDOP reporting.

CNCS management did not have adequate supervision and oversight over the reporting process. As a result, we were unable to verify that CNCS appropriately reported on all programs susceptible to significant improper payments, as required by OMB Memorandum M-15-02 Part III, Section D, Step 4, which states, in part:

Agencies with programs susceptible to significant improper payments under the IPIA are required to report quarterly on high-dollar overpayments that occurred within those specific programs. [omitted] For any given quarter, if an agency with programs susceptible to significant improper payments has had no high-dollar overpayments, then the agency should inform OMB and the agency's Inspector General that the agency had no high-dollar overpayments in that quarter.

Recommendation: We recommend that CNCS:

6. Improve its process for reporting HDOP to comply with IPERA requirements, including:
 - a. Implementing sufficient supervision and oversight of the HDOP reporting process to ensure that the HDOP reports specify each program as risk-susceptible, including programs that CNCS determines do not have HDOPs during the quarter.
 - b. Updating its HDOP process document to include SCP as a risk-susceptible program subject to HDOP reporting.

Finding 7: CNCS did not complete a cost-benefit assessment for payment recapture audits. [Modified repeat finding for FY 2017]

CNCS did not complete an assessment to determine whether it would be cost-effective to conduct payment recapture audits on its programs that expend \$1 million or more annually, as required by IPERA. Specifically, IPERA Section 2, Subsection (h), Paragraph 2(A) states that the head of each agency shall conduct recovery audits for each agency program that expends \$1 million or more annually if conducting such audits would be cost-effective.

¹³ An HDOP is an overpayment that exceeds 50 percent of the correct amount of the intended payment and that meets the following criteria: (a) Where the total payment to an individual exceeds \$25,000 as a single payment or in cumulative payments for the quarter; or (b) where the total payment to an entity exceeds \$100,000 as a single payment or in cumulative payments for the quarter.

CNCS lacked resources to perform a cost-benefit assessment for payment recapture audits in FY 2017 due to staffing issues and an increase in the total workload of IPERA testing performed. As a result, CNCS may not perform recapture audits or other recovery activities for all applicable programs.

The FY 2017 AMR reported that CNCS will perform a cost-effectiveness analysis for all programs and activities in FY 2018. CNCS staff confirmed with us that CNCS should have sufficient staff to perform recapture audits in FY 2018.

Recommendation: We recommend that CNCS:

7. Conduct and adequately document the results of an annual assessment to determine whether payment recapture audits or other recovery activities are cost-effective for CNCS programs that annually expend \$1 million or more.

Finding 8: CNCS did not complete the reporting required as a result of its non-compliance with IPERA for three consecutive fiscal years. [Modified repeat finding for FY 2017]

The reported improper payment rates for two¹⁴ CNCS programs, AmeriCorps and FGP, have not complied with IPERA for three consecutive years, however, CNCS has not reported to Congress as required by IPERA. CNCS has been non-compliant with IPERA since FY 2012. Specifically, OMB Memorandum M-15-02 Part II, Section B, Step 1 provides the following guidance:

For agencies that are not compliant for three consecutive fiscal years for the same program or activity, within 30 days of the determination of non-compliance, the agency will submit to Congress the following, in order to bring the program or activity in question into compliance:

- i. Reauthorization proposals for each (discretionary) program or activity that has not been in compliance for three or more consecutive fiscal years;*
- ii. Proposed statutory changes necessary to bring the program or activity into compliance.*

CNCS has delayed submitting required reports to Congress because it has not been able to establish a clear path forward to comply with IPERA. CNCS noted that the majority of its improper payments relate to its widespread NSCHC non-compliance issues, and without a new approach to successfully address these issues, it anticipates that its improper payment rates will remain above the IPERA reporting threshold of 10 percent. However, CNCS is currently in the process of identifying potential solutions to its NSCHC non-compliance issues and plans to submit a report to Congress after it adopts a solution.

