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# Office of Inspector General Corporation for National and Community Service

Semiannual Report to the Congress  
for the period  
April 1, 2001 – September 30, 2001

*Fiscal Year 2001*  
*Semiannual Report No. 2*

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As required by the Inspector General Act of 1978, as amended, this report describes our activities and accomplishments for the second half of the fiscal year. Section 5 of the Act requires that the Corporation's Chief Executive Officer submit this report to the Congress and the Corporation's Board of Directors within 30 days of its receipt.

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# EXECUTIVE SUMMARY

## AUDIT SECTION

During this semiannual reporting period, OIG issued fifteen audit reports, for a total of twenty-eight during the fiscal year. Summaries of all audit reports issued from April 1 to September 30, 2001 are on pages 10 and 11.

### *Financial Management*

The audit of the Corporation's fiscal year 2000 financial statements resulted in an unqualified opinion on the Statement of Financial Position as of September 30, 2000 and the related Statements of Operations and Changes in Net Position and Cash Flows for the year then ended. The management letter, issued July 13, 2001, based on this audit included 33 recommendations in eight subject areas (*page 1*).

In a study of the Corporation's current financial reporting policies, OIG concluded that the Corporation is in substance a federal agency by virtue of its reliance on appropriated funds. Consequently, the study recommended that the Corporation consider adopting the Federal Accounting Standards Advisory Board reporting model in lieu of the private sector standards upon which it has historically relied (*page 1*).

### *GPRA Performance Reporting*

OIG reviewed the Corporation's internal controls for performance statistics and accomplishment reporting for fiscal year 2000. The audit identified a lack of policies and procedures to assure performance statistics were accurately compiled and reported and a failure to verify data entered for accuracy at its point of origin (*page 2*).

### *Grant Management and Oversight*

OIG conducted an audit of the Corporation's grant application review process and concluded that the fiscal year 2000 process was conducted in a reasonably equitable manner. However, the audit report included several recommendations for improvements including reducing the paperwork burden, improving grant files maintenance, and allowing more time for peer review of grant applications. The report also noted that the statutory use of the term, "sustainability," is somewhat unclear and recommended that Congress consider whether it should clarify its intent in establishing this requirement, and its relationship to the Congressional goal of reducing grantees' reliance on federal funding as set forth in section 130(b)(3) of the National and Community Service Act of 1990, as amended, and codified in Title 42, US Code, section 12582(b)(3). (*page 3*).

OIG issued four state commission (Maryland, Connecticut, Massachusetts, and Colorado) pre-audit survey reports in its continuing initiative to gather basic information about, and assess risk related to, the Corporation's grants to state commissions and sub-grantees of the commissions.

OIG also issued a report summarizing pre-audit survey results and findings from the 37 state commission pre-audit surveys that have been completed to date. Approximately 60% of the surveyed commissions have implemented systems that provide for adequate fiscal administration of Corporation grant funds. However, only 19% had implemented adequate systems for monitoring and oversight of their subgrantees. The audit

## EXECUTIVE SUMMARY

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recommended that the Corporation provide more specific guidance on commission oversight and monitoring responsibilities and the conduct of periodic visits to subgrantee locations (*page 3*).

The incurred-cost audit of the Oregon Community Service Commission resulted in questioned costs of more than \$3 million of the \$12.3 million in costs claimed, and included 19 recommendations to the Commission and the Corporation for corrective actions (*page 5*).

### ***Information Systems***

OIG reviewed the Corporation's Network and Computer Security Plan to assess the effectiveness of security policies and procedures. The audit report concluded that the Corporation generally met the requirements of OMB Circular A-130 with two exceptions identified. OIG also completed an audit of the Corporation's System Development Life Cycle and concluded that the methodology provides a good approach to system development, but improvements could be made in three areas (*page 5*).

### ***Procurement***

OIG conducted preliminary survey work of procurements at Corporation service centers around the country. The report noted that the Corporation is implementing new procurement policies and procedures at regional service centers during fiscal year 2001. Therefore, OIG decided to terminate this assessment and to delay testing of such procurement activities until fiscal year 2003 when the new policies have been in effect for a reasonable period of time (*page 6*).

### **INVESTIGATIONS SECTION**

During this semiannual reporting period we received and processed 34 Hotline calls, opened 65 investigative actions, and completed 65 investigative actions. We referred five matters to the Department of Justice for prosecution or civil enforcement. Highlights of investigations closed during this period are presented on page 12.

#### ***Headquarters Operations***

A referral to management involving potential violations of the Fair Labor Standards Act is pending management action (*page 12*).

A referral to management involving security issues, identified during our investigation into files that were reported missing from the Corporation's Equal Opportunity office, is pending management action (*page 12*).

A referral to management involving the reprimand of a Corporation employee for providing information directly to the OIG is pending management action (*page 12*).

Twenty-three referrals to management involving the misuse of the government travel card by Corporation employees are pending management action (*page 13*).

A referral to management involving the false certification of timesheets by five Corporation employees is pending management action (*page 13*).

Two referrals to management, one involving a Corporation employee engaging in alleged misconduct with an AmeriCorps member and the other involving the potential violation of Corporation procurement policy by an

## *EXECUTIVE SUMMARY*

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employee who signed a purchase request without authorization are pending management action (*page 13 and 14*).

### ***Grantees/AmeriCorps Members***

Two AmeriCorps members each at different Corporation grantees, who prepared and submitted false service hour timesheets were terminated by the grantees and are not eligible to receive education awards. An arrest warrant is outstanding for one of the members (*page 14 and 15*).

Improper certification of eligibility by an AmeriCorps program manager resulted in the payment of \$10,300 in education awards that were not earned. The grantee reimbursed the Corporation (*page 15*).

A referral to management involving an imposter using a false identity to enroll as an AmeriCorps\*VISTA member and earn an education award is pending management action (*page 15*).

Theft of \$25,000 of non-federal funds by the director of an RSVP grantee resulted in court-ordered compensatory damages (*page 15*).

### **OIG FY 2001 PERFORMANCE AND FINANCIAL INFORMATION**

As it is our custom, OIG's Performance Information is included in this Semiannual Report (*pages 33-37*). Page 38 provides information on our use of our budgetary resources.

### **OUTREACH EFFORTS**

As a part of our ongoing fraud prevention efforts, the Deputy Inspector General for Investigations and Operations provided an OIG presentation at the most recent Corporation New Employee Orientation session. The presentation included the authority and responsibilities of the OIG and when and how employees should contact the OIG.

# IG ACT REPORTING REQUIREMENTS

This table cross-references the reporting requirements prescribed by the Inspector General Act of 1978, as amended, to the specific pages in the report where they are addressed.

Requirement		Page
Section 4 (a)(2)	Review of legislation and regulations	18
Section 5 (a)(1)	Significant problems, abuses, and deficiencies related to the administration of Corporation programs and operations	Throughout
Section 5 (a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies found in the administration of Corporation programs and operations	Throughout
Section 5 (a)(3)	Prior significant recommendations on which corrective action has not been completed	28 – 32
Section 5 (a)(4)	Matters referred to prosecutive authorities	17
Section 5 (a)(5)	Summary of instances where information was refused	None this period
Section 5 (a)(6)	List of audit reports by subject matter showing dollar value of questioned costs and recommendations that funds be put to better use	1 - 6
Section 5 (a)(7)	Summary of each particularly significant report	Throughout
Section 5 (a)(8)	Statistical table showing number of reports and dollar value of questioned costs	20
Section 5 (a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	21
Section 5 (a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by end of reporting period	22
Section 5 (a)(11)	Significant revised management decisions	None this period
Section 5 (a)(12)	Significant management decisions with which the Inspector General disagrees	6 – 9

# AUDIT SECTION

The Office of Inspector General Audit Section is responsible for reviewing financial, administrative, and program aspects of Corporation operations. It carries out these responsibilities by conducting the audit of the Corporation's annual financial statements, assessing the Corporation's management controls, auditing Corporation operations, and auditing individual grants, contracts, and cooperative agreements funded by the Corporation. All OIG audit reports are referred to Corporation management for action or information. A list of the reports issued by the Audit Section during this period can be found on pages 10 and 11.

## FINANCIAL MANAGEMENT

### ***Recommended Improvements to the Corporation's Internal Controls Fiscal Year 2000 – Management Letter (OIG Audit Report Number 01-02)***

The Government Corporation Control Act (31 U.S.C. 9101 *et seq.*) requires the Office of Inspector General to annually audit the Corporation's financial statements. OIG contracted with KPMG to audit the Corporation's fiscal year 2000 statements. This audit, conducted in accordance with government auditing standards, resulted in an unqualified opinion on the Corporation's Statement of Financial Position as of September 30, 2000 and the related Statements of Operations, Changes in Net Position, and Cash Flows for the year then ended. We reported on the results of the audit in our prior semiannual report.

During the course of the audit, the auditors noted other matters involving the Corporation's internal controls that were not considered material weaknesses or reportable conditions. These conditions were reported in the annual audit management letter, issued July 13, 2001, that included 33 recommendations in eight subject areas (grants management, national service trust, annual financial report, revenue from reimbursable agreements, information technology, procurement and general expenses, human resources, and net position).

### ***Financial Reporting An Analysis of Alternatives and Recommendation (OIG Audit Report Number 01-33)***

The OIG also engaged KPMG to provide a study on the Corporation's financial reporting and basis of accounting, including an analysis of alternatives and recommendations. KPMG reviewed the Corporation's legislation (authorization and appropriations), budget, and current financial statements, and obtained an understanding of the Corporation's structure and operations. The study concluded that the Corporation is in substance a federal agency by virtue of its reliance on appropriated funds, and that Financial Accounting Standards Board private sector standards that the Corporation has historically used do not provide for the reporting of essential budgetary information or program performance data as required by the Federal Accounting Standards Advisory Board that government agencies and other entities now use for financial reporting. The study recommended that the Corporation consider adopting the federal reporting model. The Corporation agreed that the federal reporting model provided useful information on the Corporation's operations and indicated it intends

to continue enhancing its financial statements as deemed relevant, cost effective and useful to the financial statement reader.

***Response to the Subcommittee on VA, HUD and Independent Agencies' Request for Review of the Corporation for National Service's Fiscal Year 2002 Funding Request for the National Service Trust Fund (OIG Audit Report Number 01-49)***

In response to a Congressional request, the OIG engaged KPMG to review the methodology the Corporation used in calculating its fiscal year 2002 Trust Fund budget authority request. The report found adequate support for the Corporation's decision to request no additional funding for the Trust Fund in fiscal year 2002. The analysis also noted that it is likely that Congress will need to appropriate approximately \$75 million in fiscal year 2003 to fund the awards for the 2003 program year assuming Congress elects to continue the program at levels consistent with historical experience over the past several years. The Corporation did not significantly disagree with the report but noted several considerations regarding the assumptions used in preparing its budget estimates.

## **GPRA PERFORMANCE REPORTING**

***Audit of Controls Over the Corporation for National and Community Service's Key Performance Indicators and Accomplishment Statistics (OIG Audit Report Number 01-28)***

KPMG was engaged to assess the internal controls related to key indicator and accomplishment statistics included in the Corporation's Fiscal 2000 Performance Report required by the Government Performance and Results Act of 1993 (GPRA). Overall, the report concluded that the Corporation's key internal controls over the performance information need improvement. The audit revealed, among other findings, that the Corporation lacks policies and procedures to assure that the statistics in its Performance Report were accurately compiled and reported, and fails to verify data entered for accuracy at its point of origin. The report includes specific recommendations to improve the controls, the performance data, and the resulting report.

