

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

**Semiannual Report  
to Congress**

**April 1, 2004 - September 30, 2004**

Fiscal Year 2004 Semiannual Report No. 2



*Corporation for*  
**NATIONAL &  
COMMUNITY  
SERVICE** 

**1201 New York Avenue, NW., Suite 830**

**Washington, DC 20525**

**Telephone (202) 606-5000, extension 390**

**Facsimile (202) 565-2795**

**Hotline (800) 452-8210**

**Website: [www.cncsig.gov](http://www.cncsig.gov)**



## OFFICE OF INSPECTOR GENERAL

October 29, 2004

I am pleased to submit to you the Office of Inspector General's *Semiannual Report to Congress* for the period April 1 to September 30, 2004, and share with you the findings of our investigations, audits and evaluations.

During this reporting period, our investigators, auditors and evaluators helped stem waste, fraud and abuse of taxpayer dollars by improving the operations and oversight of the Corporation for National and Community Service (Corporation) and its State commission partners. I am proud to inform you that our Audit Section completed an ambitious, five-year effort to conduct pre-audit surveys of all State commissions. These surveys furnished State commissions, which receive the vast majority of Corporation funding and have direct oversight over thousands of local service programs, with early warnings of management problems and valuable recommendations designed to improve their operations.

For the first time, our *Semiannual Report to Congress* includes a section highlighting what the Office of Inspector General (OIG) believes to be the major management challenges facing the Corporation. These challenges have been identified and drawn from our investigative and audit experience, as well as reports issued by the OIG, the Government Accountability Office, and the Office of Personnel Management.

Also during this reporting period, the Audit Section completed its audit of the American Association of State Service Commissions. We found serious, widespread problems with management and financial controls, as well as several instances of using Federal funds for lobbying activities. Our findings led the Corporation to suspend funding to the organization and to revise several of its monitoring and internal control procedures.

The Investigations Section opened 21 cases, including several based on information supplied by callers to our Fraud Hotline, and closed 12 actions. Our caseload ranged from allegations of childcare fraud and program fund embezzlement to misuse of Government charge cards and AmeriCorps members' education awards. Ongoing investigations have identified approximately \$1.6 million in potential recoveries that are pending adjudication.



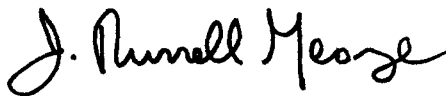
1201 New York Avenue, NW, Suite 830 ★ Washington, DC 20525  
202-606-5000 ★ Hotline 800-452-8210 ★ [www.cnscsig.gov](http://www.cnscsig.gov)  
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The Evaluation Section continued work on its comprehensive examination of the AmeriCorps program. The evaluation of AmeriCorps includes identifying better methods for developing Corporation performance measures, collecting meaningful performance data, and using performance information to determine the effectiveness and impact of AmeriCorps community service programs.

I hope you find this report instructive as well as informative. This office strives to provide findings and recommendations to the Corporation with the primary goal of maximizing the effective expenditure of taxpayer dollars and expanding community service opportunities for Americans.

Sincerely,

A handwritten signature in black ink, reading "J. Russell George". The signature is written in a cursive, flowing style with a large initial "J" and a long, sweeping underline.

J. Russell George  
Inspector General

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# Executive Summary

## Management Challenges

In this semiannual report, the Office of Inspector General (OIG) has added a section that highlights what we believe to be the major management challenges facing the Corporation. The OIG is required to submit these management challenges to the Corporation under the Reports Consolidation Act of 2000. These management challenges have been drawn from various reports issued by the Office of Inspector General, the Government Accountability Office, and the Office of Personnel Management. Further detail on the OIG reports that provide the basis for these management challenges can be found in the Audit Section and Investigations Section of this semiannual report.

## Audit Section

During this reporting period, the Office of Inspector General conducted audits and other work to improve the operations of the Corporation for National and Community Service. The Audit Section issued four audit reports and seven pre-audit survey reports, and provided information to Congress on the Corporation's proposed policy to allow grantees to refill AmeriCorps positions if a member prematurely leaves the program.

As part of the OIG's responsibility to improve Corporation operations, we also audited the Corporation's Gift Fund. The Gift Fund is an account created to accept donations from individuals and organizations to further national service. The audit found that the Gift Fund account is fairly stated and the Corporation's policies on the Gift Fund comply with Federal regulations. However, we made some recommendations to improve administration of the Gift Fund.

The OIG performs pre-audit surveys of State commissions. State commissions are the principal recipients of AmeriCorps funds. The pre-audit surveys provide a preliminary assessment of the commissions' pre-award and grant selection procedures, fiscal administration, and monitoring of subgrantees. The information gathered allows the OIG to determine the timing and extent of audit work necessary at each State commission. The OIG issued pre-audit survey reports on the State commissions of Arizona, Arkansas, the District of Columbia, Montana, New York, North Dakota, and Utah.

The OIG also performs full-scope audits of State commissions, which are thorough examinations of the commissions' fiscal integrity. During this reporting period, the OIG issued full-scope audit reports on the South Carolina Commission on National and Community Service and the Rhode Island Service Alliance.

The Office of Inspector General also performed an audit of the American Association of State Service Commissions, a Corporation grantee that provided training and technical assistance to State commissions. We also provided information to Congress on the Corporation's proposal to allow limited refilling of vacated AmeriCorps positions.

## Investigations Section

The OIG Investigations Section continued to investigate allegations of fraud and abuse in Corporation programs and operations. During this reporting period, the Investigations Section received and processed 29 Hotline contacts, opened 21 investigative actions, and closed 12 investigative actions. Four matters were referred to the U.S. Department of Justice for prosecution, and five matters were referred to Corporation management for its action. Ongoing OIG investigations have identified \$1.6 million in potential recoveries of taxpayer dollars.

As part of our ongoing effort to prevent fraud, waste and abuse of taxpayer dollars, the OIG Investigations Section made 26 fraud awareness presentations to program members, and to staff members of grantees, State commissions, and the Corporation. The presentations describe fraud, identify indicators of fraud, and discuss prevalent types of fraud. The Office of Inspector General investigative staff continued to visit AmeriCorps members at their service sites to discuss their community service experiences. The purpose of this initiative is twofold: it increases the visibility of the OIG, and it helps the OIG verify member information submitted to, and maintained by, the Corporation.

## **Evaluation Section**

During this reporting period, the Office of Inspector General Evaluation Section conducted extensive interviews as part of the OIG's evaluation of the AmeriCorps program. Program analysts conducted interviews at Corporation headquarters, each of the Corporation's five service centers, all five AmeriCorps\*NCCC (National Civilian Community Corps) campuses, and many Corporation State offices, State commissions, and national direct grantees. Interviews focused on the outreach, management, and monitoring of AmeriCorps members and projects, as well as the tools utilized to obtain feedback on potential areas for improvement by each program. The Evaluation Section anticipates issuing a draft report in 2004 that will feature key findings and recommendations for improving AmeriCorps.

The Evaluation Section also launched preliminary initiatives to conduct an evaluation of the Corporation's Senior Corps program. We anticipate the scope of the Senior Corps study to include procedures and tools used by the Corporation and its grantees to assess the need for program activities and an evaluation of Senior Corps's overall performance in meeting those needs. This study will also examine Senior Corps's procedures for collecting and reporting performance data, and for identifying and coordinating Corporation resources with other Federal, State, and local programs. It will also identify specific steps and management indicators for project selection, management, and monitoring. The Senior Corps evaluation will assess the program's ability to accomplish its mission of engaging senior citizens to help their local communities.

## **Fiscal Year 2004 Performance Information**

The final section of this report summarizes the Office of Inspector General's accomplishments and performance measures in support of OIG strategic goals.

# About The Office Of Inspector General

In 1993, Congress created the Corporation for National and Community Service, along with this Office of Inspector General, in the National and Community Service Trust Act (42 U.S.C. §§ 12501-681 (2004)). Like all Federal OIG operations, our office is independent of the agency it oversees. Led by a presidential appointee, we audit, investigate, and evaluate the Corporation's programs, including AmeriCorps, Volunteers In Service to America (VISTA), the National Civilian Community Corps, Learn and Serve America, and Senior Corps.

The Office of Inspector General's team of professional investigators, evaluators, and auditors examine the Corporation's operations. We also examine State community service programs that receive and distribute the majority of Corporation funds, as well as local recipients of Federal funds.

Based on the results of our audits, investigations, and reviews, the OIG recommends Corporation policies to promote economy and efficiency. We also strive to prevent and detect fraud and abuse of taxpayer dollars that have been invested in Corporation programs.

This semiannual report, as required by the Inspector General Act of 1978, details our work for the final six months of fiscal year 2004. The report is being transmitted to the Chief Executive Officer of the Corporation, the Corporation's Board of Directors, and Members of Congress. It will also be made available to the public.

All of our work is conducted in strict adherence to the Privacy Act and the Freedom of Information Act. Our efforts are often aided by information supplied via the OIG Hotline (800-452-8210). The Hotline allows Corporation employees, grantees, program beneficiaries, and others to report concerns and suspected fraud.

For more information on the OIG and its work, please visit our Internet website: [www.cncsig.gov](http://www.cncsig.gov), or telephone us at (202) 606-5000, extension 390.