¹⁴ If CNCS had reported an improper payment rate higher than 10 percent for the RSVP program in FY 2017, as noted in Finding 2, CNCS would have needed to report on three programs, AmeriCorps, RSVP and FGP.

Because CNCS has not yet submitted the required report to Congress and OMB, Congress and OMB may not have an appropriate level of awareness into the issues causing CNCS's non-compliance with IPERA, or of the potential additional support and resources that CNCS may need in order to become compliant with IPERA.

Recommendation: We recommend that CNCS:

8. Take action to meet the reporting requirements that apply to agencies that have been non-compliant with IPERA for three consecutive fiscal years. Specifically, CNCS should submit the following reports to OMB and Congress:
 - a. Reauthorization proposals for each (discretionary) program or activity that has not been in compliance for three or more consecutive fiscal years.
 - b. Proposed statutory changes necessary to bring the program or activity into compliance.

SUMMARY OF CNCS MANAGEMENT'S RESPONSE

CNCS Management's response to the audit findings is included as Appendix C. CNCS concurred, or partially concurred, with the 15 audit recommendations and provided a specific response regarding the corrective actions it plans to take to address each of the weakness identified. CNCS management stated that it has already begun implementing many of the recommendations, including implementing enhanced quality controls of sampling, testing, and reporting for IPERA.

AUDITOR'S COMMENTS ON CNCS MANAGEMENT'S RESPONSE

The corrective actions that CNCS plans to implement meet the intent of our recommendations. CNCS management should ensure that the current and proposed corrective actions are taken in a timely manner to address each of the recommendations made in the report.

Cotton & Company LLP



Michael W. Gillespie, CPA, CFE
Partner
May 23, 2018

OBJECTIVES, SCOPE, AND METHODOLOGY**Objectives**

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

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

We also evaluated the accuracy and completeness of agency improper payment reporting, CNCS's performance in reducing and recapturing improper payments, and CNCS's compliance with reporting requirements for non-compliance with IPERA.

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

Scope

As established in OMB Memorandum M-15-02, the scope of this performance audit included the improper payment and reporting details in CNCS's FY 2017 AMR Section III, *Other Information*. We designed procedures to gain an understanding of the risk assessment that CNCS performed to identify programs susceptible to significant risk of improper payments, as well as the statistical sampling process and testing that it performed to calculate its improper payment estimate. Our procedures also included having a statistical subject matter expert evaluate the statistical validity of the improper payment estimate.

We also designed procedures to evaluate the completeness and accuracy of the information reported in Section III, *Other Information*, including re-performing testing of 99 randomly selected sample items that CNCS had tested in determining its improper payment estimate.

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

We performed this work in Washington, DC during the period from January 25 through May 4, 2018. Our results are as of May 4, 2018.

Methodology

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

- Reviewed CNCS's FY 2017 AMR and confirmed that the report and any accompanying materials were posted to the agency website.
- Reviewed CNCS's FY 2017 AMR and confirmed whether the presentation was in accordance with the form and content requirements outlined in OMB Circular No. A-136, *Financial Reporting Requirements* (Revised August 2017).
- Evaluated the completeness and accuracy of the IPERA reporting details presented in CNCS's FY 2017 AMR.
- Confirmed whether CNCS conducted a program-specific risk assessment and evaluated the results of the assessment.
- Confirmed whether CNCS published improper payment rate and dollar estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment.
- Evaluated the statistical sampling process that CNCS used to obtain the improper payment rate estimates published in its FY 2017 AMR.
- Evaluated the reasonableness of CNCS's conclusions and the sufficiency of documentation supporting the results of testing procedures that CNCS performed on sample items as part of the statistical sampling and risk assessment processes.
- Confirmed whether CNCS was required to publish corrective action plans in its FY 2017 AMR.
- Confirmed whether CNCS has published, and met, improper payment reduction targets for each program assessed and measured to be at risk for improper payments.
- Evaluated whether CNCS reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AMR.
- Evaluated other activities performed by CNCS to reduce and recapture improper payments.