## **GRANT MANAGEMENT AND OVERSIGHT**

The Corporation awards National and Community Service Act and Domestic Volunteer Service Act grants to state and local governments, state commissions, institutions of higher education, and other not-for-profit organizations. Grantees are required, among other things, to expend funds only for allowable costs and to provide periodic reports to the Corporation to demonstrate programmatic and financial compliance with the terms of the respective grant agreements. The Corporation is responsible for ensuring that grantees comply with applicable laws and regulations related to the administration of grant awards, including those related to federal cash management requirements.

The OIG Audit Section performs audits of the Corporation's oversight of grantees and audits of specific grants to assess whether reported costs were allowable under federal regulations and whether grantees complied with the terms and conditions of the awards. Our reports on Corporation grants contain recommendations for correcting the deficiencies identified in the reports. Typically, the

recommendations are for the grantees to reimburse questioned costs and to establish and implement policies and procedures to prevent future instances of non-compliance and improve internal controls. We also make recommendations for increased oversight by the Corporation and improvements in Corporation grants management operations

***Report on the Review of the Corporation for National and Community Service National Direct Grant Application Review Process (OIG Audit Report Number 01-31)***

The OIG engaged Cotton & Company to review the Corporation's grant application review process (GARP). The review included procedures to document and assess the Corporation's process for awarding its fiscal year 2000 National Direct program grants, follow-up on the Corporation's progress in implementing recommendations made in OIG's 1996 assessment of the application process, and review compliance with legislative requirements.

The audit concluded that the FY 2000 process was conducted in a reasonably equitable manner. Recommendations for improving the GARP process were provided, including paperwork reduction and allowing more time for peer review of grant applications. Recommendations for improving the Corporation's grant files and its accounting for costs related to GARP were also included.

Additionally, the report focused on the requirement that the Corporation consider "sustainability" of programs during the grant application process. It noted that "sustainability" is somewhat unclear and recommended that Congress consider whether it needs to clarify its intent in establishing this requirement. It also recommended that the Corporation consider developing performance goals related to sustainability and reducing grantees' reliance on federal funds.

***Pre-Audit Surveys and State Commission Audits***

***Summary of Thirty-Seven State Commissions Pre-Audit Survey Reports (OIG Audit Report Number 01-41)***

This report summarized the first 37 state commission pre-audit surveys, four of which were completed during this reporting period. They were Maryland, Connecticut, Massachusetts, and Colorado. As discussed in our previous Semiannual Report to Congress for the period April 1, 2000 – September 30, 2000, these surveys were performed to provide OIG with a preliminary assessment of the commissions' pre-award and grant selection procedures, fiscal administration, and monitoring of subgrantees (including AmeriCorps Member activities and service hour reporting). The surveys were also intended to provide information on other audit coverage that will assist OIG in determining the timing and extent of future audit work at each state commission and avoid duplication of effort.

Conclusions from these pre-audit surveys are:

- One of the 37 commissions has established systems that offered reasonable assurance that pre-award and grant selection procedures, fiscal administration, and monitoring of subgrantees were adequate during all program years surveyed.

However, 25 commissions have initiated improvements in recent years, 16 of which are due to implementation of the Web Based Reporting System (WBRs).

- Twenty-two of the surveyed commissions, or approximately 60 percent, have established systems that provide for adequate fiscal administration of Corporation grant funds.
- Seventeen of the 37 commissions have established systems that provide reasonable assurance that the pre-award and grant selection procedures are adequate. Most were described as administering an open, competitive process to select national service subgrantees. However, many of the commissions did not always retain sufficient documentation to support their grant selection process, in particular conflict of interest forms signed by individuals reviewing applications.
- Thirty were found to have inadequate systems for monitoring their subgrantees. Assessment of the commissions' systems for monitoring subgrantees proved to be the most problematic area in the pre-audit surveys. More emphasis needs to be placed on the commissions' responsibility for subgrantee oversight.
- More than half of the 37 commissions had adequate systems for fiscal administration, but 17 lacked evidence of reconciling financial data on Financial Status Reports to underlying financial records.

The pre-audit survey reports contain various recommendations directed at each of the individual commissions and at the Corporation to address the conditions that the auditors identified. Generally, the reports recommend that the Corporation follow up with each commission to determine that appropriate corrective actions are in place to address the following conditions that applied in many jurisdictions:

- Lack of adequate procedures and guidance for evaluating and monitoring the performance of subgrantees.
- Failure to document periodic site visits and the specific monitoring steps performed.
- Absence of standard procedures for reviewing subgrantee Financial Status Reports and documenting the results, including the recalculation of matching requirements and comparison of FSRs with the underlying documentation.
- Lack of a systematic means of obtaining and reviewing OMB Circular A-133 audit reports from subgrantees subject to such audits and failure to follow up on any deficiencies noted in the A-133 reports in a timely manner.

Additionally, the pre-audit surveys recommended that the Corporation revise its guidance to the commissions on subgrantee monitoring to specify minimum procedures that must be performed and minimum documentation requirements.

In responding to the individual reports, some state commissions disagreed with some of the reported findings, but all but one of the 37 commissions indicated that they either agreed with, or have initiated corrective actions in response to other findings and recommendations. Each of our survey reports recommended that the Corporation follow-up to determine that the conditions reported have been effectively corrected. Generally, the responses have indicated that the Corporation will consider the reports during their administrative monitoring and oversight reviews to be performed on a three-year cycle.

***Audit of Corporation for National Service Grants Awarded to the Oregon Community Service Commission (OIG Audit Report Number 01-04)***

OIG engaged KPMG to perform an incurred cost audit of Corporation funds awarded to the Oregon Community Service Commission for the period January 1994 through August 2000. The audit revealed more than \$3 million in questioned costs and resulted in 19 recommendations. The majority of the questioned costs are a result of missing supporting documentation. The Commission has responded that policies and procedures to correct the deficiencies have been developed; however they were not in place during the period covered by the audit. The significance of the questioned costs, the lack of controls over financial reporting and subgrantee monitoring, and the nature of the specific findings that are identified in the report precluded KPMG from providing an auditor's opinion (assurance) on the more than \$12 million in costs reported and claimed by the Oregon Commission.

***Audit of Corporation for National Service Grants Awarded to the West Virginia Bureau of Senior Services (OIG Audit Report Number 01-12)***

OIG engaged L. G. Birnbaum and Company to audit costs claimed by the West Virginia Bureau of Senior Services under CNCS grant number 439S059. The audit covered the period July 1, 1997 through June 30, 2000 and included procedures to determine if costs claimed in financial reports prepared by the Bureau were allowable, internal controls were adequate to safeguard federal funds, and whether the Bureau had policies and procedures adequate to ensure compliance with federal laws, applicable regulations and award conditions.

The auditors questioned \$63,418 of the \$1,211,502 (5 percent) costs claimed over the three-year period. About \$56 thousand of the questioned costs results from the Bureau's withdrawal of funds from the Corporation in excess of expenditures it claimed and reported for the three fiscal years audited. As reported in Table II, this is considered an excess draw down of funds by the grantee, which could have been used as awards for volunteers in other CNCS programs. The report discussed this condition in detail and provided information on other compliance issues as well as other questioned costs.

## INFORMATION SYSTEMS

***Review of the Corporation for National and Community Service's Network and Computer Security Plan (OIG Audit Report Number 01-34)***

The OIG engaged KPMG to review the Corporation's Network and Computer Security Plan and to assess the effectiveness of security policies and procedures. The report concluded that the

Corporation generally met the requirements of OMB Circular A-130, "Management of Federal Information Resources" with two exceptions. The first exception was that a Summary of the Security Plan was not incorporated in the recent Corporation Information Strategic Plan dated October 19, 2000. The second exception was that no management document specifically authorized connecting the Corporation LAN to the Internet. KPMG recommended that both of these findings be corrected because they are good management practices and are required by OMB Circular A-130.

## ***Review of the Corporation for National and Community Service's System Development Life Cycle (OIG Audit Report Number 01-35)***

The Corporation has installed several new computer applications and system upgrades in recent years and plans to develop and install additional major applications and systems. KPMG was engaged to assess the Corporation's Structured Systems Development Life Cycle (SSDLC) methodology. The report concluded that the Corporation's methodology provides a good approach to system development, but recommends improvements in three areas – policy goals, minimum requirements, and the review of development documents as refinements are made to the system.

## **PROCUREMENT MANAGEMENT**

### ***Letter Report Regarding Review of Procurement Activities at Service Centers (OIG Audit Report Number 01-32)***

OIG retained Cotton & Company to perform preliminary survey work related to possible reviews of the service centers. Cotton & Company determined that OIG's financial statement audit work included testing of service center procurement activities that revealed a few minor problems that have been brought to management's attention. Additionally, Cotton & Company learned that the Corporation is scheduled to implement its new procurement system at the service centers during FY 2001. Therefore, OIG decided to terminate the assessment and to test service center procurement activities in FY 2003.

## **AUDIT RESOLUTION**

### ***Audit Resolution Process***

The Corporation's audit resolution process essentially consists of four steps. After OIG issues an audit report, the Corporation normally issues a Proposed Management Decision (PMD) responding to the report's findings and recommendations generally not more than five months after the final report is issued. If OIG disagrees with management's proposed corrective actions, OIG submits written comments within thirty days of receiving the PMD. Not more than six months after an audit report is issued, the Corporation's audit resolution policy requires that the Chief Financial Officer respond to the audit with a Management Decision (MD) describing approved corrective actions and a timetable for implementing them. Final action on corrective measures must be completed within twelve months of the audit report's publication. Management subsequently transmits a Notification of Final Action when all corrective measures have been completed and the responsible management official has verified their accomplishment. At this point, management considers the audit report to be closed. In

some cases, OIG may elect to continue to track the status of certain significant findings and recommendations if OIG is not fully satisfied that the proposed corrective actions have been effectively implemented.

Additionally, OIG and management representatives periodically meet to review open audit recommendations. During this semiannual reporting period, these sessions reviewed open recommendations from audit reports that were issued more than one year ago. After reviewing management's documentation relating to implementation of effective corrective actions, OIG agreed to close twenty-two recommendations. This cooperative effort was designed to review and close, if possible, numerous recommendations that have remained open for more than twelve months. Similar audit resolution sessions will occur in Fiscal Year 2002 as part of a continuing effort to reduce the number of open recommendations from older audit reports.

## ***Management Decisions (MDs)***

During the period from April through September 2001, OIG received thirteen management decisions including two on procurement audits (OIG Report 00-12, *Follow-up Audit of the Corporation's Procurement Operations*, and OIG Report 00-22, *Audit of Contract Number CNCS 94-002 with Encore Management Corporation*), one on financial management (OIG Report 01-01, *Audit of the Corporation for National and Community Service's Fiscal Year 2000 Financial Statements*) and ten responding to pre-audit surveys in Alabama (OIG Report 01-20), California (OIG Report 01-18), Connecticut (OIG Report 01-21), Maine (OIG Report 01-19), Maryland (OIG Report 01-16), Massachusetts (OIG Report 01-24), Nevada (OIG Report 01-17), South Carolina (OIG Report 01-22), Texas (OIG Report 01-23), and Vermont (OIG Report 01-26).

The Corporation deviated from the normal audit resolution processing steps described above by failing to issue PMDs for ten of the above reports — thus, sidestepping OIG's comments on the proposed decisions. Between September 21 and September 28, the Corporation issued MDs on Audit Reports 01-01 and Pre-Audit Survey Reports 01-16 through 01-22, 01-24, and 01-26. As a result, OIG will provide any comments on these management decisions during October 2001. Accordingly, these reports and management's actions will be addressed in the next Semi-Annual Report covering the period October 1, 2001 to March 31, 2002.