# Management Challenges

*This section highlights what we believe to be the major management challenges facing the Corporation. These management challenges have been drawn from various reports issued by the Office of Inspector General, the Government Accountability Office, and the Office of Personnel Management.*





## Challenge 1: Grant Monitoring and Management

The Corporation awards nearly \$700 million annually in grants to State commissions, nonprofits, community-based organizations, schools, and other civic organizations. The grants support the Corporation's mission of providing opportunities to Americans of all ages to engage in service that addresses the nation's educational, public safety, environmental, and other human needs. Monitoring such an extensive, nationwide grant-making operation efficiently and effectively presents a major challenge to the Corporation.

Since the Corporation spends the majority of its appropriated funds on grants, it is critical that the Corporation monitor grant activity closely to ensure that grantees are complying with applicable Federal laws and regulations related to the administration of grant awards. The Corporation's flagship program, AmeriCorps, is the largest recipient of the Corporation's appropriated funds. Three-quarters of AmeriCorps monies are awarded to State commissions, which, in turn, select and fund subgrantees that execute the programs. The Corporation is required to monitor these State commissions to ensure compliance with grant agreements, and ensure that State commissions are performing their prescribed duties.

As the main recipient of Corporation awards, the State commissions have been the focus of the vast majority of OIG audits. These State commission audits, as well as audits of other grantees, have identified several recurring problems that the Corporation needs to address, including:

- Grantees and subgrantees continue to fail to submit Financial Status Reports, progress reports, and member enrollment and exit forms in a timely manner.
- Grantees and subgrantees are unable to meet matching requirements or to provide documentary support for the reported matching contribution of non-Federal funds.
- State commission monitoring of subgrantees needs to be improved.
- The Corporation needs to emphasize to grantees the importance of conducting criminal background checks on potential members, and needs to clarify the grant provisions requiring background checks.
- Grantees and subgrantees are not maintaining sufficient timekeeping records for employees.

To improve grant management, the Corporation needs to emphasize to all State commissions and other grantees the importance of complying with the requirements that accompany the receipt of Federal funds. The Corporation should work with the State commissions and grantees to ensure that each understands these requirements and can effectively implement them.

The conclusion drawn from the audits of State commissions and other grantees that grantee monitoring needs improvement has been reinforced by the OIG's annual audit of the Corporation's financial statements. During the audit of the fiscal year 2003 financial statements, the OIG found for the third consecutive year<sup>1</sup> that the Corporation's monitoring of grantee activities was a reportable condition.<sup>2</sup> Specifically:

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<sup>1</sup> The audit of the fiscal year 2004 financial statements is currently underway. It appears, however, that the Corporation's grant monitoring, although improved from 2003, will again be identified as a reportable condition, making grant monitoring a reportable condition for four consecutive years.

<sup>2</sup> A reportable condition is an issue coming to the auditor's attention that, in the auditor's judgment, should be communicated because it represents a significant deficiency in the design or operation of internal controls that could adversely affect the Corporation's ability to meet its objectives.

# Management Challenges

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- The Corporation did not conduct site visits of 15 of 52 State commissions within the prescribed three-year period. Of these 15, six State commissions were also identified as needing a site visit in the fiscal year 2002 financial statements audit.
- The Corporation did not conduct site visits of 53 of 1,400 Senior Corps grantees within the prescribed three-year period.
- Reports on site visit findings were not provided to 189 of 606 grantees within the prescribed 20-day period following the visits.
- Progress reports, which describe program status and milestone achievements of grantees, were not always submitted to Corporation State offices as required.

The OIG's financial statements audit report contains four recommendations to improve the Corporation's grantee monitoring:

- The Corporation should consider reevaluating its policies and procedures to implement a risk-based approach for conducting site visits to State commissions, and the Corporation should comply with those procedures.
- Corporation State offices should better track the results of site visits and maintain visit schedules for Senior Corps grantees.
- The Corporation should provide grantees with timely feedback from site visits. Corporation management should consider the timeliness of site visit report submissions when evaluating its staff.
- Corporation State offices should more closely monitor whether progress reports have been filed and follow up on delinquent reports.

During the annual audit of the Corporation's financial statements, the auditors also became aware of two issues related to grant monitoring that presented opportunities for the Corporation to strengthen internal controls and operational efficiency. First, the auditors found that the Corporation should ensure that reviews of the Federal audit clearinghouse database are conducted regularly to identify grantees with weaknesses and compliance problems prior to the award of a grant. Second, grant closeout procedures are not always followed, preventing grants from being closed out in a timely manner. We recommended that the Corporation develop a consistent method for identifying expired grants and performing a timely closeout of these grants.

By implementing the recommendations on grant monitoring contained in the OIG reports noted above, the Corporation can enhance program efficiency and decrease the potential for fraud, waste, and abuse of Federal tax dollars.

## Challenge 2: Financial Management

For the fourth consecutive year, the Corporation received unqualified (i.e., clean) opinions on its financial statements: the Statement of Financial Position, the Statement of Operations and Changes in Net Position, and the Statement of Cash Flows. The Corporation reduced the number of reportable conditions in its financial statements audit from two to one. However, monitoring of grantee activities, as discussed in Challenge 1, remained a reportable condition.

While the Corporation has made progress over the last year, several financial management areas continue to present challenges, including:

## **The National Service Trust**

The primary purpose of the National Service Trust is to fund education awards earned by AmeriCorps members who complete a designated term of service. The fiscal integrity of the Trust has improved substantially since 2002, when the Corporation violated the Anti-Deficiency Act by approving more AmeriCorps members than the Trust could support. To help prevent a recurrence, the OIG audited the Trust's budgetary resources and obligations in fiscal year 2003, and our audit concluded that the Trust accounts are fairly stated. However, the management of the Trust still requires improvement.

As identified in the OIG's 2003 financial statements audit and in the Government Accountability Office's report on the National Service Trust,<sup>3</sup> discrepancies exist in the member data the Corporation uses for the Trust. Inaccuracies in member information could cause errors in the disbursement of education awards and inaccurate computation of the Trust's liability. In addition, member exit information and education award payments are not always processed in a timely manner. These delays can result in a misstatement of the Trust's liability.

## **Government Travel Charge Cards**

The Corporation has issued travel charge cards to employees who are frequent travelers to pay for transportation, lodging, meals, and other reimbursable expenses while on official travel. The cards should only be used for authorized expenses related to official travel. In fiscal year 2001, the OIG initiated a review of Corporation employee use of the travel charge card. We identified more than 50 employees suspected of misusing the cards for personal benefit. Since that review, the OIG has revisited this issue annually and has identified fewer employees who have misused the card. We credit the Corporation's improved training of employees on the appropriate uses of the government travel charge card, but the potential for abuse remains a challenge requiring continued Corporation vigilance.

## **Other Financial Management Areas**

- **The Gift Fund** – The Corporation's Gift Fund was created to receive donations from individuals and organizations to further national service. The OIG audited the Gift Fund and determined that it was fairly presented on the Corporation's financial statements. Yet, the audit identified several instances of noncompliance with Corporation policies, and recommended that internal controls on Gift Fund expenditures be improved.
- **Accounts Receivable and Debt Collection** – Certain policies relating to accounts receivable and debt collection were either not documented or not followed. We recommended that the Corporation document policies related to accounts receivable and consistently apply policies related to debt collection.
- **Vendor Payments** – Payments to vendors were not always disbursed in a timely manner. Delays in payments to vendors were traced to the Corporation's procedure, which requires several offices to verify contracts to ensure that goods and/or services have been provided before payments are made. We recommended that the Corporation place stricter controls on responsible offices, reemphasize the importance of timely payments, examine offices with delinquent payments, and resolve bottlenecks in the disbursement process.

## **Challenge 3: Human Capital**

The strategic management of human capital is one of the most important challenges facing the Corporation. To fulfill its mission, the Corporation must hire, train, and retain competent personnel. The Corporation operates under an Alternative Personnel System (APS) that is exempt from most of

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<sup>3</sup> Government Accountability Office, *Better Internal Control and Revised Practices Would Improve the Management of AmeriCorps and the National Service Trust* 12-15 (2004).

# Management Challenges

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the provisions of Title 5 of the United States Code and other statutes that govern Federal employees. In 2003, the OIG issued a review that assessed the strengths and weaknesses of the APS, employee perceptions of the APS, the equal employment opportunity climate at the Corporation, and options for APS improvement.

In general, the report found that the APS has benefited the Corporation but has not been administered in a manner that optimizes its value. The report also found that many APS policies and procedures lacked clarity and were not understood by managers and employees. The APS also lacked credibility because some employees believed it was rife with favoritism. Furthermore, the roles of offices responsible for human resource decisions were not clear, and there appeared to be no “honest broker” whom employees trusted to resolve their concerns in a fair and honest manner. There was also a strong feeling among African-American employees that they were not treated equitably with regard to grade levels, promotions, salary increases, and disciplinary actions.

To address these issues, the report recommended that the Corporation take a number of actions, including:

- Improve communications to ensure that accurate information is conveyed to employees.
- Examine the APS to ensure that it is aligned with the Corporation's strategic objectives.
- Create a Chief Human Capital Officer to oversee the APS and act as an “honest broker” in the organization.
- Clarify APS policies and the roles of offices involved in human resources decision-making.
- Conduct a detailed analysis of hiring, compensation, salary increases, promotions, awards, and disciplinary actions to identify areas where disparate treatment of employees may exist.
- Create an active diversity program to demonstrate the Corporation's commitment to an inclusive culture.
- Provide APS training to executives, managers, and employees to dispel misconceptions about the system.