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

APPENDIX B

COMPARISON OF FACTORS CONTRIBUTING TO NON-COMPLIANCE FOR FY 2015 AND FY 2017¹⁵

| Compliance Criteria | Results | Factors Contributing to Non-Compliance for FY 2015 | Factors Contributing to Non-Compliance for FY 2017 |
|---|---|--|---|
| <p>Published a PAR or AFR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website</p> | <p>FY 2015: Not Compliant</p> <p>FY 2017: Compliant</p> | <p>Finding 1 – CNCS did not complete its improper payments reporting in the FY 2015 AFR in accordance with OMB A-136 reporting requirements [Modified repeat finding of FY 2014 Finding 1]</p> <ol style="list-style-type: none"> 1. CNCS did not include SCP in Table 1 of the Improper Payment section in the FY 2015 AFR and indicate when it expected to produce an estimated improper payment error rate for the program. 2. CNCS reported a CY outlays amount for the AmeriCorps State and National Grant Program that differed from the fiscal year covered by the AFR. This is acceptable with OMB approval; however, CNCS was unable to provide evidence that OMB had approved the alternative reporting period. 3. CNCS did not provide a summary of the justification and analysis supporting its determination that it was not cost-effective to conduct a payment recapture audit program for its programs or activities and that these programs or activities would therefore be excluded from any such audits. In addition, CNCS did not indicate whether it had notified OMB of this determination (including the month and year of notification). | <p>Not Applicable. CNCS published programmatic corrective action plans in the AMR and therefore met this compliance criterion.</p> |

¹⁵ In FY 2016, the CNCS OIG deferred a full-scope FY 2016 IPERA audit and undertook an abbreviated analysis. See footnote 1 for details. As a result, we compared audit results reported in FYs 2015 and 2017.

| | | | |
|---|---|--|---|
| <p>Conducted a program-specific risk assessment for each program or activity that conforms with Section 3321 of Title 31 U.S.C. (if required)</p> | <p>FY 2015: Not Compliant</p> <p>FY 2017: Not Compliant</p> | <p>Finding 2 – CNCS’s risk assessment for the Senior Companions Program and Social Innovation Fund may not be valid [Modified repeat finding of FY 2014 Finding 2]</p> <ol style="list-style-type: none"> 1. CNCS’s risk assessment conclusions for SCP and SIF may not be valid. | <p>Finding 1 – CNCS did not fully comply with the IPERA risk assessment requirements [Modified repeat finding of FY 2015 Finding 2]</p> <ol style="list-style-type: none"> 1. CNCS relied on the results of its FY 2015 risk assessment; however, CNCS did not perform additional procedures to verify that the results of the FY 2015 risk assessment were still valid and covered all programs that the agency administered in FY 2017. |
| <p>Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under the agency’s risk assessment (if required)</p> | <p>FY 2015: Not Compliant</p> <p>FY 2017: Not Compliant</p> | <p>Finding 3 – CNCS did not publish an improper payment estimate for all programs and activities identified as susceptible to significant improper payments [New finding in FY 2015]</p> <ol style="list-style-type: none"> 1. CNCS did not publish improper payment estimates for FGP and RSVP, although both programs were deemed susceptible to significant risk of improper payments in prior-year risk assessments. As stated in the FY 2015 AFR Section IV, <i>Other Information</i>, page 120, CNCS began the sampling and estimation process in FY 2015; however, it was unable to complete the sampling process and produce an estimate of improper payments with the required precision. <p>Finding 4 – CNCS’s published improper payment estimate is not statistically valid and may not be complete and accurate [Modified repeat finding of FY 2014 Findings 3 and 4]</p> <ol style="list-style-type: none"> 1. CNCS used an MPU projection rather than a PPS projection. This is inconsistent with its use of an MUS sampling approach, which is a PPS sampling method. As a result, CNCS understated the improper payment amount and inaccurately calculated its precision. | <p>Finding 2 – CNCS’s published improper payment estimate is not statistically valid, complete, or accurate [Modified repeat finding of FY 2015 Finding 4]</p> <ol style="list-style-type: none"> 1. CNCS did not properly project and evaluate the estimated error rate and precision for AmeriCorps, FGP, SCP, and RSVP. CNCS’s sampling plan did not recognize that the selection resulted in a stratified sample and should therefore be evaluated as a stratified sample, rather than as a sample from one stratum. 2. CNCS did not properly report all errors identified in its samples. 3. CNCS did not properly extrapolate all errors identified based on the results of its sample testing. 4. CNCS did not correctly or consistently use its methodology to select transactions to test. 5. CNCS did not maintain a thorough audit trail of the final conclusions and testing results as input to the statistical projection and a subsequent file of corrected testing results. 6. The population that CNCS used to select the IPERA sample was not consistent with the proposed sampling methodology. |