## ***Decisions Related to OIG Audits of CNCS Contracts***

During this semiannual reporting period, the Corporation notified OIG of management decisions for two audit reports on CNCS contracts (OIG Report 00-12, *Follow-up Audit of the Corporation's Procurement Operations*, and OIG Report 00-22, *Audit of Contract Number CNCS 94-002 with Encore Management Corporation*). OIG disagreed with both MDs. Management's decision on Audit Report 00-12 failed to adequately address at least five of the report's recommendations. OIG continues to believe that the Corporation should:

- document in the contract file the basis for determining each vendor's business classification as a small business;
- revise its procurement directive to provide more detailed examples for contract specialists and purchasing agents;

- revise its procedures for processing and expediting payments to vendors and strive to reduce late payments; and
- establish a reasonable dollar threshold over which its determination of best value must be documented when it elects to purchase supplies using the General Services Administration's multiple award schedules.

OIG also received the Corporation's MD on OIG Audit Report 00-22, *Audit of Contract Number CNCS 94-002 with Encore Management Corporation*. This report identified questioned costs of \$1.1 million on a labor services contract for the period July 25, 1994 through December 31, 1998. The audit identified serious deficiencies relating to the contractor's billings at labor rates not included in the contract, use of labor categories not specified in the contract, and improper calculations of indirect costs, other direct costs, the general and administrative rate, and the fixed profit amount. In its decision, the Corporation stated that it recognized the need for an equitable adjustment. Instead of resolving the issues in the independent audit report, however, the Corporation has indicated that it intends to contract with another firm to conduct an incurred cost audit to determine allowable direct costs, indirect rates, and profit under this contract. At this time, OIG is unable to concur in this MD because the Corporation will not make any final decisions on the questioned costs until the incurred cost audit is completed. OIG's final decision must await the results of that audit and the related contractual modification specifying the costs and fees ultimately determined to be allowable for fiscal years 1994-1998.

### ***Decisions Related to Pre-Audit Surveys of State Commissions***

In its pre-audit surveys concerning the state commissions, OIG made recommendations directed at both the Corporation and each commission. While most recommendations in the surveys are directed at the individual commissions, they also identified matters that apply generally to all commissions and require centralized guidance, direction, and oversight from the Corporation. The following comments focus on recommendations directed at the Corporation.

OIG disagreed with the management decisions concerning some of the recommendations contained in the audit reports on Alabama (Report 01-20) and Maine (Report 01-19). In general, the Corporation continued its refusal to acknowledge that guidance the Corporation has issued to the state commissions on monitoring the activities of subgrantees is inadequate and incomplete. In Maine, this issue relates to procedures for testing selected fiscal and programmatic transactions (AmeriCorps Member eligibility, prohibited activities, and allowability of costs), selecting a sufficiently large number of files to ensure a more representative sample, and documenting the items selected for oversight review. OIG also disagreed with the Corporation's failure to place more stringent controls on the level of access granted to different users at the subgrantee level to the Web-Based Reporting System (WBRS), the Corporation's principal automated resource for programmatic and financial information. Permitting multiple users to gain overlapping access to WBRS could compromise the integrity of the reporting process and allow individuals to gain access to levels of authority on the system that are inconsistent with their official duties and responsibilities. The Corporation also disagreed with the recommendation that written procedures describing a methodology for independently verifying the accuracy of subgrantee claims concerning performance measures and statistics. Without this verification process, OIG concluded performance claims may be unreliable.

Similarly in the Alabama report, OIG recommended that the Corporation conduct annual site visits for the next three years to the Alabama State Commission (identified as a high-risk grantee as a result of the pre-audit survey) to ensure corrective actions were implemented and operating effectively. The Corporation rejected this approach to its oversight of the Commission. The report also recommended that the Corporation assist the Commission by developing more comprehensive site visit monitoring tools. OIG has consistently found that existing tools are clearly insufficient. The Corporation disagreed with this recommendation and insisted that applicable OMB circulars, particularly A-133, and the Corporation's State Administrative Standards, provide adequate guidance on the Commission's role in monitoring subgrantees in Alabama. OIG has concluded that reliance on OMB Circular A-133 as the primary means for oversight of grantees and subgrantees is inappropriate since grants awarded by the Corporation and Commissions generally are not tested as major programs during A-133 audits. Moreover, the Alabama survey revealed that none of the Corporation's programs (including the Commission itself) had ever been audited as major programs under the Circular's requirements. For additional discussion of oversight monitoring issues, refer to the discussion on page 7 of OIG's Semiannual Report No. 1 for Fiscal Year 2001.

## ***Reported Final Action Issues***

Additionally during the reporting period, OIG received two notifications of Final Action for OIG Report 00-01, *Audit of Corporation for National Service's Fiscal Year 1999 Financial Statements*, and OIG Report 00-05, *Audit of the Corporation for National and Community Service's Grants with the Health Association of Niagara County*.

While OIG concurred in the revised notice of final action for OIG Report 00-05, OIG did not agree that all actions recommended in OIG Report 00-01 regarding the Financial Statements for Fiscal Year 1999 have been resolved. The Corporation's action was based on its determination that the open recommendations in this report were repeated in Audit Report 01-01 concerning the Financial Statements for Fiscal Year 2000. Both reports included recommendations to correct significant deficiencies including material weaknesses. OIG disagreed with the Corporation's view that recommendations in previously issued audit reports may be administratively closed merely because the same or similar recommendations are contained in subsequently published audit reports. Furthermore, OIG is currently engaged in the audit of the Financial Statements for Fiscal Year 2001 and testing of the Corporation's new financial policies and procedures to determine whether these steps have been effectively implemented and are operating properly. In OIG's view, open recommendations from these reports should not be closed until adequate testing to determine the effectiveness of corrective actions is completed.

AUDIT REPORTS ISSUED DURING THE PERIOD APRIL 1, 2001 THROUGH SEPTEMBER 30, 2001		
Report Number	Issue Date	Report Title
01-02	07/13/01	Recommended Improvements to the Corporation's Internal Controls Fiscal Year 2000 – Management Letter
01-04	09/27/01	Incurred Cost Audit of Grants Awarded to the Oregon Community Service Commission <sup>(1)</sup>
01-12	09/24/01	Audit of Corporation for National Service Grant Number 439S059 to the West Virginia Bureau of Senior Services <sup>(2)</sup>
01-16	04/04/01	Pre-Audit Survey of the Maryland Governor's Office of Service and Volunteerism
01-21	04/04/01	Pre-Audit Survey of the Connecticut Commission on National and Community Service
01-24	04/04/01	Pre-Audit Survey of the Massachusetts Service Alliance
01-25	04/27/01	Pre-Audit Survey of the Colorado Governor's Commission on Community Service
01-28	08/02/01	Audit of Controls Over the Corporation for National and Community Service's Key Performance Indicators and Accomplishment Statistics
01-31	07/09/01	Report on the Review of the Corporation for National and Community Service National Direct Grant Application Review Process
01-32	08/17/01	OIG Letter Report Regarding Corporation for National and Community Service Review of Procurement Activities at Service Centers
01-33	06/19/01	Financial Reporting -- An Analysis of Alternatives and Recommendation
01-34	05/07/01	Review of the Corporation for National and Community Service's Network and Computer Security Plan
<i>(continued)</i>		
<sup>(1)</sup> As described in Table I, this report included questioned costs of \$2,556,570, in federal funds, which were also unsupported costs. OIG Audit Report 01-04 revealed that documentation to support AmeriCorps members' terms of service was not maintained and as a result, Education Awards of \$621,029 in total may be questioned.		
<sup>(2)</sup> As described in Table I, this report included questioned costs of \$55,901 in federal funds.		

<b>AUDIT REPORTS ISSUED DURING THE PERIOD APRIL 1, 2001 THROUGH SEPTEMBER 30, 2001</b>		
<b>Report Number</b>	<b>Issue Date</b>	<b>Report Title</b>
01-35	05/25/01	Review of the Corporation for National and Community Service's System Development Life Cycle
01-41	07/31/01	Summary of Thirty-Seven State Commission Pre-Audit Survey Reports
01-49	06/15/01	Response to the Subcommittee on VA, HUD and Independent Agencies' Request for Review of the Corporation for National Service's Fiscal Year 2002 Funding Request for the National Service Trust Fund

# INVESTIGATIONS SECTION

We began this reporting period with 33 previously opened investigative actions. During this reporting period we opened 65 new investigative actions and closed 65. We had 33 investigative actions pending at the end of the reporting period.

## HIGHLIGHTS OF INVESTIGATIONS CLOSED DURING THIS REPORTING PERIOD

### *Potential Violations of Fair Labor Standards Act*

We completed an investigation we opened after a member of Corporation management told us that there might be improprieties in the timesheets of staff members at a Corporation office. We found evidence that Corporation employees, with the knowledge, consent, and sometimes at the direction of some Corporation managers, were working overtime without proper compensation. These acts appear to violate the Fair Labor Standards Act. We also found evidence that timesheets were incorrectly completed in order to conceal the improper acts. The Assistant United States Attorney for the District of Columbia declined to accept this matter for prosecution in lieu of administrative action by the Corporation. On June 28, 2001, we referred this matter to Corporation management for disciplinary and/or other action as appropriate. Action taken by management will be reported when we receive notification of such action. (01-010)

### *Files Missing from EO Office – Security Deficiencies Found*

We completed an investigation we opened after being notified by the Director of the Corporation's Equal Opportunity (EO) Office that files containing documents that might be evidence in several EO complaints concerning recent hires were missing from the EO office. The files pertained to the hiring of two Corporation employees and the hiring resulted in multiple discrimination complaints. We were unable to locate the files or determine who removed the files or why the files were removed. We learned that the files were left unsecured within the EO office and we found problems with key control and building security. On June 4, 2001, the security problems we found were identified for management, along with our recommendations to mitigate or correct the problems. Corrective actions taken by management as a result of our recommendations will be reported when they are received. (00-029)

### *Employee Reprimanded for Providing Information Directly to OIG*

We completed an investigation we opened after a Corporation employee reported she received a reprimand for providing our office information. We found that the Corporation employee, after providing us with information we requested without her first "clearing it through proper channels," received a written reprimand threatening her with disciplinary action if she failed to submit future responses for review and clearance. The employee's office director, the author of the reprimand, admitted writing the reprimand and claimed he wrote it, in part, to enforce his supervisor's directives regarding "OIG inquiries/requests." The office director's supervisor denied issuing such directives,

claiming he instructed the office director to keep him informed of OIG requests. On June 4, 2001, this matter was referred to management for their use in determining if disciplinary and/or other action is warranted. We also recommended that management issue written guidance to all employees reinforcing the OIG's authority to have access to all material available to the Corporation which relate to Corporation programs and operations. Action taken by management will be reported when we receive notification of the action. (01-051)

### ***Corporation Employees Misuse Government Travel Card***

We completed 28 separate investigations that we opened as a part of our proactive review of government travel card use by Corporation employees. We compared charges to the employees' government travel card accounts to their official travel documents and found evidence that the employees used their official government travel card for personal use. We referred 23 of these investigations to Corporation management for their use in deciding what action to take against the employees. The remaining five investigations pertain to employees who retired, resigned, died, or the dollar amount involved was very low. Actions taken by management will be reported when we receive notification of them. (01-025, 01-026, 01-027, 01-029, 01-037, 01-038, 01-040, 01-041, 01-042, 01-044, 01-045, 01-046, 01-047, 01-048, 01-049, 01-050, 01-055, 01-057, 01-058, 01-060, 01-073, 01-075, 01-077, 01-078, 01-079, 01-080, 01-081, 01-091)