The Office of Personnel Management also conducted a human capital assessment of the Corporation and identified many of these same challenges. Since these reports were issued, the Corporation has made a visible, concerted effort to make human capital management a top priority. The Corporation has hired a Chief Human Capital Officer who has improved employee communications by holding periodic meetings to discuss personnel issues and by issuing a biweekly human capital update to employees. A Diversity Advisory Council has been established to help the Corporation address areas related to diversity. In addition, the Corporation has developed a preliminary strategic human capital plan that attempts to align human capital policies and practices with the Corporation's mission. While improvements have been made, the OIG recognizes the importance of this issue and plans to revisit the recommendations made in these reports to provide a complete assessment of the Corporation's progress.

## Challenge 4: Information Security

The confidentiality and integrity of information systems are vital to the successful operation of the Corporation. Advancements in information technology have resulted in a number of benefits to the Corporation, such as information being processed more quickly and communicated almost instantaneously. However, these advancements have also increased the risk of fraud, inappropriate disclosure of sensitive data, and disruption of critical operations and services.

# Management Challenges

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To address these concerns, Congress enacted the Federal Information Security Management Act of 2002 (FISMA). The FISMA provides a comprehensive framework to ensure that information resources supporting Federal operations and assets employ effective security controls. The FISMA requires the OIG to perform an independent security evaluation of the Corporation annually.

The OIG has performed the FISMA audit for fiscal year 2004. The auditors commended the Corporation for taking the following steps to enhance its security program and address issues identified in the 2003 FISMA report:

- Provided staff access to a comprehensive library of current policies and procedures via the Corporation's Intranet.
- Initiated a proactive security awareness program.
- Conducted periodic network scans to identify vulnerabilities and take appropriate steps to mitigate risk.
- Installed an effective security incident reporting process that follows Federal policies.
- Completed effective configuration management of Corporation systems and assets.

The Corporation's noteworthy progress in 2004 is moderated, however, by one area that has shown little progress toward remediation. Our recent independent evaluation of the Corporation's information security identified a significant deficiency in the Corporation's annual testing and evaluation. The Corporation's major applications and general support system have not undergone complete testing and evaluation in the past 12 months. Failure to conduct annual testing and evaluation permits new threats and vulnerabilities to go undetected for an extended period of time. Furthermore, the absence of annual testing and evaluation poses a high risk to the Corporation's information security environment.

We commend the Corporation on the steps it has taken to enhance information security, but until this issue is addressed, the Corporation's information technology systems remain at risk.

## Challenge 5: Performance Measurement

Over the past decade, the Federal government has intensified its focus on measuring the performance of government agencies. In 1993, Congress passed the Government Performance and Results Act of 1993 (GPRA) to increase agency accountability and improve the quality and delivery of government services. The GPRA requires agencies to set program goals, measure program performance against those goals, and report on agency progress. To further these purposes, the Administration announced The President's Management Agenda in 2001, which increased the focus on performance by formally integrating it with budget planning and reporting.

The Corporation funds a wide variety of community service activities through an extensive network of grantees and subgrantees. Measuring the Corporation's performance depends on accurately assessing the performance of this network of grantees and aligning this information with the Corporation's goals and measures. Accurate and complete measurements of grantee performance are critical for evaluating the economy and efficiency of the Corporation, and its impact in communities across the nation.

Over the past few years, the Corporation has made advancements in three performance measurement areas. First, the Corporation has developed an Internet-based reporting system for AmeriCorps that allows grantees and subgrantees to collect performance information. Second, the Corporation has improved the quality of the performance data reported by grantees and subgrantees by providing training and technical assistance on using its Internet-based system. Finally, the

# Management Challenges

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Corporation's fiscal year 2006 budget shows increased efforts in developing a performance-based budget that is more closely aligned with its goals and strategic objectives.

Despite these advancements, the Corporation continues to face some significant challenges that have been identified during the OIG's ongoing evaluation of AmeriCorps. For example, Corporation guidelines permit grantees and subgrantees to select their own performance measures and report on their progress through a variety of procedures and systems. The lack of specific, standardized performance measures impairs the ability of the Corporation to align grantee performance information with the Corporation's strategic objectives in reports to the President and Congress. Corporation guidance also requires grantees and subgrantees to only report on the top three activities they perform, potentially causing some important accomplishments to be underreported. In addition, the Corporation reviews performance information, but its computer systems are not structured to adequately track monitoring efforts to validate the accuracy of performance information. Correcting these deficiencies will enable Corporation management to more accurately measure the significant results and impact achieved by its grantees and subgrantees.

# Audit Section

*The Office of Inspector General Audit Section is responsible for reviewing the financial, administrative, and programmatic operations of the Corporation for National and Community Service. The Audit Section's responsibilities include auditing the Corporation's annual financial statements, assessing the Corporation's management controls, reviewing the Corporation's operations, and auditing individual grants, contracts, and cooperative agreements funded by the Corporation. All OIG audit reports are issued to Corporation management for its action or information.*



## Financial Management

### **Audit of the Corporation for National and Community Service Gift Fund (Audit Report No. 04-13)**

We audited the Corporation Gift Fund, which was created to accept donations from individuals and organizations to further national service. In our opinion, the Gift Fund account balance was fairly presented on the Corporation's financial statements, and the Corporation's Gift Fund policies comply with applicable Federal laws and regulations. However, our audit also disclosed several instances of noncompliance with Corporation policies and procedures. We recommended corrective action, and the Corporation concurred with all of our recommendations.

### **Comment on Corporation Refill Policy Safeguards (Audit Report No. 04-26)**

The Corporation plans to introduce a new policy allowing grantees to refill AmeriCorps positions if a member prematurely leaves the program. In response to a congressional request, we commented on the policy safeguards being built into the Corporation's Web-Based Reporting System to protect the Corporation's fiscal integrity. These safeguards are designed to provide real-time data on AmeriCorps member position refills to ensure that enrollment does not exceed authorized levels. The OIG is satisfied that the safeguards should provide real-time data that will accurately show enrollment levels.

## Grant Management and Oversight

The Corporation awards grants to State and local governments, State commissions, institutions of higher education, and other nonprofit organizations. Grantees are required 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 their grant agreements. The Corporation is responsible for ensuring that grantees comply with applicable laws and regulations related to the administration of grant awards in the areas of Federal cash management, human resources, and information technology.

The Corporation awards grants and cooperative agreements to State commissions to assist national and community service programs in each State. The Corporation awards approximately three-quarters of its AmeriCorps\*State and National funds to State commissions. In turn, the State commissions fund and are responsible for the oversight of the subgrantees that execute the programs. Working for these subgrantees, AmeriCorps members help their communities meet educational, human, environmental, and public safety needs.

The Office of Inspector General Audit Section conducts audits of Corporation grantees to assess whether reported costs are allowable under Federal regulations and whether grantees are complying with the terms and conditions of their awards. Our reports on Corporation grants also include recommendations for correcting deficiencies. Typically, the recommendations call for grantees to reimburse questioned costs, establish and implement policies and procedures to prevent future instances of noncompliance, and improve internal controls. We also make recommendations for more effective Corporation oversight and improvements in Corporation grants management.

During this reporting period, the OIG issued seven pre-audit survey reports, two State commission full-scope audits, and one audit of a training and technical assistance cooperative agreement. We are currently auditing the following State commissions: California, Colorado, Hawaii, Iowa, Louisiana, Nebraska, Nevada, Ohio, Vermont, and Wyoming. In addition, the following audits of other nonprofit organizations are ongoing: United Planning Organization, Educational Services District 112, Notre Dame Mission Volunteers Program, and the National Association of Community Health Care Centers.



## State Commission Pre-Audit Surveys

Beginning in Fiscal Year 1999, the OIG initiated a series of pre-audit surveys intended to assess risk and to gather basic information on the State commissions' operations and funding. The pre-audit surveys are designed to provide a preliminary assessment of the commissions' pre-award and grant selection procedures, fiscal administration, and monitoring of subgrantees. The surveys are also intended to provide information on other audit coverage that may be required by the Single Audit Act. The information gathered allows the OIG to determine the timing and extent of additional audit work necessary at each State commission.

For each pre-audit survey, the OIG issued a report communicating the results and making recommendations for improvement. The reports also recommended that the Corporation follow up with each State commission to determine that appropriate corrective actions are being undertaken to address the identified conditions.

During this reporting period, the OIG issued pre-audit survey reports for seven State commissions. The results of these seven surveys are described below. This completes the OIG's five-year initiative to conduct pre-audit surveys of all State commissions.

### **Arizona Governor's Commission on Service and Volunteerism (Audit Report No. 04-12)**

The Arizona Governor's Commission was awarded Corporation AmeriCorps Formula, Program Development and Training, and Administrative grants totaling \$5,777,235 for Program Years 2000-2001 and 2001-2002. The auditors noted the following: the Commission did not have documentation to prove that subgrantee monitoring information was used to select subgrantees for renewal; the site visit monitoring tool did not adequately document the Commission's monitoring efforts; and controls were inadequate to ensure that AmeriCorps members were informed of prohibited activities. The auditors did not recommend that a full-scope audit be performed. They recommended that the Corporation follow up with the Commission to determine whether corrective actions have been implemented.