| | | |
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| | <p>2. The extrapolation approach that CNCS executed was inconsistent with its extrapolation plan; the extrapolation plan stated that CNCS would use a PPS projection, but instead it used an MPU projection.</p> <p>3. CNCS did not properly report all errors identified in its samples. CNCS reported only those errors in which it was able to select an appropriate transaction, test it, and identify the transaction as an improper payment.</p> <p>4. CNCS did not correctly or consistently use its methodology in selecting transactions for testing.</p> <p>Finding 5 – CNCS did not properly identify improper payments [Modified repeat finding of FY 2014 Finding 5]</p> <p>1. CNCS did not develop a comprehensive testing methodology to determine the estimated rate and dollar amount of improper payments reported in the FY 2015 AFR for the AmeriCorps State and National Program, and was inconsistent in applying the test plans that it did develop.</p> <p>2. CNCS either did not verify or did not appropriately document verification that it had examined all applicable allowability/eligibility requirements to support that the sampled payments were proper or improper in accordance with the applicable sections of the CFR and CNCS policies and procedures.</p> <p>3. We re-performed testing of 45 sample items; for 3 of the items, we disagreed with CNCS’s conclusion regarding whether the payment should be deemed proper or improper. For another eight items, we were unable to verify CNCS’s conclusions regarding whether a payment should be deemed proper or improper.</p> | <p>Finding 3 – CNCS did not properly identify improper payments [Modified repeat finding of FY 2015 Finding 5]</p> <p>1. The test plan evaluation sheets (checklists) and the NSCHC testing spreadsheet that CNCS used to document its assessment of whether each sampled transaction was proper or improper did not demonstrate that CNCS had evaluated all allowability/eligibility requirements per CFR and CNCS policies and procedures.</p> <p>2. We sampled 99 transactions tested by CNCS (37 AmeriCorps, 25 FGP, 15 RSVP, and 22 SCP) and used the detailed testing plans and transaction evaluation spreadsheets provided by CNCS to evaluate whether the payment should be deemed proper or improper. Based on our re-performance testing, we arrived at conclusions that differed from CNCS’s conclusions, including:</p> <ul style="list-style-type: none"> a. We identified instances in which we disagreed with CNCS’s conclusions regarding whether a payment should be deemed proper or improper. b. We identified instances in which we were unable to verify CNCS’s conclusions regarding whether a payment should be deemed proper or improper. c. We identified instances in which CNCS did not appropriately complete the IPERA testing checklists and NSCHC testing spreadsheet. |
|--|--|--|