### ***Corporation Supervisor Steals Radio and Falsely Certifies Timesheets - Supervisor Dismissed Action Pending Against Subordinates***

We completed an investigation we opened after receiving information that a Corporation supervisor stole Corporation property and was allowing subordinates to take time off without charging them leave on their timesheets. We found evidence that the supervisor stole a CD/clock radio valued at \$122.49, which was purchased with Corporation funds. We also found evidence that the supervisor and his five subordinates falsely certified a total of 161 work hours on the subordinates' timesheets by failing to properly document the subordinate's leave hours. The loss to the Corporation for the false certification on the timesheets is \$2,045.70. The supervisor resigned from the Corporation during our investigation. We coordinated this matter with the local United States Attorney's Office, and they accepted the theft of the radio for prosecution. The supervisor was arraigned in federal court and subsequently placed in a pretrial diversion program. He was required to perform 40 hours of community service and to make restitution of \$122.49 to the Corporation. The supporting Assistant United States Attorney declined to accept for prosecution the false certification of the timesheets, citing available administrative remedies. On May 15, 2001, the false certification of the timesheets was referred to management for disciplinary action, as they deem appropriate, against the subordinates. Action taken by management will be reported when we receive notification of the action. (01-021)

### ***Corporation Employee Engages in Alleged Misconduct with AmeriCorps Member***

We completed an investigation we opened after the Corporation's Office of General Counsel notified us of an allegation of misconduct involving a Corporation employee and an AmeriCorps member. Our investigation disclosed evidence that a Corporation employee engaged in a sexual relationship with an AmeriCorps member and loaned her money. On June 14, 2001, this matter was referred to

management for their use in determining if disciplinary action is warranted. Action taken by management will be reported when we receive notification of the action. (01-056)

### ***Employee Signs Purchase Request – May Have Violated Corporation Procurement Policy***

We completed an investigation we opened after Corporation management notified us that a Corporation employee might have signed a purchase request as the acting state director without the state director's authorization. The state director alleged that a program manager within his office signed a procurement request for an AmeriCorps\*VISTA in-service training (IST) as the acting director without his (the state director's) authorization. It appears that the program manager attempted to schedule a AmeriCorps\*VISTA IST in conjunction with another workshop and with a grantee press release announcing the grantee's partnership with the Corporation's State Office. Only seven AmeriCorps\*VISTA members attended the training. The program manager authorized the use of \$1,790.40 of AmeriCorps\*VISTA IST funds to purchase refreshments for eighty individuals and \$125 of AmeriCorps\*VISTA IST funds for the equipment that was used during the various events. It appears that the program manager violated Corporation policy when she made the procurement. We found no evidence that the program manager signed the document with the intent to defraud the U.S. Government. On June 28, 2001, this matter was referred to Corporation management for disciplinary and/or other action as appropriate. Action taken by management will be reported when we receive notification of such action. (01-012)

### ***Stolen Laptop Computer Recovered***

We completed an investigation we opened after receiving information that a Corporation laptop computer, stolen in April 2000, was identified by serial number in a Toshiba class action settlement. We determined that a non-Corporation employee living in San Francisco filed the class action settlement claim with Toshiba. This individual claimed he purchased the computer in San Francisco from a person he did not know. We recovered the laptop computer from the non-Corporation employee, and after examining the hard drive for investigative leads, released it to the Corporation. Absent further leads that would identify the individual that stole the laptop, the matter was closed with no further investigative activity anticipated. (01-028)

### ***False Timesheets Result in Termination of AmeriCorps Member***

We completed an investigation we opened after a state commission reported that an AmeriCorps member falsified her timesheet. Our investigation disclosed evidence that an AmeriCorps member falsified her timesheet, reflecting service hours she did not perform. The member was terminated by the grantee and did not qualify for, or receive, an education award. We found evidence that the former member consistently reported performing tutoring services for one particular individual at this individual's apartment complex management office. The apartment manager denied anyone ever performing tutoring services in her office; further, the grantee's executive director reported this individual was not approved by the grantee to receive tutoring services. The United States Attorney declined to accept this matter for prosecution based on the low dollar value. The State Attorney's Office accepted this matter for prosecution, we coordinated the matter with local law enforcement authorities and an arrest warrant for the former AmeriCorps member was issued. Under state law, arrest warrants issued for misdemeanor offenses are not actively pursued. We anticipate no further

investigative activity by our office and will prepare no further reports concerning this matter unless the subject is apprehended and prosecuted. (01-013)

### ***AmeriCorps Member Forges Timesheets and is Dismissed Without Education Award***

We completed an investigation we opened after receiving a copy of an email to the President of the United States, sent to the President by a former AmeriCorps member making allegations of fraudulent timesheets. We found evidence that an AmeriCorps member forged program timesheets by inflating her service hours by 104.5 hours and signing supervisor's name to the timesheets. The AmeriCorps member was dismissed and is not eligible for an education award. The United States Attorney's Office declined prosecution, and although there was sufficient evidence that the former AmeriCorps member inflated her service hours and forged her supervisor's signature, the state prosecutor declined prosecution because the government did not suffer a financial loss. No further investigative activity or reporting is anticipated. (00-051)

### ***Education Awards Paid to Ineligible AmeriCorps Members – Funds Recovered***

We completed an investigation we opened after we learned that an AmeriCorps program reported that some of their members did not complete the service hours required to earn an education award, although the members were certified as eligible to receive the award. We found that the program manager allowed the members to claim service hours for holidays, leave time, and other absences, such as when the school where the member was serving closed for spring break. It appeared the program manager mistakenly gave the members the same benefits as the staff. Review of member records disclosed that education awards amounting to approximately \$10,300 were disbursed for members who did not have a sufficient number of service hours for an award. The grantee entered into an agreement with the Corporation to reimburse the Corporation the \$10,300 improperly disbursed as education awards. No further investigative activity or reporting is anticipated. (00-034)

### ***Imposter Enrolls as AmeriCorps\*VISTA Member – Earns Award***

We completed an investigation we opened after learning that an AmeriCorps\*VISTA grantee was informed by a law enforcement agency that one of the grantee's former AmeriCorps\*VISTA members used a false identity to enroll as an AmeriCorps\*VISTA. Investigation by a local law enforcement agency disclosed evidence that the suspect assumed the identity of a former roommate and subsequently engaged in fraudulent activity. The individual enrolled in an AmeriCorps\*VISTA program under the assumed name and earned an education award that he has not used. This matter was referred to Corporation management for their use in determining if the individual's education award should be revoked. Action taken by management will be reported when notification of the action is received. (01-018)

### ***Theft of Non-Federal Funds Results in Court-Ordered Compensatory Damages***

We completed an investigation we opened after receiving notification that the director of an RSVP grantee was under investigation by local authorities for theft of funds and falsification of timesheets while performing duties as the RSVP Director. Our investigation disclosed evidence that the RSVP director (who has since been fired) and the assistant director (who retired before we were notified of

## *INVESTIGATIONS*

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this matter) stole approximately \$25,000 from the proceeds of various fund raising activities. No federal grant funds were stolen. The United States Attorney's Office pursued this matter via the Affirmative Civil Enforcement (ACE) program and allowed the former director and former assistant director to settle this case by paying a total of \$2,600 in compensatory damages. (98-025)

## INVESTIGATIONS

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STATISTICAL SUMMARY OF INVESTIGATIONS	
<b>Opened and Closed</b>	
Number of Cases Open at Beginning of Reporting Period.....	33
Number of New Cases Opened During This Reporting Period.....	65
Number of Cases Closed During This Period With Significant Findings.....	40
Number of Cases Closed During This Period With No Significant Findings.....	25
Total Cases Closed This Reporting Period.....	65
Number of Cases Open at End of Reporting Period.....	33
<b>Referred</b>	
Number of Cases Referred for Prosecution During This Reporting Period.....	5
Number of Cases Accepted for Prosecution During This Reporting Period.....	2
Number of Cases Declined for Prosecution During This Reporting Period.....	4
Number of Cases Pending Prosecutive Review.....	1

# REVIEW OF LEGISLATION & REGULATIONS

Section 4(a)(2) of the Inspector General Act requires the Office of Inspector General to review and make recommendations about existing or proposed legislation and regulations relating to the Corporation's programs and operations. OIG recommendations are to address the impact of legislation and regulations on the economy and efficiency of the Corporation's administration and operations. OIG is also to make recommendations concerning the impact of legislation and regulations on the prevention and detection of fraud and abuse in programs and operations that the Corporation administers and funds.

## ***Status of Efforts to Develop Cost Accounting and Grant Management Systems and Central Archives***

In providing the Corporation's funding for fiscal year 2001 as part of the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act (Public Law 106-377), Congress specified that not less than \$2 million dollars shall be used for the acquisition of a cost accounting system, establishment of an integrated grants management system, and creation of a central archives serving as the repository for all Corporation grants, cooperative agreements and related documents. The Corporation has awarded a contract to develop a new automated grants management system that is scheduled to be initially operational in April 2002 while attaining full operational capability during the following year. Similarly, a Corporation contractor recently completed an assessment of the Corporation's cost allocation methodology, and the Corporation is considering that report's recommendations and follow up actions to refine the cost accounting model and improve its capabilities.

Concerning the requirement for a central archive, OIG reviewed the Corporation's proposed policy on Grant Files Management and suggested a number of revisions. Most significantly, the policy continues to permit each office that issues a grant award, the five service centers and headquarters to maintain their own grant files. OIG expressed concern to the Corporation that this policy was inconsistent with Public Law 106-377's mandate that grant files be centrally archived. The Corporation responded that it was not cost effective to have five services centers duplicate and forward files to headquarters, nor does the headquarters office building have sufficient available storage space for all grant-related records. The Corporation also advised that grant files will not include related records, like grant applications, peer review evaluation and analysis records, and award decision documents, in a single file maintained at one headquarters location. Accordingly, under the proposed policy on Grant Files Management, records pertaining to grants will be maintained at various locations for the foreseeable future. This approach is not fully consistent with the central archives concept.

## ***Clarification of "Sustainability" Requirement***

During the reporting period, OIG issued an audit report on the Corporation's National Direct Grant Application Review Process (page 3) that included a discussion of the legislative intent when the requirement for "sustainability" was included in section 115 (42 US Code section 12527) and section 133 (42 US Code section 12585) of the National and Community Service Act. The statute does not define this term, and it can be interpreted in several different ways. One interpretation is that a grantee should over time become self-sufficient, develop alternative funding sources, and be able to

## *REVIEW OF LEGISLATION & REGULATIONS*

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operate without continuing Corporation support and assistance. On the other hand, the Corporation's interpretation is that sustainability simply means that a program is viable, operating effectively, and worthy of additional federal funding and assistance. In fact, many of the current National Direct grantees have regularly received Corporation grants since 1994. While Congress did not forbid providing successive grants to the same grantee, the legislative history does focus on the goal of reducing grantee's reliance on federal funding. The audit report recommends that Congress consider whether it needs to clarify what was intended by requiring the Corporation to consider "sustainability" of programs during the Corporation's assessment of grant applications and whether a clear measure of a grantee's reliance on federal funding should be established.