### **Arkansas Service Commission (Audit Report No. 04-15)**

The Arkansas Service Commission was awarded Corporation AmeriCorps Formula, Program Development and Training, and Administrative grants totaling \$4,728,590 for Program Years 2001-2002 and 2002-2003. During the survey program years, the auditors noted some areas for improvement and made recommendations accordingly. The auditors did not recommend that a full-scope audit be performed. They recommended performing limited procedures in the future to address the survey findings.

### **Utah Commission on Volunteers (Audit Report No. 04-16)**

The Utah Commission was awarded AmeriCorps Formula, Program Development and Training, and Administrative grants totaling \$4,493,378 for Program Years 2001-2002 and 2002-2003. The auditors found the following: internal controls over claimed matching costs under the Commission's administrative grant did not ensure that claimed costs were allowable and adequately supported; the Commission could not provide documentation that past performance and financial information of subgrantee applicants were considered in the selection process; the Commission did not fully and clearly document the subgrantee monitoring performed; and controls to ensure that AmeriCorps members were performing only allowable activities needed improvement. The auditors did not recommend that a full-scope audit be performed. They recommended that the Corporation follow up with the Commission to determine whether corrective actions have been implemented.

### **District of Columbia Commission on National and Community Service (Audit Report No. 04-17)**

The District of Columbia Commission was awarded Corporation AmeriCorps Formula, Program Development and Training, Administrative, Disability, Citizen Corps, and Promise Fellows grants

totaling \$2,301,817 for Program Years 2001-2002 and 2002-2003. During the pre-audit survey program years, the auditors noted that the Commission had established effective controls for administering Corporation grants. They did not recommend that a full-scope audit be performed.

### **Montana Commission on Community Service (Audit Report No. 04-18)**

The Montana Commission was awarded Corporation AmeriCorps Formula, Program Development and Training, and Administrative grants totaling \$2,350,068 for Program Years 2001-2002 and 2002-2003. The auditors found that the implementation of some of the Commission's policies and procedures could be improved. The auditors did not recommend that a full-scope audit be performed. They recommended that the Corporation follow up with the Commission to determine whether corrective actions have been implemented.

### **New York State Commission on National and Community Service (Audit Report No. 04-19)**

The New York State Commission was awarded Corporation AmeriCorps Formula, Program Development and Training, and Administrative grants totaling \$45,907,802 for Program Years 2001-2002 and 2002-2003. During the survey program years, the auditors noted that the Commission: failed to formally or consistently consider past performance for applicants that had previously received grants; did not maintain adequate documentation to support its review of applicant and subgrantee OMB Circular A-133 reports; did not implement adequate procedures to ensure that subgrantees submitted Financial Status Reports (FSRs) in a timely manner; and did not periodically reconcile FSRs to cash drawdown balances. The Commission also failed to adequately monitor subgrantees, performed only limited programmatic monitoring, and conducted no fiscal monitoring of tested subgrantees. The auditors recommended performing a full-scope audit for Program Years 2001-2002 and 2002-2003.

### **North Dakota State Commission on National and Community Service (Audit Report No. 04-21)**

The North Dakota State Commission was awarded AmeriCorps Formula, AmeriCorps Competitive, Program Development and Training, and Administrative grants totaling \$426,244 for the period October 1, 2002, through March 31, 2003. The auditors noted that the Commission: needed to improve its review and approval of the administrative match on Financial Status Reports; needed to better document its consideration of past performance or financial risk assessments during the subgrantee selection process; and should improve its documentation of communications with subgrantees and reviews of subgrantee audits. The auditors did not recommend that a full-scope audit be performed. They recommended that the Corporation follow up with the Commission to address the findings related to grant administration and subgrantee monitoring, and to determine whether corrective actions have been implemented.

## **State Commission Full-Scope Audits**

### **South Carolina Commission on National and Community Service (Audit Report No. 04-14)**

For the grants audited, the South Carolina Commission claimed costs of \$5,059,908, of which the auditors questioned \$25,592 as unallowable and \$19,586 as unsupported. The amount questioned is less than one percent of the amount claimed. Costs questioned for allowability represent amounts for which documentation shows that recorded costs were expended in violation of regulations or specific award conditions. Costs questioned for support require additional documentation to substantiate that the costs were incurred and were allowable. The auditors concluded that the Consolidated Schedule of Award Costs presented fairly the costs claimed by the Commission, except for the questioned and unsupported costs identified in the report and the effects of any adjustments. The auditors also noted nine instances of noncompliance with provisions of applicable Federal requirements.

The Commission's response to the draft audit report stated that it has modified or implemented policies and procedures to correct the noncompliance issues. The response also included more

information about the questioned costs. The Corporation will review the Commission's corrective actions as part of the audit resolution process.

### **Rhode Island Service Alliance (Audit Report No. 04-22)**

The Rhode Island Service Alliance (RISA) claimed costs of \$7,939,976, of which the auditors questioned \$148,959 as unallowable. They also questioned \$32,850 of education awards. Overall, the auditors questioned less than two percent of claimed costs. Costs questioned for allowability represent amounts for which documentation shows that recorded costs were expended in violation of regulations or specific award conditions, or costs that require an interpretation of allowability. The auditors also noted instances of noncompliance with provisions of Federal laws, regulations, or grant award provisions.

The RISA disagreed with the audit report's conclusions. It also objected to the auditors' interpretation of grant provisions and whether RISA policies, procedures and practices met the requirements of the provisions. These comments and RISA's corrective actions will be reviewed by the Corporation as part of the audit resolution process.

## **Other Grant Audits**

### **American Association of State Service Commissions (Audit Report No. 04-23)**

The Office of Inspector General audited grants awarded to the American Association of State Service Commissions, also known as America's Service Commissions (ASC). Our audit showed that, after receiving \$1.2 million of Federal grant funding over a three-and-a-half year period, ASC had not established and maintained the financial systems and management controls required to properly account for Federal funds. As a result, the OIG was unable to express an opinion on the costs incurred by ASC. While the audit noted that ASC conducted extensive training activities under the cooperative agreement, the OIG questioned \$582,131 of \$1,188,455, totaling 49 percent of expenditures incurred under the agreement due to poor accountability of Federal funds and noncompliance with Federal cost principles. The \$582,131 of questioned costs included salary allocated to the cooperative agreement without required supporting documentation, extensive consulting costs, duplicative reporting of certain costs, and several instances of lobbying costs.

In response to the audit, the Corporation suspended funding to ASC and will review the questioned costs along with ASC's comments. The Corporation also revised several control procedures. Specifically, the Corporation intends to: (1) more closely monitor all first-time recipients of Federal grant funding; and (2) document its review of financial reports when determining whether recipients are required to undergo audits in accordance with Office of Management and Budget Circular A-133. To further strengthen related controls, the Corporation is recompeting its training and technical service cooperative agreements later this year, with accountability as a key selection factor. Future cooperative agreements will also incorporate more stringent budget plans that are directly linked to performance objectives and supported by detailed periodic expense reports.

In its response to the draft audit report, ASC management acknowledged certain deficiencies in the implementation of its management control systems and advised that ASC's Executive Director had recently resigned. Officials of ASC noted that management control systems had been established and codified as formal policy, and that ASC had established a detailed corrective action plan to address systemic deficiencies found during the audit. The management of ASC concurred with the recommended disallowance of \$159,488 in grant costs and provided additional documentation and explanations regarding the remaining questioned costs. Management of ASC also proposed \$55,137 in additional expenses based on a reallocation of certain administrative costs. The costs questioned and internal control issues raised in the report will be resolved by the Corporation during the audit resolution process.

## Audit Resolution

The Corporation's audit resolution process under Corporation Policy Number 101, *Audit Resolution*, consists of six steps that culminate in a Management Decision (MD) and completion of a Notice of Final Action on any corrective measures that management deems appropriate.

**Step 1:** The OIG issues a draft report. Within 30 days, the OIG issues a final audit report after considering any comments received from the Corporation and the auditee.

**Step 2:** Within six months of the OIG's issuance of a final audit report, the Corporation issues a Proposed Management Decision (PMD), responding to the report's findings and recommendations. The PMD explains any corrective actions and provides a timetable for implementation. It also explains whether management disagrees with any of the report's findings and recommendations.

**Step 3:** Within 30 days of receiving the PMD, the OIG may provide written comments and may initiate additional discussions with Corporation management if the OIG does not concur with the PMD.

**Step 4:** After reviewing any OIG comments, the Chief Financial Officer (CFO) issues a Management Decision (MD).

**Step 5:** When all corrective actions in the MD have been completed, the Corporation issues a Notice of Final Action. A Notice of Final Action must be issued within 12 months of the date the audit report was issued.

**Step 6:** Audits for which Final Action was not completed within 12 months of issuance are included in the OIG's semiannual report. The Corporation then provides comments on the status of these incomplete actions and forwards this information to Congress.