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|--|--|---|---|
| Published programmatic corrective action plans in the PAR or AFR (if required) | FY 2015: Compliant FY 2017: Compliant | Not Applicable. CNCS published programmatic corrective action plans in the AFR and therefore met this compliance criterion. | Not Applicable. CNCS published programmatic corrective action plans in the AMR and therefore met this compliance criterion. |
| Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments | FY 2015: Not Compliant FY 2017: Not Compliant | Finding 6 – CNCS did not meet the annual reduction target for the AmeriCorps State and National Program [New finding in FY 2015] 1. CNCS did not meet the FY 2015 reduction target for the AmeriCorps State and National Grant Program. | Finding 4 – CNCS did not meet the annual reduction target for AmeriCorps [Modified repeat finding of FY 2015 Finding 6] 1. CNCS did not meet the FY 2016 reduction target for the AmeriCorps State and National Grant Program. |
| Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR | FY 2015: Not Compliant FY 2017: Not Compliant | See discussion of FY 2015 Findings 4 and 5. | Finding 5 – CNCS reported a gross improper payment rate of greater than 10 percent for the AmeriCorps, FGP, and SCP programs [New finding] 1. CNCS reported a gross improper payment rate of greater than 10 percent for the AmeriCorps, FGP, and SCP programs in the FY 2017 AMR; however, the estimates for all programs are not statistically valid, complete, or accurate, and we are unable to rely on the results of the testing. |
| Status of Other Matters to Be Reported | | | |
| Finding 7 – CNCS did not adequately report on high-dollar overpayments [Modified repeat finding of FY 2014 Finding 6] | | Finding 6 – CNCS did not adequately report on high-dollar overpayments [Modified repeat finding of FY 2015 Finding 7] | |

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| <ol style="list-style-type: none"> 1. For the first and second quarters of FY 2015, CNCS did not report to OMB and the CNCS OIG regarding high-dollar overpayments identified, or a lack of high-dollar overpayments, for the programs that CNCS identified as susceptible to significant improper payments. 2. For the third and fourth quarters of FY 2015, CNCS only reported to the CNCS OIG regarding its lack of high-dollar overpayments; it did not report to OMB. | <ol style="list-style-type: none"> 1. CNCS did not update its HDOP process document to include SCP as a risk-susceptible program subject to HDOP reporting. Further, although CNCS reported on HDOP to both the OIG and OMB for all four quarters of FY 2017, the HDOP reporting memos for the second and third quarters of FY 2017 did not list the specific programs that CNCS had defined as risk-susceptible and included in the reporting. |
| <p>Finding 8 – CNCS did not complete a cost-benefit assessment for payment recapture audits [Modified repeat finding of FY 2014 Finding 7]</p> <ol style="list-style-type: none"> 1. CNCS did not complete an assessment to determine whether conducting payment recapture audits on its programs that expend \$1 million or more annually would be cost-effective, as required by IPERA. 2. The FY 2015 AFR reported that CNCS had begun reviewing payment recapture activities for programs expending \$1 million or more annually and that preliminary results indicated that a payment recapture audit was not warranted; however, CNCS was unable to provide any documentation to support that it had conducted such a review. | <p>Finding 7 – CNCS did not complete a cost-benefit assessment for payment recapture audits [Modified repeat finding of FY 2015 Finding 8]</p> <ol style="list-style-type: none"> 1. CNCS did not complete a cost-benefit analysis in FY 2017 of its programs that expend \$1 million or more annually, to determine if recapture/recovery audits are cost-effective. |
| <p>Finding 9 – CNCS did not complete the reporting required as a result of its non-compliance with IPERA for three consecutive fiscal years [New finding in FY 2015]</p> <ol style="list-style-type: none"> 1. CNCS was required to submit a report to Congress as a result of its non-compliance with IPERA for three consecutive fiscal years (FYs 2012 through 2014); however, it did not do so. | <p>Finding 8 – CNCS did not complete the reporting required as a result of its non-compliance with IPERA for three consecutive fiscal years [Modified repeat finding of FY 2015 Finding 9]</p> <ol style="list-style-type: none"> 1. CNCS did not report to OMB and Congress as required as a result of CNCS’s non-compliance with IPERA for more than three consecutive fiscal years. |