**TABLE I**  
**INSPECTOR GENERAL REPORTS WITH QUESTIONED COSTS**

			Federal Costs	
		Number	Questioned	Unsupported
(Dollars in thousands)				
1.	For which no management decision had been made by the commencement of the reporting period	10	\$ 10,524	\$ 2,729
2.	Which were issued during the reporting period	2	2,613	2,557
		—	—	—
3.	Subtotals (1 plus 2)	12	13,137	5,286
4.	For which a management decision was made during the reporting period:	2		
(i)	dollar value of disallowed costs	*	539	0
(ii)	dollar value of costs not disallowed		<u>1</u>	<u>0</u>
5.	For which no management decision had been made by the end of the reporting period (3 minus 4)	<u>10</u>	<u>\$ 12,597</u>	<u>\$ 5,286</u>
6.	Reports with questioned costs for which no management decision was made within six months of issuance	8	\$ 9,984	
*The Corporation's management decision did not address approximately \$539 thousand of costs questioned related to Contract No. CNCS 94-002 as reported in OIG Audit Report 98-24, <i>Audit of the Corporation's Procurement and Contracting Processes and Procedures</i> . This contract was subsequently audited, including follow-up to the \$539 thousand in questioned costs, and the results were reported in OIG Audit Report 00-22, <i>Audit of Contract No. CNCS 94-002 with Encore Management Corporation</i> . The Corporation indicated that \$94,091 was received from the contractor as partial recovery of the \$539 thousand in questioned costs. Moreover, although the Corporation provided the Final Management Decision to OIG Audit Report 00-22 on June 1, 2001, the decision fails to address questioned costs related to this contract as discussed on page 8 of the report.				

**TABLE II**  
**INSPECTOR GENERAL REPORTS WITH RECOMMENDATIONS**  
**THAT FUNDS BE PUT TO BETTER USE**

	Number	Dollar Value <i>(Dollars in thousands)</i>
A. For which no management decision had been made by the commencement of the reporting period	0	\$ 0
B. Which were issued during the reporting period	1*	56
C. For which a management decision was made during the reporting period		
(i) dollar value of recommendations that were agreed to by management		
based on proposed management action	0	0
based on proposed legislative action	0	0
(ii) dollar value of recommendations that were not agreed by management	<u>1</u>	<u>0</u>
D. For which no management decision has been made by the end of the reporting period	1	\$56
E. Reports for which no management decision was made within six months of issuance	0	\$ 0

\*OIG Audit Report 01-12, *Audit of Corporation for National Service Grant Number 439S059 to the West Virginia Bureau of Senior Services*, page 5, reported an instance where excess draw downs of federal funds by the grantee could have been used as awards for volunteers in other CNCS programs.

**TABLE III**  
**SUMMARY OF AUDITS WITH OVERDUE MANAGEMENT DECISIONS**

<b>Report Number</b>	<b>Title</b>	<b>Federal Dollars Questioned</b>	<b>Management Decision Due</b>	<b>Status as of September 30, 2001</b>
99-09	Audit of Corporation for National Service Contract No. 95-743-1009 with Biospherics, Inc.	\$ 739,458	11/02/99	<i>Management has not resolved the questioned costs.</i>
99-10	Audit of Corporation for National and Community Service Contract No. 95-001 with TvT Associates, Inc.	296,665	01/29/00	<i>Management has not resolved the questioned costs.</i>
99-18	Audit of Corporation for National and Community Service Contract No. 97-743-1001 with GS Tech, Inc.	50,850	02/13/00	<i>Management has not resolved the questioned costs.</i>
00-02	Audit of Corporation for National and Community Service Contract No. CNCS 94-004 and 97-743-1006 with Aguirre International	7,279	05/29/00	<i>Management has not resolved the questioned costs.</i>
00-21	Audit of the Corporation for National and Community Service Contract No. 95-743-1005 with Outsourced Administration Systems, Inc.	7,379,847	07/05/00	<i>Management has not resolved the questioned costs.</i>
00-22	Audit of Corporation for National and Community Service Contract No. CNCS 94-002 with Encore Management Corporation	1,102,982	03/20/01	<i>Management has not resolved the questioned costs.</i>
00-23	Audit of the Corporation for National and Community Service Contracts No. CNCS 94-003 and No. 95-002 with Hi-Tech International, Inc.	36,852	12/12/00	<i>Management has not resolved the questioned costs.</i>
01-03	Pre-Audit Survey of the Oregon Community Service Commission	—	04/16/01	<i>Overdue</i>
<i>(continued)</i>				

**TABLE III**  
**SUMMARY OF AUDITS WITH OVERDUE MANAGEMENT DECISIONS**

<b>Report Number</b>	<b>Title</b>	<b>Federal Dollars Questioned</b>	<b>Management Decision Due</b>	<b>Status as of September 30, 2001</b>
01-05	Audit of Corporation for National and Community Service Grant Numbers 94SCSDE008, 94ASCDE008, 95PDSDE008, and 95LCSDE002 Awarded to Delaware Community Service Commission	\$ 369,652	07/11/01	<i>Overdue</i>
01-14	Review of the Corporation's Use of Single Audit Reports	—	07/31/01	<i>Overdue</i>
<b>Total</b>		<u><u>\$9,983,585</u></u>		

**TABLE IV**  
**REPORTS DESCRIBED IN PRIOR SEMIANNUAL**  
**REPORTS WITHOUT FINAL ACTION**

<b>Report Number</b>	<b>Title</b>	<b>Date Issued</b>	<b>Final Action Due</b>
98-02	Review of Corporation for National and Community Service Pre-award Financial Assessment of Grant Applicants	04/27/98	04/27/99
98-23	Auditability Assessment of the Corporation for National Service at September 30, 1997	07/08/98	07/08/99
99-01	Audit of Corporation for National and Community Service Statement of Financial Position (September 30, 1997)	10/09/98	10/09/99
99-02	Recommended Improvements to the Corporation's Internal Controls (Management Letter)	11/17/98	11/17/99
99-04	Audit of Congressional Hunger Center Cooperative Agreement No. 96ADNDC099	01/22/99	01/22/00
99-05	Evaluation of the Corporation's Monitoring and Oversight of Cooperative Agreement Awarded to Congressional Hunger Center	02/26/99	02/26/00
99-09	Audit of Corporation for National Service Contract No. 95- 743-1009 with Biospherics, Inc.	05/06/99	05/06/00
99-10	Audit of Corporation for National and Community Service Contract No. 95-101 with TvT Associates, Inc.	08/02/99	08/02/00
99-12	Audit of the Corporation for National and Community Service's Fiscal Year 1998 Financial Statements	04/09/99	04/09/00
99-15	Audit of Corporation's Oversight and Monitoring of the Health Benefits Program	09/14/99	09/14/00
99-18	Audit of Corporation for National and Community Service Contract No. 97-743-1001 GS Tech, Inc.	08/27/99	08/27/00
99-24	Recommended Improvements to the Corporation's Internal Controls – Fiscal Year 1998 Management Letter	06/30/99	06/30/99

*(continued)*

**TABLE IV**  
**REPORTS DESCRIBED IN PRIOR SEMIANNUAL**  
**REPORTS WITHOUT FINAL ACTION**

<b>Report Number</b>	<b>Title</b>	<b>Date Issued</b>	<b>Final Action Due</b>
00-01	Audit of the Corporation for National and Community Service's Fiscal Year 1999 Financial Statements	03/31/00	03/31/01
00-02	Audit of Corporation for National and Community Service Contract No. CNCS 94-004 and 97-743-1006 with Aguirre International	11/30/99	11/30/00
00-04	Evaluation of the Corporation's Oversight and Monitoring of the Cooperative Agreement with the National Association of Child Care Resources Referral Associations	12/14/99	12/14/00
00-06	Pre-Audit Survey Report of the Delaware Community Service Commission	05/18/00	05/18/01
00-07	Pre-Audit Survey Report of the Iowa Commission on Volunteer Service	05/18/00	05/18/01
00-08	Pre-Audit Survey Report of the North Carolina Commission on Volunteerism and Community Service	05/30/00	05/30/01
00-09	Pre-Audit Survey of the Tennessee Commission on National and Community Service	02/09/00	02/09/01
00-10	Pre-Audit Survey Report of the Washington Commission on National and Community Service	05/10/00	05/10/01
00-11	Pre-Audit Survey Report of the Kentucky Commission on Community Volunteerism and Service	06/20/00	06/20/01
00-14	Pre-Audit Survey of the Pennsylvania Commission on National and Community Service	03/28/00	03/28/01
00-15	Pre-Audit Survey of the Ohio Governor's Community Service Council	04/12/00	04/12/01
00-16	Pre-Audit Survey of the West Virginia Commission on National and Community Service	03/27/00	03/27/01
<i>(continued)</i>			

**TABLE IV**  
**REPORTS DESCRIBED IN PRIOR SEMIANNUAL**  
**REPORTS WITHOUT FINAL ACTION**

<b>Report Number</b>	<b>Title</b>	<b>Date Issued</b>	<b>Final Action Due</b>
00-17	Pre-Audit Survey of the Missouri Community Service Commission	03/28/00	03/28/01
00-18	Pre-Audit Survey of the Virginia Commission on National and Community Service	03/24/00	03/24/01
00-19	Pre-Audit Survey of the New Hampshire Commission on National and Community Service	02/09/00	02/09/01
00-21	Audit of Corporation for National and Community Service Contract No. 95-743-1005 with Outsourced Administrative Systems, Inc.	01/06/00	01/06/01
00-22	Audit of Corporation for National and Community Service Contract No. 94-002 with Encore Management Corporation	09/21/00	09/21/01
00-23	Audit of the Corporation for National and Community Service Contracts No. CNCS 94-003 and No. 95-002 with Hi-Tech International, Inc.	06/15/00	06/15/01
00-24	Pre-Audit Survey Report of the Alaska State Community Service Commission	08/08/00	08/08/01
00-25	Pre-Audit Survey Report of the Michigan Community Service Commission	07/12/00	07/12/01
00-26	Pre-Audit Survey Report of the New Jersey Commission on National and Community Service	06/23/00	06/23/01
00-27	Pre-Audit Survey Report of the Rhode Island Service Alliance: A Commission for National and Community Service	06/23/00	06/23/01
00-28	Pre-Audit Survey Report of the Idaho Commission for National and Community Service	07/07/00	07/07/01
00-29	Pre-Audit Survey Report of the Wisconsin National and Community Service Board	06/23/00	06/23/01
<i>(continued)</i>			

**TABLE IV**  
**REPORTS DESCRIBED IN PRIOR SEMIANNUAL**  
**REPORTS WITHOUT FINAL ACTION**

<b>Report Number</b>	<b>Title</b>	<b>Date Issued</b>	<b>Final Action Due</b>
00-30	Pre-Audit Survey of the Florida Commission on Community Service	09/20/00	09/20/01
00-31	Pre-Audit Survey of the Minnesota Commission on National and Community Service	06/09/00	06/09/01
00-32	Pre-Audit Survey of the Illinois Commission on Community Service	06/29/00	06/29/01
00-33	Pre-Audit Survey of the Kansas Commission for National and Community Service	09/29/00	09/29/01
00-34	Pre-Audit Survey of the New Mexico Commission for Community Volunteerism	07/26/00	07/26/01
00-35	Pre-Audit Survey of the Wyoming Commission for National and Community Service	05/16/00	05/16/01
00-38	Recommended Improvements to the Corporation's Internal Controls Fiscal Year 1999 – Management Letter	06/27/00	06/27/01

**TABLE V**  
**STATUS OF SELECTED KEY OPEN RECOMMENDATIONS ON**  
**CORPORATION MANAGEMENT ISSUES**

The following table provides a prioritized selection of key open audit recommendations from OIG reports issued more than one year ago on which OIG has determined that corrective actions are not complete. The description of the Corporation's responses or corrective actions is based on information provided in its proposed management decisions, final management decisions, and audit resolution status tables.