## Proposed Management Decisions

A proposed management decision is a Corporation report that responds to an OIG audit's findings and recommendations, and outlines a plan for corrective action. During this reporting period, the Corporation notified the Office of Inspector General of the following proposed management decisions:

- Audit Report 03-04, *Incurred-Cost Audit of Grants Awarded to the Wisconsin National and Community Service Board*
- Audit Report 04-08, *Pre-Audit Survey of the Oklahoma Community Service Commission*
- Audit Report 04-09, *Pre-Audit Survey of the Puerto Rico Commission on Community Service*

## Notices of Final Action

A Notice of Final Action is a Corporation management report indicating that it has completed corrective actions. During this reporting period, the Office of Inspector General received the following Notices of Final Action:

- Audit Report 01-31, *Report on the Review of the Corporation for National and Community Service National Direct Grant Application Review Process (GARP)*
- Audit Report 02-17, *Audit of Corporation for National and Community Service Grants Awarded to the New Jersey Commission on National and Community Service*

- Audit Report 02-21, *Incurred-Cost Audit of Grants Awarded to the Alabama Governor's Office on National and Community Service*
- Audit Report 03-03, *Incurred-Cost Audit of Grants Awarded to the Indiana Commission for Community Service and Volunteerism*
- Audit Report 03-06, *Incurred-Cost Audit of Grants Awarded to the Maine Commission for Community Service*
- Audit Report 03-07, *Incurred-Cost Audit of Grants Awarded to PENNSERVE: The Governor's Office of Citizen Service*
- Audit Report 03-08, *Audit of Corporation for National and Community Service Grants Awarded to the Connecticut Commission on National & Community Service*
- Audit Report 04-08, *Pre-Audit Survey of the Oklahoma Community Service Commission*

Audit Reports Issued				
April 1, 2004 – September 30, 2004				
Report Number	Issue Date	Report Name	Dollars Questioned	Dollars Unsupported
			(Dollars in thousands)	
04-12	04/01/04	<i>Pre-Audit Survey of the Arizona Governor's Commission On Service and Volunteerism</i>	0	0
04-13	08/31/04	<i>Audit of the Corporation for National and Community Service's Gift Fund</i>	0	0
04-14	06/18/04	<i>Incurred-Cost Audit of Grants Awarded to the South Carolina Commission on National and Community Service</i>	45	20
04-15	08/09/04	<i>Pre-Audit Survey of the Arkansas Service Commission</i>	0	0
04-16	07/29/04	<i>Pre-Audit Survey of the Utah Commission on Volunteers</i>	0	0
04-17	08/09/04	<i>Pre-Audit Survey of the District of Columbia Commission on National and Community Service</i>	0	0
04-18	08/23/04	<i>Pre-Audit Survey of the Montana Commission on Community Service</i>	0	0
04-19	09/28/04	<i>Pre-Audit Survey of the New York State Commission on National and Community Service</i>	0	0
04-21	09/28/04	<i>Pre-Audit Survey of the North Dakota State Commission on National and Community Service</i>	0	0
04-22	09/23/04	<i>Audit of Corporation for National and Community Service Grants Awarded to the Rhode Island Service Alliance</i>	149	88
04-23	09/20/04	<i>Audit of Costs Incurred under the Corporation's Training and Technical Assistance Cooperative Agreement with America's Service Commissions</i>	582	497
04-26	09/30/04	<i>Comments on Corporation Refill Policy Safeguards</i>	N/A	N/A
TOTAL			<u>\$776</u>	<u>\$605</u>
N/A: Not applicable				

# Investigations Section

*The Office of Inspector General Investigations Section is responsible for the detection and investigation of fraud, waste, and abuse in Corporation for National and Community Service programs and operations. The Investigations Section carries out these responsibilities by investigating allegations of criminal activities involving the Corporation's employees, contractors, and grant recipients. Criminal investigations are presented to the U.S. Attorney or, in some cases, the local prosecutor for criminal prosecution and monetary recovery. Some investigative reports are referred to Corporation management for its administrative action or information.*



## Summary of Cases

At the beginning of this reporting period, 24 investigative actions were pending in the OIG Investigations Section. During this reporting period, OIG investigators opened 21 investigative actions and closed 12 investigations. Thirty-three investigative actions were pending at the end of the period.

### Cases Closed This Period

#### **Allegations of Embezzlement of Program Funds (OIG Report of Investigation 03-008)**

The Office of Inspector General conducted a joint investigation with local law enforcement into an allegation, reported by Corporation management, that a former National Direct AmeriCorps program director may have embezzled AmeriCorps program funds. The investigation determined that the former director had embezzled more than \$31,000 in non-Federal funds belonging to the grantee. The former director was found guilty of Grand Theft, sentenced to three years' supervised probation, required to make restitution of \$37,512, assessed \$491 in court fees, and required to perform 100 hours of community service. Based on information developed by the OIG and presented to the Corporation, management debarred the former program director from participation in Federal contracts and grants for a period of 12 months.

#### **Childcare Fraud (OIG Report of Investigation 02-008)**

The Office of Inspector General investigated an allegation, reported by a grant recipient, that a former AmeriCorps member and her childcare providers submitted false AmeriCorps\*Care applications. AmeriCorps\*Care applications are submitted by AmeriCorps members to obtain childcare benefits. The applications for benefits were submitted knowing that the providers would not be furnishing the services as claimed. The investigation revealed evidence that the former member and the childcare providers submitted false monthly attendance reports. This allowed the childcare providers to receive thousands of dollars in AmeriCorps\*Care subsidies, which they shared with the former member.

Further investigation disclosed evidence that the former member received State childcare subsidies during the same period by conspiring with two different childcare providers to defraud the State system in the same manner. These childcare providers received a significant amount of Federal funds as part of their State childcare subsidies, which they also shared with the former member. All the childcare providers admitted to their involvement in the fraud and conspiracy. The former member admitted to some involvement.

In addition, a review of the former member's time sheets revealed that, although the former member was certified as eligible to receive an education award, only a small portion of her service hours were documented. Of these hours, 185 were on time sheets that bore the forged signature of the former member's supervisor.

The U.S. Department of Justice accepted this investigation and pursued criminal prosecution. The former member pled guilty in U.S. District Court and was sentenced to five years' probation, restitution of \$19,979.61, and a \$100 court fee. Based on information developed by the OIG and presented to the Corporation, management debarred the former member from participating in Federal contracts and grants for a period of 24 months.

#### **Allegations of Improper Hiring Action (OIG Report of Investigation 03-024)**

The Office of Inspector General completed an investigation into allegations that a member of Corporation management was improperly hired. The investigation determined that the employee was noncompetitively hired for a position that required an open competition. The Counsel to the Office of Inspector General expressed the opinion that the hiring was improper and contrary to Federal regulations and procedures outlined in the Corporation Personnel System Handbook. This investigation was reported to Corporation management for its action. Corporation management



informed the OIG that the Corporation's Alternative Personnel System's policies and procedures would be reviewed and revised, and that any changes would be discussed with the Office of Personnel Management.

## **Embezzlement of Program Funds (OIG Report of Investigation 03-026)**

The Office of Inspector General investigated allegations, reported by a State commission, that a former program employee and two accomplices had embezzled a large sum of money from the program, a small portion of which were AmeriCorps funds. An investigation coordinated with local law enforcement and the Federal Bureau of Investigation resulted in the convictions of the former program employee and one of the accomplices. The other accomplice is a fugitive from justice. Based on information developed by the OIG and presented to the Corporation, management debarred the former program employee and an accomplice from participating in Federal contracts and grants for a period of 36 months.

## **Improper Expenditures of Grant Funds (OIG Report of Investigation 04-021)**

The Office of Inspector General investigated an allegation, reported via the OIG Hotline, that a State grant recipient had misapplied grant funds under the Corporation's Special Volunteer Program on Homeland Security. The investigation disclosed evidence that a former grant administrator had claimed expenditures under the grant that were unallowable, but found no evidence that the grant recipient intended to defraud the U.S. Government. The OIG provided the results of the investigation to the State commission, which recouped \$4,818.74 in Federal program funds from the grant recipient.

## **Personal Use of AmeriCorps Program Credit Card (OIG Report of Investigation 03-014)**

The Office of Inspector General investigated an allegation, reported by a State commission, that a former AmeriCorps program director used the AmeriCorps program's credit card for personal use. Evidence disclosed that the former director used the card to obtain cash advances and to purchase personal items. The U.S. Department of Justice, citing the low dollar amount involved, declined to accept this investigation for prosecution. Local law enforcement and the local prosecutor accepted the case and charged the former director with felony theft. The former director pled guilty to one count of felony theft and made restitution of \$2,073.76. The former director received a 14-month sentence, which was set aside pending successful completion of three years' probation. Based on information developed by the OIG and presented to the Corporation, management debarred the former program director from participating in Federal contracts and grants for a period of 12 months.

## **Allegations of Improper Contract Award/Time and Attendance Fraud (OIG Report of Investigation 04-006)**

The Office of Inspector General completed an investigation into allegations that a Corporation employee committed time and attendance fraud by preparing fraudulent time sheets and improperly hiring a temporary employee. The investigation determined that the employee did not prepare fraudulent time sheets, but did violate Corporation policy by hiring a temporary employee for a longer period than allowed under Corporation policy. This information was provided to Corporation management for appropriate action. Corporation management terminated the temporary employee and counseled the permanent employee.