CNCS MANAGEMENT'S RESPONSE

Corporation for National and Community Service

NationalService.gov



To: Stuart Axenfeld, Assistant Inspector General for Audit

From: Lori Giblin, Chief Risk Officer *Lori Giblin*

Cc: Robert McCarty, Chief Financial Officer
Tim Noelker, General Counsel
Desiree Tucker-Sorini, Chief of Staff

Date: May 21, 2018

Subject: CNCS Management Response to OIG Draft Report: Performance Audit of the Corporation for National and Community Service's Compliance with Improper Payments Elimination and Recovery Act of 2010 for Fiscal Year 2017

Thank you for the opportunity to comment on the Draft Report of the FY 2017 IPERA Audit provided by Cotton & Co. CNCS generally concurs with the overall findings and recommendations. Please see the attached for the agency's detailed response to the individual findings and recommendations.

Attachment

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Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

Attachment to the CNCS Management Response to the OIG Draft Report: Performance Audit of the Corporation for National and Community Service's Compliance With the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2017

| Finding 1: CNCS did not fully comply with the IPERA risk assessment requirements. [Modified repeat finding for FY 2017] | | | |
|--|---|---|--------------------|
| Recommendation(s) | | | |
| Recommendation | Sub-Recommendation | CNCS Response | Disposition |
| Take action to improve the IPERA risk assessment process to fully comply with the IPERA requirements. Specifically, this should include: | 1a. Performing procedures to confirm the completeness and validity of the prior-year risk assessment, if relying on a risk assessment from a prior year. | CNCS will continue to perform this assessment and updated its standard operating procedures to adequately document the procedures taken. | Concur |
| | 1b. Ensuring that CNCS maintains documentation to support that it verified the completeness and validity of the risk assessment that it is relying upon for the current year. | CNCS updated its standard operating procedures to include documenting the results of the reassessment of its prior years' susceptibility reports. | Concur |

| Finding 2: CNCS's published improper payment estimate is not statistically valid, complete, or accurate. [Modified repeat finding for FY 2017] | | | |
|---|--|--|---|
| Recommendation(s) | | | |
| Recommendation | Sub-Recommendation | CNCS Response | Disposition |
| Implement a statistically valid method for extrapolating and evaluating the improper payment estimate and strengthen oversight throughout the planning and estimation process to comply with IPERA. Specifically this should include: | 2a. Consult with OMB, as necessary, to: <ol style="list-style-type: none"> a. Update its alternative sampling methodology and extrapolation approach to consider whether: <ul style="list-style-type: none"> • CNCS should select a stratified sample and evaluate the results as a stratified sample, but not as a sample from one stratum. • If selecting a stratified sample, CNCS should use a minimum | CNCS will consult with OMB to seek guidance and will implement next steps based on the consultation. | Partial Concurrence- CNCS will consult with OMB and will implement a sampling methodology in accordance with OMB guidance. |

Page 1 of 8

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Attachment to the CNCS Management Response to the OIG Draft Report: Performance Audit of the Corporation for National and Community Service's Compliance With the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2017

| Finding 2: CNCS's published improper payment estimate is not statistically valid, complete, or accurate. [Modified repeat finding for FY 2017] | | | |
|---|---|---|--------------------|
| Recommendation(s) | | | |
| Recommendation | Sub-Recommendation | CNCS Response | Disposition |
| | improper payment rates and amounts. | | |
| | 2b. Strengthening the supervision and oversight surrounding sampling processes to ensure that employees and consultants correctly and consistently execute the approved sampling methodology and that employees appropriately document and obtain approval for any changes to the approved methodology. | CNCS implemented additional internal controls, including strengthening supervision and oversight for the FY 2018 assessment. This includes greater communication and enhanced quality control over all aspects of sampling, testing, and reporting. | Concur |
| | 2c. Strengthening the administrative and management controls and processes for maintaining sufficient documentation to support the results of the IPERA sampling and testing processes. | CNCS implemented additional internal controls, including strengthening supervision and oversight for the FY 2018 assessment. Specifically, CNCS is implementing a new internal control procedure to complete a documentation verification checklist for each selected sample to ensure file completeness. | Concur |