***Grant Oversight and Monitoring***

**Grants Management System** – Implement an integrated functional grants management system. This recommendation was initially reported in fiscal year 1998.

Management Response/Action – In progress. The Corporation reported that it engaged a contractor to design a grant system and once the design is completed, the Corporation will develop and implement this system. The Corporation expects to have the system fully implemented by the end of fiscal year 2003.

**Web-Based Reporting System (WBRS)** – Design additional controls for implementation at the grantee level that consider the paperless environment in which WBRS operates. These controls should include routine review of error listings generated by WBRS by someone other than the person inputting data to the system, a spot check of underlying support for the data submitted via WBRS on a periodic basis, and improved access controls to WBRS at grantee and subgrantee sites, as appropriate. This recommendation was initially reported in fiscal year 2000.

Management Response/Action – In progress. The Corporation agreed and reported it is in the process of updating WBRS control procedures to include routine review of error listings by WBRS by someone other than the person inputting data into the system. The updated procedures reportedly will be implemented during fiscal year 2002.

**Expired Grants** – The Corporation should develop a consistent method for identifying expired grants and for administratively closing these grants in a timely manner. Review and follow-up procedures by the Service Centers and headquarters should be implemented to ensure Program Offices respond to correspondence and that grants are closed timely. This recommendation was initially reported in fiscal year 1998.

Management Response/Action – Corrective action has been initiated. The Corporation has awarded a contract to obtain assistance in closing expired grants. The contractor reportedly has closed approximately 200 of these grants out of a total of about 900. OIG will assess progress on this initiative during the fiscal year 2001 financial statements audit.

*(continued)*

**TABLE V**  
**STATUS OF SELECTED KEY OPEN RECOMMENDATIONS ON**  
**CORPORATION MANAGEMENT ISSUES**

**Grant Files** – The Corporation should strengthen its controls over the completeness of grant files by enforcing the use of file completeness checklists. Compliance with these procedures should be monitored by supervisory spot checks of grant files. This recommendation was initially reported in fiscal year 1998.

Management Response/Action – Despite reported corrective action, recent OIG audits, including the audit of the Corporation’s financial statements for fiscal year 2000, continued to reveal numerous missing key documents, a significant obstacle to the conduct of effective audits. Accordingly, OIG will again assess the effectiveness of corrective measures during the fiscal year 2001 financial statements audit.

**Pre-Award Guidelines** – Revise guidelines over the pre-award financial assessment of grantees. This recommendation was initially reported in fiscal year 1998.

Management Response/Action – In progress. The Corporation agreed that this recommendation remains “open” and indicated that the Grants Management Office has issued revised guidelines for the pre-award financial assessments based on OIG’s recommendation. The Corporation reportedly plans to include these guidelines as part of a Corporation-wide document that must be formally processed and coordinated under the Corporation’s policy for issuing new policies and procedures. Since a grantee’s financial management resources directly impact on its ability to administer a federal grant, OIG has kept this recommendation open and will review the grant application review and screening process to determine the effectiveness of pre-award analysis of grantees’ financial capabilities.

**Grant Monitoring** – Strengthen guidelines for grant monitoring and site visits. This recommendation was initially reported in fiscal year 1999.

Management Response/Action – Unresolved. The Corporation believes that its checklists and methodology for conducting oversight visits to program sites is sufficient. OIG disagrees based on the results of pre-audit surveys and full scope audits of state commissions and believes that more detailed, uniform guidance on procedures for conducting periodic oversight visits is essential. During future state commission audits, OIG will continue to assess the effectiveness of current procedures and methods.

***Other Financial Management Issues***

**Budget** – Continue to investigate and resolve differences in unexpended appropriations between the proprietary and budgetary accounts, including those related to the balances brought forward into Momentum from Federal Success. This recommendation was initially reported in fiscal year 1999.

Management Response/Action – Corrective action reported. OIG will assess the effectiveness of the corrective action while performing the fiscal year 2001 financial statements audit.

*(continued)*

**TABLE V**  
**STATUS OF SELECTED KEY OPEN RECOMMENDATIONS ON**  
**CORPORATION MANAGEMENT ISSUES**

**Budget** – The Corporation should implement an automated system of reconciliation between the U.S. Department of Health and Human Service’s Payment Management System (PMS) and the Corporation’s general ledger system, Momentum. This was initially reported in fiscal year 1999.

Management Response/Action – Corrective action is pending. The Corporation stated that it is developing an automated system for reconciling PMS and Momentum and is currently testing it. The Corporation performs an automated comparison of authorizations reported in the monthly PMS Synchronization Report with the obligated amount recorded in Momentum. The report generated from this comparison identifies the differences between the two systems by document number and fiscal year. The Corporation will continue to refine the program logic to minimize timing differences. The Corporation indicated that this automated system should be completely operational by December 2001.

**Costs** – Refine the cost accounting module incorporated within Momentum to accumulate direct and indirect costs related to each major program. The module should include a means to aggregate and allocate administrative and other overhead costs among the programs. This recommendation was initially reported in fiscal year 1999.

Management Response/Action – Corrective action reported. The Corporation awarded a contract to an audit firm to review its cost allocation methodology. The firm issued its assessment on October 9, 2001. It included six recommended improvements. The Corporation is considering implementation of these recommendations.

**Financial Statements** – Recommended improvements to the Corporation’s financial statements include: (1) aggregating expenses by major program on the face of the statement of operations and changes in net position; (2) issuing a supplemental schedule of program costs that would separately report grant expenses and other costs by object class for each major program; (3) reporting the operations of the Trust and Gift Funds separately, either on the face of, or in a note to, the financial statements; (4) combining the Trust Fund’s financial statement disclosures, other NCSA-required reporting and other relevant statistics into a format that will facilitate understanding and analysis of the Trust Fund’s operations and enhance their usefulness to the Congress and other financial statement users. These recommendations were initially reported in fiscal year 2000.

In Audit Report No. 01-33, OIG recommended that the Corporation follow the Federal Accounting Standards Advisory Board’s reporting model for federal agencies in lieu of the Financial Accounting Standards Board private sector guidelines that it has historically used. For additional information on this matter, see page 1.

Management Response/Action – Corrective action is pending. The Corporation indicated that it would consider the federal reporting model and would make changes to its financial statements that it deems relevant, cost effective and useful to the reader. OIG will assess the effectiveness of any format or content changes during its audit of the fiscal year 2001 financial statements.

*(continued)*

**TABLE V**  
**STATUS OF SELECTED KEY OPEN RECOMMENDATIONS ON**  
**CORPORATION MANAGEMENT ISSUES**

***Procurement and Contract Management***

**Contracts** – The Corporation should issue a written policy prohibiting cost recovery as a fixed percentage of direct costs in its contracts since a cost-plus-percentage of cost (CPPC) contract is prohibited in the Federal Acquisition Regulation. This recommendation was initially reported in fiscal year 2000.

Management Response/Action – The Corporation agreed that CPPC contracts are prohibited but denied using this form of contracting. The Corporation specifically declined to issue a written policy clarifying for Corporation contracting staff what constitutes a prohibited CPPC contract. OIG views this recommendation as unresolved and will review contractual provisions on direct cost reimbursements during follow-up audits of Corporation procurements.

**Contracts** – The Corporation should implement procedures to periodically review vendor codes to ensure that only one active vendor profile is associated with each vendor code. This recommendation was initially reported in fiscal year 2000.

Management Response/Action – The Corporation reports that it has implemented measures to ensure that a single vendor code is used for each vendor. OIG will test the use of vendor codes during its audit of the Financial Statements for fiscal year 2001.

**Health Benefits Program** – The Corporation should develop and implement a system of formal policies and procedures for oversight and monitoring of services and costs under the Health Benefit Program. This recommendation was initially reported in fiscal year 1999.

Management Response/Action – Unresolved. The Corporation agrees that this recommendation remains open.

**Outsourced Administrative Systems, Inc.** – The Corporation should ensure that coordination of benefits information for all members is entered into the Health Care Processing System and establish a claims inventory log to track the processing of claims. This recommendation was initially reported in fiscal year 2000.

Management Response/Action – Unresolved. The Corporation agrees that this recommendation remains open.

*(continued)*

**TABLE V**  
**STATUS OF SELECTED KEY OPEN RECOMMENDATIONS ON**  
**CORPORATION MANAGEMENT ISSUES**

***National Service Trust***

**Education Awards** – All potential education awards should be rechecked prior to entry into SPAN to ensure the award was earned within the required time period. Any exceptions should be properly justified and formally documented in the member’s file. (SPAN refers to the “System for Programs, Agreements, and National Service Participants,” an Oracle-based system that the Corporation uses to manage the National Service Trust and to maintain AmeriCorps member information.) This recommendation was initially reported in fiscal year 2000.

Management Response/Action – Corrective action reported. Since testing of the reported corrective action has not been done, OIG will assess its effectiveness during the fiscal year 2001 financial statements audit.

**Trust Payment Vouchers**– The Corporation should include, in its written policies, the time frame in which Trust payment vouchers should be processed, and take action to enforce the time frame established. This recommendation was initially reported in fiscal year 1999.

Management Response/Action – Corrective action reported. OIG will assess the effectiveness of the corrective action while performing the fiscal year 2001 financial statements audit.

**Member Data Verification** – Develop and implement procedures at the Corporation level to periodically and randomly sample and verify data related to members included in the National Service Trust database. This recommendation was initially reported in fiscal year 2000.

Management Response/Action – Corrective action reported. The Corporation agreed with this recommendation and reported that it implemented a procedure in fiscal year 2001 to randomly sample and verify enrollment and exit data on an annual basis. OIG will assess the new procedure’s effectiveness during the audit of financial statements for fiscal year 2001.

# FISCAL YEAR 2001 PERFORMANCE INFORMATION

## MISSION STATEMENT

The Corporation's Office of Inspector General is authorized by the Inspector General Act of 1978, as amended, to –

- Conduct independent and objective audits and investigations.
- Promote organizational economy, efficiency, and effectiveness.
- Prevent and detect fraud, waste, and abuse.
- Review and make recommendations regarding existing and proposed legislation and regulations relating to CNCS programs and operations.
- Keep the Chief Executive Officer, the Corporation's Board of Directors, and the Congress fully and currently informed of problems in agency programs and operations.

## STRATEGIC GOALS

OIG has established the following goals for its operations –

- Identify opportunities for increased economy and efficiency in agency operations; assist management by identifying, recommending, and developing appropriate management reforms.
- Protect the integrity of the Corporation's programs, operations, and financial management by identifying and mitigating existing risks or emerging vulnerabilities that may result from changes in the Corporation's operations, from changing legal and administrative requirements, or from other changes in the environment in which the Corporation operates.
- Carry out the intent of GPRA by (a) providing the Corporation with objective assessments of the integrity of the systems that it uses to compile performance information and its reliability and (b) changing the focus of OIG audits and other services to focus more on management performance and programmatic outcomes and less on compliance.
- Improve the quality and delivery of OIG work products.