## **Improper Expenditures of Grant Funds (OIG Report of Investigation 04-005)**

The Office of Inspector General investigated an allegation, reported by a State commission, that a former AmeriCorps program director had obtained an AmeriCorps grant under false pretenses and had misapplied grant funds. The investigation determined that the former director, an employee of an educational institution, had used her position to obtain an Employer Identification Number from the Internal Revenue Service (IRS). After obtaining the number, the director applied for and received an AmeriCorps grant in violation of the educational institution's policies. The investigation disclosed that, although the director used the institution's name without permission to obtain the grant, the program

initiated by the director benefited the local community. The OIG investigation identified unallowable program costs claimed under the grant. The university terminated the employee and notified the IRS, which revoked the Employer Identification Number. This information was provided to Corporation management and the State commission for appropriate action.

## **Cases Open at End of Period**

### **Theft of VISTA Checks (OIG Report of Investigation 04-017)**

The Office of Inspector General is investigating an allegation, reported by Corporation management, that an unknown person intercepted, forged and cashed two AmeriCorps\*VISTA stipend checks from the U.S. Postal System. The investigation disclosed that a postal employee cashed both checks. The OIG contacted the local U.S. Postal Inspection Service for assistance. Based on information developed by the OIG, the U.S. Postal Inspection Service identified a postal employee as a suspect and identified additional non-Corporation checks that had been diverted. The investigation is ongoing and final results will be reported in a subsequent semiannual report.

### **Childcare Fraud (OIG Report of Investigation 04-019)**

The Office of Inspector General is investigating a Hotline allegation, reported by a grantee, that a former VISTA member submitted fraudulent childcare attendance reports for payment by claiming that her daughter was providing childcare services. The investigation has disclosed evidence that the member signed her daughter's name to the attendance reports while her daughter was incarcerated, so that the member would continue to receive childcare subsidies. The member admitted that she did not use childcare services for the period she received the fraudulent payments. The U.S. Department of Justice declined to prosecute this matter. The Office of Inspector General presented this investigation to local authorities, who have accepted this investigation for criminal prosecution. The investigation is ongoing and final results will be reported in a subsequent semiannual report.

### **Conflict of Interest/Supplementation of Government Employee's Salary (OIG Report of Investigation 04-025)**

The Office of Inspector General investigated allegations, reported by Corporation management, that a Corporation employee may have engaged in unfair contract practices. The investigation found insufficient evidence to support the allegation. However, during the investigation the OIG discovered that the employee had received free meals from prohibited sources in connection with his official government duties. The employee also received funds from a vendor to replace an item that the employee claimed was stolen during a Corporation-sponsored event. The U.S. Department of Justice declined to prosecute this matter in favor of administrative action. This matter was reported to the U.S. Office of Government Ethics and information was provided to Corporation management for appropriate action. The investigation is ongoing and final results will be reported in a subsequent semiannual report.

### **Personal Use of a Government Travel Charge Card / False Statements (OIG Report of Investigation 04-029)**

The Office of Inspector General is investigating an allegation, reported by Corporation management, that a Corporation employee misused her Government Travel Charge Card. The investigation disclosed evidence that the employee misused her Travel Charge Card to obtain cash advances and services that she was not authorized to receive. The employee also violated Corporation policy by failing to make payments on her account, resulting in a delinquency. In addition, the employee rendered two false statements under oath to OIG investigators in connection with the unauthorized Travel Charge Card use. This matter has been referred to the Department of Justice for a prosecutorial decision. The investigation is ongoing and final results will be reported in a subsequent semiannual report.

## **Fraudulent Receipt of Education Award (OIG Report of Investigation 04-030)**

The Office of Inspector General is investigating allegations, reported by a grantee, that an AmeriCorps member falsified her time sheets to obtain an education award. The investigation disclosed evidence that the member altered her time sheets to reflect service hours she had not performed. This allowed the member to earn an education award to which she was not entitled. The program terminated the member prior to completion of her second term of service after discovering that she had falsified additional time sheets. The Corporation also denied her a second education award. The U.S. Department of Justice has accepted this investigation and is pursuing criminal prosecution. The investigation is ongoing and final results will be reported in a subsequent semiannual report.

## **Fraudulent Receipt of Education Award (OIG Report of Investigation 04-035)**

The Office of Inspector General is investigating allegations, reported by Corporation management, that a former AmeriCorps member obtained an education award by using fraudulent documentation. The investigation determined that the member prepared a fraudulent voucher that allowed her to use her education award to pay off an automobile loan and receive the cash balance from her bank for personal use. Additionally, the member attempted to use her second education award to make payments on her delinquent mortgage. A Corporation employee questioned the authenticity of the second award document, contacted the former member's financial institution, and discovered that a bank loan officer had certified the education award voucher so that the former member could pay her delinquent mortgage payments with the funds. This matter has been referred to the Department of Justice for a prosecutorial decision. The investigation is ongoing and final results will be reported in a subsequent semiannual report.

## **Fraudulent Receipt of Education Awards (OIG Report of Investigation 04-039)**

The Office of Inspector General is investigating allegations, reported by a State commission, that a program coordinator, with the approval of the program director, fraudulently enrolled staff employees in the AmeriCorps program, falsified their service hours, and qualified them for education awards. The investigation confirmed the allegations and disclosed that several of the employees had received and used their education awards. Furthermore, the OIG determined that the program coordinator also inflated AmeriCorps members' service hours to allow them to earn their education awards. The investigation is ongoing and final results will be reported in a subsequent semiannual report.

## **Alleged Hatch Act Violation (OIG Report of Investigation 04-041)**

The Office of Inspector General received an allegation, reported by a Corporation employee, that two Corporation managers may have violated the Hatch Act (5 U.S.C. §§ 7321-26) when they forwarded e-mails to other Corporation employees regarding a fundraising event in Washington, DC, to support the reelection of a State senator. The Office of Inspector General coordinated this matter with the Corporation's Office of General Counsel, which reported that both employees sent retractions to their e-mails. This matter was reported to the U.S. Office of Special Counsel for investigation. The investigation is ongoing and final results will be reported in a subsequent semiannual report.

## **False Claims Violation (OIG Report of Investigation 01-095)**

The Office of Inspector General is investigating an allegation, reported by Corporation management, that an AmeriCorps grant recipient used Corporation funds for purposes other than in support of the grant. The recipient is alleged to have knowingly withdrawn Corporation grant funds in excess of support needs in order to keep his program operating. The U.S. Department of Justice's Affirmative Civil Enforcement Coordinator accepted this investigation for prosecution as a civil false claims matter. The investigation is ongoing and final results will be reported in a subsequent semiannual report.

## **Allegations of Fraud (OIG Report of Investigation 02-007)**

The Office of Inspector General is investigating allegations, reported by a State commission, that a program executive director and a chief financial officer used program funds for their personal use. The investigation found evidence supporting this allegation. Initially, the Federal Bureau of Investigation was the lead investigative agency but, due to other commitments, was unable to fully pursue this matter. The U.S. Department of Justice has since declined to prosecute this matter in favor of local prosecution. The local prosecutor accepted this matter for criminal prosecution. The investigation is ongoing and final results will be reported in a subsequent semiannual report.

## **Theft of Program Funds (OIG Report of Investigation 02-028)**

The Office of Inspector General is investigating an allegation, reported by Corporation management, that an executive director of a grant recipient was diverting Corporation program funds to cover personal expenditures and business expenses unrelated to program operations. The investigation found evidence that the executive director and her spouse had diverted a significant amount of Corporation funds. The U.S. Department of Justice has accepted this investigation and is pursuing criminal prosecution. The investigation is ongoing and final results will be reported in a subsequent semiannual report.

## **Embezzlement of AmeriCorps Funds (OIG Report of Investigation 03-009)**

The Office of Inspector General is investigating an allegation, reported by Corporation management, that a former program director of an AmeriCorps grant recipient embezzled AmeriCorps funds. Evidence indicates that the former director embezzled a significant amount of program funds, a portion of which were AmeriCorps grant funds. Evidence also indicates that the former director utilized AmeriCorps members to perform services outside the scope of the grant at the former director's private businesses and organizations. AmeriCorps members also improperly received credit toward their education awards for this service. The U.S. Department of Justice initially accepted this investigation for criminal prosecution and then declined, based on the low dollar loss of the theft. The Office of Inspector General presented this investigation to local authorities, who initially accepted this investigation for criminal prosecution, then declined and returned it to the local U.S. Attorney's Office for possible civil adjudication. The investigation is ongoing and final results will be reported in a subsequent semiannual report.

## **Personal Use of AmeriCorps Program Credit Card and Embezzlement (OIG Report of Investigation 03-015)**

The Office of Inspector General is investigating an allegation, reported by Corporation management, that a former associate director of an AmeriCorps program misused the program's credit card. Evidence indicates that the former director used the card for personal use and embezzled a significant amount of program funds. The U.S. Department of Justice has accepted this investigation and has indicted the former associate director for program fraud. The investigation is ongoing and final results will be reported in a subsequent semiannual report.

## **VISTA Stipend Checks Theft (OIG Report of Investigation 03-016)**

The Office of Inspector General is investigating an allegation, reported by Corporation management, that an unknown person intercepted, forged, and cashed the AmeriCorps\*VISTA stipend payment checks of a former VISTA member over a six-month period. A suspect was identified and the information was provided to the Federal Bureau of Investigation, which has assumed responsibility as the lead investigative agency. The investigation is ongoing and final results will be reported in a subsequent semiannual report.