Attachment to the CNCS Management Response to the OIG Draft Report: Performance Audit of the Corporation for National and Community Service's Compliance With the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2017

| Finding 3: CNCS did not properly identify improper payments. [Modified repeat finding for FY 2017] | | | |
|--|--|--|--|
| Recommendation(s) | | | |
| Recommendation | Sub-Recommendation | CNCS Response | Disposition |
| Take corrective action to develop a comprehensive testing methodology and consistently apply that methodology to all selected sample items. Specifically, CNCS should: | 3a. Update its test plan evaluation sheets to remove unnecessary attributes that are not related to the IPERA testing objectives and ensure that it addresses all allowability/eligibility criteria applicable to CNCS payments. | CNCS concurs and updated its test plan to remove unnecessary attributes that are not directly related to the IPERA testing objectives. The attributes that were removed were being used by the agency to understand root causes for grantee noncompliance with the National Service Criminal History Check but to assist the annual IPERA audit process CNCS concurs and will document the attributes elsewhere. With regard to the other eligibility criteria listed, CNCS will work with the OIG to determine the applicability of specific attribute documentation. | Partial Concurrence – CNCS will work with OIG to determine the applicability of specific attribute documentation as noted under Finding 3a. |
| | 3b. Update the mandatory training for all CNCS reviewers based on the more comprehensive test plans to ensure that the reviewers use consistent testing methodology and documentation retention plans. | CNCS updated its FY 2018 mandatory training for transaction reviewers and will update it again with the results of this audit. Reviewers will be retrained on the new materials within 30 days of the receipt of the final audit. | Concur |
| | 3c. Implement controls that strengthen supervision and oversight to ensure that CNCS reviewers thoroughly document all testing attributes and final conclusions and maintain adequate supporting documentation, justification, and rationale to support their conclusions. | CNCS implemented additional internal controls, including strengthening supervision and oversight over FY 2018 testing. CNCS is implementing a work paper markup procedure for all tested samples to ensure a clear trail of rationale for the final determination. CNCS is also implementing a new internal control procedure to complete a documentation verification checklist for each selected | Concur |

Attachment to the CNCS Management Response to the OIG Draft Report: Performance Audit of the Corporation for National and Community Service's Compliance With the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2017

| Finding 3: CNCS did not properly identify improper payments. [Modified repeat finding for FY 2017] | | | |
|---|---------------------------|--|--------------------|
| Recommendation(s) | | | |
| Recommendation | Sub-Recommendation | CNCS Response | Disposition |
| | | sample to ensure completeness of the file, which includes completeness of testing sheets and audit trails. | |

| Finding 4: CNCS did not meet the annual reduction target for AmeriCorps. [Modified repeat finding for FY 2017] | | | |
|--|---------------------------|---|--------------------|
| Recommendation | | | |
| Recommendation | Sub-Recommendation | CNCS Response | Disposition |
| Implement corrective actions to address the root cause of improper payments identified for AmeriCorps. After implementing an improved statistical methodology and improved testing approach, CNCS should develop and report realistic reduction targets for subsequent fiscal years and provide a rationale and justification as part of the reported improper payments targets. | Not applicable | CNCS concurs and continues to take action to address the root cause of improper payments. It is notable that benefits from anticipated FY 2018 corrective action are not expected to be realized through IPERA testing until FY 2020 or later. This is attributable to the lag between changes to address root causes, testing of operations after the changes take effect, and subsequent reporting. | Concur |