## *FY01 PERFORMANCE INFORMATION*

QUANTITATIVE AUDIT PERFORMANCE MEASURES			
	<u>FISCAL YEAR</u>		
	<u>2000</u> Actual	<u>2001</u> Goal	<u>2001</u> Actual
Number of Reports Issued <sup>(1)</sup>	38	38	28
Number of Reports Issued Linked to Improving CNS Management ( <i>OIG Strategic Goal 1</i> )	5	14	11
Number of Recommendations Linked to Goal 1	201	—	121
Number of Reports Issued Linked to Protecting the Integrity of Programs, Operations, and Financial Management ( <i>OIG Strategic Goal 2</i> )	38	33	28
Number of Recommendations Linked to Goal 2	—	—	—
...to CNCS	262		143
...to Grantees	163		147
...to Contractors	21		0
Number of Reports Issued Linked to Carrying Out The Intent of GPRA ( <i>OIG Strategic Goal 3</i> )	1	1	2
Number of Recommendations Linked to Goal 3	2	—	20
Total Number of Audit Recommendations <sup>(2)</sup>	446	—	290
Percent of Recommendations Accepted by CNCS	87%	95%	82%
<p><sup>(1)</sup>The increased number of audit reports in fiscal year 2000 was primarily due to the issuance of 24 state commission pre-audit survey reports. During fiscal year 2001, OIG issued 13 similar pre-audit survey reports and shifted to the more time-consuming full scope audits of 13 state commissions of which only 2 were completed at year end.</p> <p><sup>(2)</sup>The number of recommendations that may appear in a report can not be predicted. The overall number of recommendations directed to the Corporation decreased in fiscal year 2001 due to the lower number reports issued than the previous fiscal year.</p>			

## FY01 PERFORMANCE INFORMATION

In accordance with our fourth strategic goal, improving the quality and delivery of OIG services, reports and other work products, OIG monitors the number of audit reports issued annually and their timeliness, as illustrated and discussed below.

AUDIT PERFORMANCE STATISTICS			
	Fiscal Year		
	1999	2000	2001
Number of Audit Reports <sup>(1)</sup>	22	38	28
Number of Testimonies	4	2	3
Number of Reports Requested by Congressional Staff	18	7	8
Questioned Costs ( <i>dollars in thousands</i> )	\$2,344	\$8,558	\$2,984
Recommendations That Funds Be Put To Better Use ( <i>dollars in thousands</i> )	\$106,000 <sup>(2)</sup>	\$8,558	\$56
Costs per Audit Hour <sup>(3)</sup>			
OIG Staff	\$68	\$61	\$65
Contracted Services	\$67	\$76	\$99
Timeliness <sup>(4)</sup>	173 days	184 days	187 days
<p><sup>(1)</sup>The increased number of audit reports in fiscal year 2000 was primarily due to the issuance of 24 state commission pre-audit survey reports. During fiscal year 2001, OIG issued 13 similar pre-audit survey reports and shifted to the more time-consuming full scope audits of 13 state commissions of which only 2 were completed at year end.</p> <p><sup>(2)</sup>This amount represents an audit adjustment to reduce the Corporation's service award liability at September 30, 1998 that the Corporation agreed to during the fiscal year 1998 financial audit. In Public Law 106-74, the Departments of Veterans Affairs, Housing and Urban Development, and other independent agencies' fiscal year 2000 appropriations bill, Congress included language recognizing this adjustment and rescinded \$80 million previously appropriated to the National Service Trust. In fiscal year 2001, Congress rescinded \$30 million.</p> <p><sup>(3)</sup>OIG staff cost per hour estimate is based on the total salary and benefit costs for audit staff divided by the direct hours charged to audit assignments. During fiscal years 2000 and 2001, OIG continued to operate with a smaller number of audit personnel than in the two preceding fiscal years. OIG relied on audit services contracts to perform its required tasks. Cost per hour for contracted audit services continued to increase in fiscal year 2001 because of higher labor rates in the General Services Administration and Department of Labor master contracts for audit services, significantly increased requirements for technical experts, particularly in the Information Technology area, and more experienced personnel at the managerial levels.</p> <p><sup>(4)</sup>From inception of an audit/review through issuance of the final report, which includes a 30 day response period. The increase realized since fiscal year 1999 was attributable to, in addition to time-consuming full scope audits of state commissions, detailed and technical reviews that OIG conducted on the Corporation's grant application review process, financial management and reporting, performance measures, and computer systems.</p>			

# *FY01 PERFORMANCE INFORMATION*

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## **INVESTIGATIONS PERFORMANCE INFORMATION**

The basic mission of the OIG investigative element is to lawfully determine as many of the facts as possible surrounding a given incident. The incident under review may include allegations of criminal activity, allegations of non-criminal activity, or allegations that include both criminal activity and non-criminal activity. The basic mission of the investigative element remains unchanged regardless of the nature of the incident: Determine as many facts as possible surrounding a given incident. How an allegation is developed, i.e., reactively or pro-actively, has no impact on the basic mission.

What occurs after the initial receipt of a complaint, allegation, or information that results in the development of a complaint or allegation, varies, depending primarily upon whether the matter is criminal or non-criminal, and if criminal, whether or not it is accepted by the Department of Justice for prosecution.

All matters involving evidence of federal criminal violations are referred to the Department of Justice for a prosecutive decision. This does not mean that all allegations of federal criminal violations are referred; only those with evidence of a federal criminal violation are referred, with some exceptions. For example, all allegations of significant fraud and all allegations against certain senior government officials are referred to the Department of Justice without regard to the amount of evidence available at the time the allegations are received. Many of the criminal matters we investigate involving Corporation programs and operations are declined for prosecution by the Department of Justice because of the low dollar amounts involved. We have had no declinations of a criminal matter because of our inability to sufficiently develop evidence of criminal misconduct. Some of our referrals that are declined by the criminal section of the Department of Justice are accepted by the civil section for civil enforcement.

Those matters that are determined to be non-criminal and those matters that have been declined for prosecution or civil enforcement by the Department of Justice are often referred to Corporation management for administrative action. This administrative action might involve suspension or even removal of an employee. Administrative action could also involve a redesign or refinement of a process or system that was identified by our efforts as one that could be improved. When OIG refers such matters to management, we usually request that management provide us a brief narrative of what, if any, administrative action was taken as a result of the referral to them.

One other area that deserves mention involves those matters (criminal and non-criminal) that OIG finds did not occur, did not occur as alleged, or were not within our purview. While some of these matters are as important as a founded criminal investigation (and as such are identified and documented separately), the majority are minor and are combined in one quarterly file, without opening a separate investigative action. Regardless of the severity however, each matter requires some degree of preliminary inquiry. The following table presents statistics on OIG's investigative workload.

## *FY01 PERFORMANCE INFORMATION*

INVESTIGATIONS PERFORMANCE STATISTICS					
	Fiscal Year				
	1997	1998	1999	2000	2001
Investigative Actions Opened	31	41	46	51	95 <sup>1</sup>
Investigative Actions Resolved and Closed	46	29	29	47	95
Average Monthly Caseload	19	17	25	30	35
Investigative Matters Resolved Without Opening a Separate Investigative Action	69	33	48	37	29
Referrals for Prosecution	4	7	12	14	16
Administrative or Management Action Taken	3	6	10	4	8 <sup>2</sup>

<sup>1</sup> Forty-five of the 95 investigative actions opened during fiscal year 2001 were opened as a direct result of a proactive OIG review of Corporation employees' use of the government travel charge card. The 45 actions were opened to document the investigation of suspected employee abuse of the government travel cards, namely using the cards for personal benefit, in violation of Corporation policy, federal regulations, and the Standards of Conduct.

<sup>2</sup> Administrative or management action is pending in 30 investigative actions involving 32 Corporation employees.

# FY01 PERFORMANCE INFORMATION

## OIG Obligations Fiscal Years 2001<sup>(1)</sup> and 2000

	2001	2000
Audits		
CNCS Financial Management	\$ 572,000	\$ 945,742
Grants <sup>(1)</sup>	2,164,560	1,304,297
Procurement	-	348,513
Information Technology	382,548	124,730
Audit Administration	291,680	207,541
Investigations	546,080	385,624
Administration <sup>(2)</sup>	<u>1,261,454</u>	<u>612,797</u>
 Total	 <u><u>\$ 5,218,322</u></u>	 <u><u>\$ 3,929,244</u></u>

(1) The FY 2000 supplemental appropriation of \$1 million received on July 13, 2000, established under section 178 of the National and Community Service Act of 1990, was carried over into FY 2001 in support of OIG audits of state commissions. This amount includes the total obligations of \$998,719 for state commission audits under the supplemental appropriation.

(2) The increase in FY 2001 administration costs is primarily due to the relocation of the OIG suite and the first full year of the Deputy Inspectors General salaries as an administration expense.

	<u>FY 2001</u>	<u>FY 2000</u>
Administrative Salaries	\$ 805,711	\$ 540,138
Rent for July-September	62,139	-
Office Space Construction	67,299	-
Furniture	129,646	2,626
OIG Network/Accreditation	38,740	-
LAN and Computer Equipment	65,056	28,348
Other Administrative Cost	<u>92,864</u>	<u>41,684</u>
Total	<u><u>\$ 1,261,454</u></u>	<u><u>\$ 612,797</u></u>

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE  
**OFFICE OF THE INSPECTOR GENERAL**

# HOTLINE

**Corporation Employees!**

**Concerned Citizens!**

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Report suspected **fraud, waste or abuse.**

- ♦ All information is confidential.
- ♦ You may remain anonymous.

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**OIG HOTLINE**  
**Corporation for National and Community Service**  
**1201 New York Avenue N.W. Suite 830**  
**Washington, D.C. 20525**

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CORPORATION

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FOR NATIONAL

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 SERVICE

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December 3, 2001

The Honorable Richard Cheney  
President of the Senate  
Washington, DC 20510

The Honorable Dennis Hastert  
Speaker of the House of Representatives  
The Capitol  
Washington, DC 20515

Dear Mr. Vice President and Mr. Speaker,

Enclosed is the Inspector General's Semi-Annual Report to the Congress along with the Corporation's Report on Final Action, as required under Section 5 of the Inspector General Act.

These reports cover the six-month period from April 1, 2001 through September 30, 2001. During this period, the Corporation made management decisions on 17 audits and completed final action on or closed four audits. Subsequent to this period, the Corporation closed one additional audit.

**Grants Management.** The Corporation continues to make good progress on the new grants management system. We are now well into the development phase and have had demonstrations of several working modules. Testing will begin in January. The system will be on-line for most modules in April 2002 and will be fully operational by late fall. When the system is completely implemented all aspects of grant operations from applying for funds to grantee monitoring and reporting on financial and program activities will be done on-line.

**Decisions Related to Pre-Audit Surveys of State Commissions.** The Corporation continues to work with State Commissions to strengthen their operations and ensure they have the systems in place to adequately subgrant funds and monitor program and financial activities of their subgrantees. The Corporation's primary tool for assessing State Commission operations is the *State Commission Administrative Standards Review*. This is a comprehensive assessment of all aspects of commission operations that is conducted by a knowledgeable review team. The team spends several days at each State Commission evaluating policies, procedures and systems.

The Standards set the minimum requirements and systems that Commissions must have in place to properly administer federal funds. In three specific standards, the Corporation delineates the State Commission's monitoring responsibilities related to its subgrantees. These standards indicate that, among other strategies, the Commissions must employ a risk-based monitoring strategy, conduct monitoring site visits to subgrantees, provide feedback from site visits and assure that subgrantees remedy deficiencies within appropriate timeframes.