## **Theft of Program Funds (OIG Report of Investigation 03-018)**

The Office of Inspector General is investigating an allegation, reported by a Corporation State office, that a former bookkeeper at a program embezzled a significant amount of program funds, a small

portion of which were Foster Grandparent Program funds. Local prosecutors have accepted this investigation for prosecution. The investigation is ongoing and final results will be reported in a subsequent semiannual report.

### **Fraudulent Receipt of VISTA Stipend (OIG Report of Investigation 03-040)**

The Office of Inspector General is investigating an allegation, reported by a Corporation State office, that an AmeriCorps\*VISTA member left the program but continued to receive her stipend, allowing her to collect a significant amount of Corporation funds to which she was not entitled. The investigation found that the program failed to verify member attendance and also failed to provide written documentation of member attendance in its biweekly reports. The U.S. Department of Justice has accepted this investigation for criminal prosecution. The investigation is ongoing and final results will be reported in a subsequent semiannual report.

### **Fraudulent Receipt of Education Award (OIG Report of Investigation 04-009)**

The Office of Inspector General is investigating allegations, reported by Corporation management, that a former AmeriCorps member obtained and misused his education award by using fraudulent documentation. The investigation determined that the member prepared a fraudulent document that allowed him to use his education award to purchase an automobile. The U.S. Department of Justice has accepted this investigation and is pursuing criminal prosecution. The investigation is ongoing and final results will be reported in a subsequent semiannual report.

### **Fraudulent AmeriCorps Application Fees (OIG Report of Investigation 04-015)**

The Office of Inspector General is investigating allegations, reported by a State commission, that a former program director charged prospective AmeriCorps members an "application fee" of \$50-\$100 to participate in the program. The former program director claimed that the collected fees were used to cover the costs of background checks, training, and clothing. The OIG requested copies of the program's bank records to verify that the fees were used as claimed. The investigation is ongoing and final results will be reported in a subsequent semiannual report.

Summary Of Cases	
<b>Opened and Closed</b>	
Cases Open at Beginning of Reporting Period	24
New Cases Opened	21
Cases Closed this Period With Significant Findings	6
Cases Closed this Period With No Significant Findings	6
Total Cases Closed	12
Cases Open at End of Reporting Period	33
<b>Referred</b>	
Cases Referred for Prosecution	4
Cases Accepted for Prosecution	3*
Cases Declined for Prosecution	1
Cases Pending Prosecutorial Review	1
Cases Pending Adjudication	12
<b>Recommendations to Management</b>	
Investigative Recommendations Referred to Management	5
Investigative Recommendations Pending this Reporting Period	1
Investigative Recommendations Pending from Previous Reporting Periods	0
* This includes one case referred for prosecution during the previous reporting period.	

# Review of Legislation and Regulations

*Section 4(a) of the Inspector General Act directs the Office of Inspector General to review and make recommendations about existing and proposed legislation and regulations relating to the Corporation's programs and operations. The Office of Inspector General reviews legislation and regulations to determine their impact on the economy and efficiency of the Corporation's administration of its programs and operations. It also reviews and makes recommendations on the impact that legislation and regulations may have on efforts to prevent and detect fraud and abuse in Corporation programs and operations. The Office of Inspector General draws on its experience in audits and investigations as the basis for its recommendations.*



## Corporation Rulemaking

On August 13, 2004, the Corporation published in the *Federal Register* a notice and invitation for public comment on proposed amendments to current program rules related to the AmeriCorps national service program. The Corporation also proposed additional rules concerning sustainability of AmeriCorps programs, selection criteria, performance measures and evaluation, tutor qualifications, and streamlining continuation grant applications and grant cycles. In March of this year, the Corporation invited public comment on these topic areas and received input from over 600 sources. The Corporation used this input in drafting the proposed rules. The additional period for public comment for the proposed rules closed on October 12, 2004, and it is anticipated that the Corporation will address the public comments and finalize the rules within the next reporting cycle.

In the Office of Inspector General's opinion, the proposed rules appear consistent with the National and Community Service Trust Act, and appear to have no adverse effect on the Corporation's efforts to prevent fraud or abuse. Moreover, the proposed rules may have a beneficial impact on the economy and efficiency of the AmeriCorps program. They clarify the grant selection process, authorize AmeriCorps participants to recruit volunteers and raise funds from non-Federal sources, set a maximum childcare subsidy payment for members, and, through implementation of sustainability criteria for grant selection and renewal, attempt to maximize the impact of Federal funds by requiring grant recipients to obtain additional non-Federal matching funds.



# Statistical and Summary Tables

*The statistical and summary tables in this section are submitted in compliance with the requirements enumerated in the Inspector General Act.*



## I. Inspector General 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.

Section	Requirement	Page
4 (a)(2)	Review of legislation and regulations	28
5 (a)(1)	Significant problems, abuses, and deficiencies related to the administration of Corporation programs and operations	Throughout
5 (a)(2)	Recommendations with respect to significant problems, abuses and deficiencies found in the administration of Corporation programs and operations	Throughout
5 (a)(3)	Prior significant recommendations on which corrective action has not been completed	34
5 (a)(4)	Matters referred to prosecutorial authorities	26
5 (a)(5)	Summary of instances where information was refused	None this period
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	18
5 (a)(7)	Summary of significant reports	Throughout
5 (a)(8)	Statistical table showing number of reports and dollar value of questioned costs	31
5 (a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	32
5 (a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by end of reporting period	33
5 (a)(11)	Significant revised management decisions	None this period
5 (a)(12)	Significant management decisions with which the Inspector General disagrees	None this period

## II. Reports With Questioned Costs

Federal Costs			
Report Category	Number	Questioned	Unsupported
(Dollars in thousands)			
A. Reports for which no management decision had been made by the commencement of the reporting period	4	\$1,920	\$1,834
B. Reports issued during the reporting period	<u>3</u>	<u>776</u>	<u>604</u>
C. Total Reports (A + B)	7	2,696	2,438
D. Reports for which a management decision was made during the reporting period	2		
I. Value of disallowed costs		99	57
II. Value of costs not disallowed	<u>          </u>	<u>513</u>	<u>512</u>
E. Reports for which no management decision had been made by the end of the reporting period (C - D)	<u>5</u>	<u>\$2,084</u>	<u>\$1,869</u>
F. Reports with questioned costs for which no management decision was made within six months of issuance	2	\$1,308	\$1,265

### III. Reports With Recommendations That Funds Be Put To Better Use

Report Category	Number*	Dollar Value*
<i>(Dollars in thousands)</i>		
A. Reports for which no management decision had been made by the commencement of the reporting period	0	\$0
B. Reports issued during the reporting period	0	\$0
C. Reports for which a management decision was made during the reporting period		
i. Value of recommendations agreed to by management	0	\$0
ii. Value of recommendations not agreed to by management	0	\$0
D. Reports for which no management decision had been made by the end of the reporting period	0	\$0
E. Reports for which no management decision was made within six months of issuance	0	\$0
*The Audit Section predominately performed cost-incurred and compliance audits that resulted in questioned costs and noncompliance findings. These types of audits typically do not lead to recommendations that funds be put to better use.		

#### IV. Summary of Audits With Overdue Management Decisions

Report Number	Title	Federal Dollars Questioned	Mgmt. Decision Due*	Status as of September 30, 2004
03-05	<i>Incurred-Cost Audit of Grants Awarded to the Ohio Community Service Council</i>	\$1,252,054	03/30/04	<i>A Proposed Management Decision has not been provided to the OIG</i>
04-05	<i>Interim Report on the Assessment of the Implementation of New Enrollment Procedures</i>	N/A	05/03/04	<i>A Proposed Management Decision has not been provided to the OIG</i>
04-07	<i>Pre-Audit Survey of the Louisiana Serve Commission</i>	55,677	08/17/04	<i>A Proposed Management Decision has not been provided to the OIG</i>
	<b>Total</b>	<u>\$1,307,731</u>		
*Under section 6009 of the Federal Acquisition Streamlining Act of 1994, as amended, a final management decision must be made within six months of the issuance of the final audit report and corrective actions must be completed within one year.				

## V. Reports Described in Prior Semiannual Reports Without Final Action

Report Number	Title	Date Issued	Final Action Due*
03-04	<i>Incurred-Cost Audit of Grants Awarded to the Wisconsin National and Community Service Board</i>	07/25/03	07/25/04
03-05	<i>Incurred-Cost Audit of Grants Awarded to the Ohio Community Service Council</i>	09/30/03	09/30/04
03-14	<i>Audit of Costs Claimed by The Navajo Nation Under Grant No. 399W023-21, Foster Grandparent Program</i>	03/28/03	03/28/04
03-25	<i>Independent Audit Report of Office of Inspector General Review of Corporation for National and Community Service Implementation of the Federal Information Security Management Act For Fiscal Year 2003</i>	09/18/03	09/18/04
*Under section 6009 of the Federal Acquisition Streamlining Act of 1994, as amended, a final management decision must be made within six months of the issuance of the final report and corrective actions must be completed within one year.			