Attachment to the CNCS Management Response to the OIG Draft Report: Performance Audit of the Corporation for National and Community Service's Compliance With the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2017

| Finding 5: CNCS reported a gross improper payment rate of greater than 10 percent for the AmeriCorps, FGP, and SCP programs. | | | |
|--|---------------------------|---|--------------------|
| Recommendation(s) | | | |
| Recommendation | Sub-Recommendation | CNCS Response | Disposition |
| Implement corrective actions to address the root cause of improper payments identified in the AmeriCorps, FGP, RSVP, and SCP programs. | Not applicable | CNCS concurs and continues to take action to address the root cause of improper payments. It is notable that benefits from anticipated FY 2018 corrective action are not expected to be realized through IPERA testing until FY 2020 or later. This is attributable to the lag between changes to address root causes, testing of operations after the changes take effect, and subsequent reporting. | Concur |

Attachment to the CNCS Management Response to the OIG Draft Report: Performance Audit of the Corporation for National and Community Service's Compliance With the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2017

| Finding 6: CNCS did not adequately report on high-dollar overpayments. [Modified repeat finding for 2017] | | | |
|--|---|--|--------------------|
| Recommendation(s) | | | |
| Recommendation | Sub-Recommendation | CNCS Response | Disposition |
| Improve its process for reporting HDOP to comply with IPERA requirements, including: | 6a. Implementing sufficient supervision and oversight of the HDOP reporting process to ensure that the HDOP reports specify each program as risk-susceptible, including programs that CNCS determines do not have HDOPs during the quarter. | CNCS updated and posted its revised prior FY 2017 reports to include the names of all four risk susceptible programs in the quarters it does not have substantive reporting. The IPERA standard operating procedures were updated accordingly. | Concur |
| | 6b. Updating its HDOP process document to include SCP as a risk-susceptible program subject to HDOP reporting. | CNCS implemented this recommendation and SCP is now reflected as a risk-susceptible program in its reports. The IPERA standard operating procedures were updated accordingly. | Concur |

| Finding 7: CNCS did not complete a cost-benefit assessment for payment recapture audits. [Modified repeat finding for FY 2017] | | | |
|---|---------------------------|--|--------------------|
| Recommendation 7 | | | |
| Recommendation | Sub-Recommendation | CNCS Response | Disposition |
| Conduct and adequately document the results of an annual assessment to determine whether payment recapture audits or other recovery activities are cost-effective for CNCS programs that annually expend \$1 million or more. | | CNCS concurs and will conduct an assessment of all programs and activities that expend over \$1M or more annually to determine if payment recapture audits are cost effective. | Concur |

Attachment to the CNCS Management Response to the OIG Draft Report: Performance Audit of the Corporation for National and Community Service's Compliance With the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2017

| Finding 8: CNCS did not complete the reporting required as a result of an annual assessment to determine whether payment recapture audits or other recovery activities are cost-effective for CNCS programs that annually expend \$1 million or more. | | | |
|--|--|--|---|
| Recommendation 8 | | | |
| Recommendation | Sub-Recommendation | CNCS Response | Disposition |
| Take action to meet the reporting requirements that apply to agencies that have been non-compliant with IPERA for three consecutive fiscal years. Specifically, CNCS should submit the following reports to OMB and Congress: | 8a. Reauthorization proposals for each (discretionary) program or activity that has not been in compliance for three or more consecutive fiscal years. | CNCS concurs with the finding and will consult OMB on which report to submit to Congress and will submit the report in accordance with OMB guidance. | Partial Concurrence – CNCS will submit the report in accordance with OMB guidance. |
| | 8b. Proposed statutory changes necessary to bring the program or activity into compliance. | CNCS concurs with the finding and will consult OMB on which report to submit to Congress and will submit the report in accordance with OMB guidance. | Partial Concurrence – CNCS will submit the report in accordance with OMB guidance. |

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