The Commissions must also adhere to the federal cost principles and OMB circulars for managing federal grant funds as specified in the Corporation's grant provisions. The Corporation believes that these federal requirements, OMB Circulars and the *State Commission Administrative Standards* provide a solid foundation for the administration of its grant programs while allowing the commissions the flexibility to efficiently carry out their responsibilities consistent with the differing needs of the each state. In addition, OMB Circular A-133 provides guidance to grantees and subgrantees on a risk-based approach to monitoring. The Circular describes both the processes for conducting A-133 audits as well as monitoring strategies for grant recipients with subgrantees. The Corporation relies on the Circular's descriptions related to grantee monitoring requirements and development of risk-based strategies.

**Information Systems and Controls.** The Corporation is pleased to note that the review of its network and computer security plan concluded that the Corporation is meeting the requirements of OMB Circular A-130, "Management of Federal Information Resources." In addition, the OIG review of the Corporation's system development life cycle also concluded that its methodologies provide a good approach to system development.

**Audit Resolution.** Corporation management and OIG staff worked together over the last six months to review and close open audit recommendations. The Corporation has established a joint database to be utilized by both management and OIG to track and report action on OIG audit reports. We will continue to work with OIG over the next reporting period to resolve issues and close out old recommendations.

We are sending copies of this semi-annual report to interested Congressional committees, the Office of Management and Budget, and the Corporation's Board of Directors. We will also make copies available to others on request.

If you have any questions concerning these reports, please contact me or Luise Jordan, the Corporation's Inspector General.

Sincerely,

A handwritten signature in black ink, appearing to read "Leslie Lenkowsky", written in a cursive style.

Leslie Lenkowsky  
Chief Executive Officer

**TABLE I**  
**ACTION TAKEN ON AUDIT REPORTS**  
**(for the Period April 1, 2001 through September 30, 2001)**

	<b><u>Number of Reports</u></b>	<b><u>Disallowed Costs (\$000)</u></b>
A. Audit reports with final action not taken by the commencement of the reporting period.	46	
B. Audit reports issued by the OIG during the period	15	
C. Audit reports for which final action was taken during the reporting period	4	
1. Recoveries		
(a) Collections and offsets	0	
(b) Property in lieu of cash		
(c) Other (reduction of questioned costs)		
2. Write-offs	0	
3. Audits with no disallowed costs	4	
D. Audit reports for which final action was not taken by the end of the reporting period. <sup>1</sup>	57	
E. <hr/> Audit reports for which management decisions were made during the six-month reporting period and for which final action is underway. <sup>2</sup>	17	

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<sup>1</sup> This includes 25 audits for which final action is not due.

<sup>2</sup> Management decisions on these audits were made in previous reporting periods or are not yet due.

**TABLE II**  
**AUDITS WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE**  
**(for the period April 1, 2001 through September 30, 2001)**

	<u>Number of Audit Reports</u>	<u>Dollar value (\$000s)</u>
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period.	0	-
B. Audits which were issued during the period	1	56
C. Total audit reports on which management decisions were made during the period.	0	-
D. Audit reports pending action during the period	1	-
E. Audit reports for which final action was taken during the period	0	-
1. Value of recommendations that were completed	0	-
2. Value of recommendations that management concluded should not or could not be implemented or completed	0	0
3. Total of 1 and 2	0	-
F. Audit reports for which no management decisions were made during the reporting period	1	56

**TABLE III**

**STATUS OF AUDIT REPORTS WITH MANAGEMENT DECISIONS THAT HAD NO FINAL ACTION WITHIN ONE YEAR OF THE ISSUANCE OF THE REPORT  
(Corresponds to OIG Semiannual Report Table IV)**

<b><u>Audit Number</u></b>	<b><u>Date Issued</u></b>	<b><u>Title</u></b>	<b><u>Disallowed Costs</u></b>	<b><u>Status of Action/Reason No Final Action Was Taken</u></b>
98-02	4/27/98	Review of Pre-award Financial Assessment of Grant Applications	N/A	One recommendation remains open on this audit – to revise grants policies and procedures related to pre-award financial assessment. Revised policies and procedures are drafted and under review within the CFO office for issuance in December 2001.
98-23	7/8/98	Auditability Assessment of the Corporation's FY97 Statement of Financial Position	N/A	The Corporation closed this audit because any remaining open issues are tracked through the subsequent year's financial statement audit.
99-01	10/9/98	Audit of the Corporation's FY97 Statement of Financial Position	N/A	The Corporation closed this audit because any remaining open issues are tracked through the subsequent year's financial statement audit.
99-02	11/17/98	Recommended Improvements to the Corporation's Internal Controls (Management Letter)	N/A	The Corporation completed corrective action on this audit and reported final action complete to the OIG on June 30, 2000.
99-04	1/22/99	Audit of Congressional Hunger Center Cooperative Agreement	\$111,351	Final action completed – Notice of Final Action sent to OIG on October 30, 2001.
99-05	2/26/00	Evaluation of the Corporation's Monitoring and Oversight of Cooperative Agreement Awarded to Congressional Hunger Center	- 0 -	Four of the five recommendations have been closed. The final recommendation is being assessed for effectiveness and inclusion in CFO grant policies on financial monitoring of grantees.
99-09	5/6/99	Audit of Corporation Contracts with Biopherics, Inc	TBD	The Corporation determined that it must verify the labor hours worked and other direct costs incurred for fiscal years 1996 – 1998 in order to determine any disallowed costs. The estimated completion date of additional audit work is March 1, 2002.
99-10	8/2/99	Audit of Corporation Contracts with TvT, Inc.	\$294,094	In Appeal. The Corporation is currently negotiating with TvT in an effort to resolve before appeal proceedings begin.
99-12	4/6/99	Audit of the Corporation's FY 1998 Statement of Financial Position	N/A	The Corporation completed corrective action on the audit on November 13, 2000, after the final open recommendation was resolved.

<u>Audit Number</u>	<u>Date Issued</u>	<u>Title</u>	<u>Disallowed Costs</u>	<u>Status of Action/Reason No Final Action Was Taken</u>
99-15	9/14/99	Audit of Corporation's Oversight and Monitoring of the Health Benefits Programs	N/A	All but one corrective action has been completed. The final corrective action will be completed when a contract is in place for outside expertise to assist in performing technical analysis of health benefits.
99-18	8/27/99	Audit of Corporation Contracts with GS Tech, Inc	TBD	The Corporation must complete additional audit work to determine any disallowed costs. The estimated completion date for the audit is February 15, 2002.
99-24	6/30/99	Recommended Improvements to the Corporation's Internal Controls, FY 1998	N/A	The Corporation closed this audit because any remaining open issues are tracked through the subsequent annual financial statement audit.
00-01	3/31/00	Audit of the Corporation's FY 1999 Financial Statements	N/A	The Corporation closed this audit because any remaining open issues are tracked through the subsequent annual financial statement audit.
00-02	11/30/99	Audit of the Corporation's Contract with Aguirre International	TBD	During the course of audit resolution, Corporation staff found errors in the allocation of indirect cost rates that needed to be corrected by the contractor's cognizant agency, U.S. AID. AID elected not to do so due to budget constraints. Therefore, the Corporation must perform an incurred cost audit for fiscal 1998 to determine the allowable indirect costs. Expected completion is January 15, 2002.
00-04	12/14/99	Evaluation of the Corporation's Oversight and Monitoring of its cooperative agreement with the National Association of Child Care Resource Referral Assns.	N/A	Corrective action will be completed by December 2001 when a final indirect cost rate is approved.
00-06	5/18/00	Pre-audit Survey of the Delaware Commission	N/A	Final action will be completed in conjunction with the resolution process for the audit of the Commission's grants, Audit Report 01-05.
00-07	5/18/00	Pre-audit Survey of the Iowa Commission	N/A	Final action completed – Management Decision included Notice of Final Action to OIG.
00-08	5/30/00	Pre-audit Survey of the North Carolina Commission	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.

<u>Audit Number</u>	<u>Date Issued</u>	<u>Title</u>	<u>Disallowed Costs</u>	<u>Status of Action/Reason No Final Action Was Taken</u>
00-09	2/09/00	Pre-audit Survey of the Tennessee Commission	N/A	Final action completed – Management Decision included Notice of Final Action to OIG.
00-10	5/10/00	Pre-audit Survey of the Washington Commission	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-11	6/20/00	Pre-audit Survey of the Kentucky Commission	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-14	3/28/00	Pre-audit Survey of the Pennsylvania Commission on Community Service	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-15	4/12/00	Pre-audit Survey of the Ohio Commission on Community Service	N/A	The Commission's corrective actions are scheduled to be completed by December 31, 2001.
00-16	3/27/00	Pre-audit Survey of the West Virginia Commission on Community Service	N/A	Corrective action has been completed on all but one finding. The remaining open finding will be closed upon review of the Commission's revised A-133 follow-up procedure.
00-17	3/28/00	Pre-audit Survey of the Missouri Commission on Community Service	N/A	The Commission's corrective action will be assessed as part of the Administrative Standards Review scheduled for December 2001.
00-18	3/24/00	Pre-audit Survey of the Virginia Commission on Community Service	N/A	The Commission's corrective action will be assessed as part of the Administrative Standards Review scheduled for January 2002.
00-19	2/9/00	Pre-audit Survey of the New Hampshire Commission on Community Service	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-21	1/6/00	Audit of the Corporation's Contract with Outsourced Administrative Systems	TBD	The Corporation must complete additional audit work to determine any disallowed costs. The incurred cost audits are under way and we anticipate final action by July 31, 2002.
00-22	9/21/00	Audit of the Corporation's Contract with Encore Management Corp.	TBD	The Corporation must complete additional audit work to determine any disallowed costs. The estimated completion date for the audit is July 31, 2002.
00-23	6/15/00	Audits of the Corporation's Contract with Hi-Tech International, Inc.	7,368	Final action completed – a Notice of Final Action sent to OIG on November 29, 2001.

<u>Audit Number</u>	<u>Date Issued</u>	<u>Title</u>	<u>Disallowed Costs</u>	<u>Status of Action/Reason No Final Action Was Taken</u>
00-24	8/8/00	Pre-Audit Survey Report of the Alaska Service Commission	N/A	The Commission's corrective action will be assessed as part of the Administrative Standards Review scheduled for June 2002.
00-25	7/12/00	Pre-Audit Survey Report of the Michigan Service Commission	N/A	Final action completed – Management Decision included Notice of Final Action to OIG.
00-26	6/23/00	Pre-Audit Survey Report of the New Jersey Community Service Commission	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-27	6/23/00	Pre-Audit Survey Report of the Rhode Island Community Service Commission	N/A	Final action completed – Management Decision included Notice of Final Action to OIG.
00-28	7/7/00	Pre-Audit Survey Report of the Idaho Service Commission	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-29	6/23/00	Pre-Audit Survey Report of the Wisconsin Community Service Commission	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-30	9/20/00	Pre-Audit Survey Report of the Florida Service Commission	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-31	6/9/00	Pre-Audit Survey Report of the Minnesota Community Service Commission	N/A	The Commission's corrective action will be assessed as part of the Administrative Standards Review scheduled for February 2002.
00-32	6/29/00	Pre-Audit Survey Report of the Illinois Service Commission	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-33	9/29/00	Pre-Audit Survey Report of the Kansas Service Commission	N/A	Final action completed – Management Decision included Notice of Final Action to OIG.
00-34	7/26/00	Pre-Audit Survey Report of the New Mexico Community Service Commission	N/A	Final action completed – Management Decision included Notice of Final Action to OIG.
00-35	5/16/00	Pre-Audit Survey Report of the Wyoming Service Commission	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-38	6/27/00	Recommended Improvement to the Corporation's Internal Controls, Fiscal Year 1999	N/A	The Corporation closed this audit because any remaining open issues are tracked through the subsequent year's financial statement audit.