# Fiscal Year 2004 Performance Information

*The section summarizes the Office of Inspector General's accomplishments and performance measures in support of OIG strategic goals.*



## **Strategic Goals**

As part of the Office of Inspector General's ongoing effort to carry out its mission, the OIG has established the following goals:

### ***Strategic Goal 1***

Identify opportunities for increased economy and efficiency in agency operations, and assist management by identifying, recommending, and developing appropriate management reforms.

### ***Strategic Goal 2***

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 changes in the environment in which the Corporation operates.

### ***Strategic Goal 3***

Carry out the intent of the Government Performance and Results Act (GPRA) by providing the Corporation with objective assessments of the integrity of the systems used to compile performance information and the reliability of this information, and focusing OIG activities more on management performance and programmatic outcomes.

### ***Strategic Goal 4***

Continuous improvement in the quality and delivery of OIG reports and work products.

On the following pages, the performance information is provided and linked with our strategic goals.



## Audit Performance Information

Quantitative Audit Performance Measures		
	FISCAL YEAR	
	2003	2004
Number of reports issued	19	23
Number of reports issued linked to improving Corporation management ( <i>OIG Strategic Goal One</i> )	5	6
Number of recommendations linked to improving Corporation management ( <i>OIG Strategic Goal One</i> )	56	45
Number of reports issued linked to protecting the integrity of Corporation programs, operations, and financial management ( <i>OIG Strategic Goal Two</i> )	19	22
Number of recommendations linked to protecting the integrity of Corporation programs, operations, and financial management ( <i>OIG Strategic Goal Two</i> )		
to Corporation	62	46
to Grantees	78	93
to Contractors	0	0
Number of reports issued linked to carrying out the intent of GPRA ( <i>OIG Strategic Goal Three</i> )	2	1
Number of recommendations linked to carrying out the intent of GPRA ( <i>OIG Strategic Goal Three</i> )	12	15
Total number of audit recommendations	140	139
Percent of recommendations accepted by the Corporation	93%	99%

## Audit Performance Information

Audit Performance Statistics*			
	<u>Fiscal Year</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Number of audit reports	28	19	23
Number of testimonies	0	1	0
Number of reports requested by Congress	6	4	4
Questioned costs ( <i>dollars in thousands</i> )	\$23,369	\$3,585	\$836
Value of recommendations that funds be put to better use ( <i>dollars in thousands</i> )	\$1,607	\$119	\$0**
Cost per audit hour			
OIG staff	\$52	\$53	\$58
Contracted services	\$96	\$85	\$83
Timeliness (average length of time to complete an audit)	215 days	202 days	151 days
<p>*In accordance with Strategic Goal Four, which is to improve the quality and delivery of OIG services, reports, and other work products, the OIG monitors the number of audit reports issued annually and the time required to complete each audit.</p> <p>**The Audit Section predominately performed cost-incurred and compliance audits that resulted in questioned costs and noncompliance findings. These types of audits typically do not lead to recommendations that funds be put to better use.</p>			

## Investigations Performance Information

Investigations Performance Information					
Fiscal Year	2000	2001	2002	2003	2004
Investigative actions opened	51	95 <sup>1</sup>	40	42	42
Investigative actions resolved and closed	47	95	40	30	38
Average monthly caseload	30	35	24	26	28
Investigative matters resolved without opening a separate investigative action	37	29	37	42	59
Referrals for prosecution	14	16	10	9	8
Investigative recoveries <sup>2</sup>	\$308,939	\$55,961	\$1,206,057	\$123,988	\$36,952
Cost avoidance <sup>3</sup>	--	--	--	\$158,038 <sup>4</sup>	\$5,106
Administrative or management action taken	4	8	25	23 <sup>5</sup>	8

<sup>1</sup> Forty-five of the 95 investigative actions opened during fiscal 2001 were opened as a direct result of a proactive OIG review of Corporation employees' use of the Government Travel Charge Card. These 45 actions documented the investigation of suspected employee abuse of government travel charge cards, namely using the cards for personal benefit in violation of Corporation policy, Federal regulations, and the *Standards of Ethical Conduct for Employees of the Executive Branch*.

<sup>2</sup> Includes money received by the Corporation or other government agencies as a result of OIG investigations, including joint investigations with another OIG, Federal, or State investigative element.

<sup>3</sup> Cost avoidance was not calculated until fiscal 2003. When OIG investigative action identifies a systemic practice that has subsequently been stopped or modified due to some type of OIG investigative interdiction, any clear and unmistakable savings to the Corporation are reported as cost avoidance.

<sup>4</sup> Investigative findings allowed the Corporation to avoid paying \$122,070 in liquidated damages for violating the Fair Labor Standards Act. The cost avoidance total for fiscal year 2003 also includes three other investigations that resulted in cost avoidance.

<sup>5</sup> This figure includes the Corporation's compensation of 20 employees for unpaid overtime.

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**Washington, DC 20525**



November 30, 2004

The Honorable Richard B. Cheney  
Vice President of the United States  
and President of the Senate  
United States Senate  
The Capitol  
Washington, DC 20510

Dear Mr. Vice President:

Enclosed is our Inspector General's Semiannual Report to the Congress along with the Corporation's Report on Final Action, as required under Section 5 of the Inspector General Act of 1978, P.L. 95-452.

These reports cover the six-month period from April 1, 2004 through September 30, 2004. During this period, the Corporation made management decisions on seven audits and completed final action on or closed nine audits. Subsequent to this period, the Corporation closed one additional audit.

This Semiannual Report contains a new section in which the Inspector General identifies five management challenges facing the Corporation based in large part on audits of the agency conducted over the past several years. Because the discussion does not adequately reflect the Corporation's significant management reform progress over the past 18 months, I have summarized our progress below, and I am attaching the Corporation's full response to the IG's management challenges and recommendations from our annual Performance and Accountability Report.

### **Grant Monitoring and Management**

The Corporation has taken many steps to build stronger grants oversight and management across all its programs. We have:

- revised the administrative standards for the state service commissions to ensure a comprehensive review of commissions' monitoring of sub-grantees and provided training and technical assistance to help the commissions meet these requirements;
- tightened our risk criteria to give special attention to new grantees;
- extended risk-based monitoring to all major programs, as recommended by our auditors, so that we effectively target our limited monitoring resources;
- conducted financial management seminars for grantees and provided one-on-one coaching and training of individual grantees, as needed; and



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- established a Director of Award Oversight and Monitoring position to coordinate activities and drive further reforms across our programs.

### **Financial Management**

The Corporation has achieved five consecutive clean audit opinions, and our National Service Trust management reforms have been favorably reviewed by the OIG, GAO, and our independent auditors. We have taken steps to validate the member data in the Trust and to improve the timeliness with which grantees exit members from the Trust following service completion. Also, we have addressed the IG's concerns from past audits concerning timely vendor payments, control of government charge cards, and gift fund policies.

### **Human Capital**

In FY 2003, our Inspector General and the Office of Personnel Management issued critical reports on the Corporation's human capital program. These reports, augmented by suggestions from Corporation employees, led us to reassess nearly all of our human capital programs and develop a blueprint for reform—reform that fully embraces the goals of the President's Management Agenda.

Since the Corporation began its reform initiative early in FY 2004, dramatic progress has already occurred. Key to this progress has been the hiring of a Chief Human Capital Officer and development of a preliminary Strategic Human Capital Plan, modeled on the Office of Personnel Management's (OPM's) *Human Capital Standards for Success*. Working from this plan, the agency has implemented major human capital reforms in FY 2004 that specifically address the OIG's concerns, including:

- modifying the agency's Alternative Personnel System to increase the number of high-quality job applicants and significantly improve employee morale;
- tightening the criteria used to determine bonuses and pay adjustments;
- implementing a rigorous new managerial appraisal system that more closely ties pay to performance; and
- improving communication with employees by initiating a biweekly newsletter and holding regular "all-staff" meetings on important human capital issues.

### **Performance Measurement**

The Corporation has made enormous progress toward more performance-based grants management. Following on the agency's requirements for grantees to report outcome, output

and efficiency measures, the Corporation is codifying and strengthening these requirements through the AmeriCorps rulemaking process, with a final rule expected to be published in FY 2005.

In FY 2005, the Corporation will begin to analyze its grantee performance reporting in order to develop improved grantee and program performance measures that can be compared and combined in assessing grantee and program performance. In addition, the Corporation will examine the adequacy of current reporting requirements to accurately and fairly present the full range of grantee accomplishments.

Other recent performance measurement accomplishments include:

- the successful launch of national benchmarking surveys for all major programs, giving the Corporation a wealth of annual data from grantees, members, community volunteers, and end beneficiaries;
- a longitudinal study comparing AmeriCorps members to a control group to measure the program's impact on educational, career, community service and other life outcomes;
- the creation of a comprehensive set of performance indicators; and
- the ongoing development of a data warehouse and management dashboard that will put financial and performance information at the fingertips of Corporation executives and managers.

### **Information Security**

The Corporation has maintained an outstanding record of compliance with all applicable laws and regulations governing its systems, including the requirements of the Federal Financial Management Improvement Act (FFMIA) and the Federal Managers' Financial Integrity Act (FMFIA). As required by the Federal Information Security Management Act (FISMA), the Corporation performed a self-assessment of its major systems using the National Institute of Standards and Technology (NIST) ASSET tool in September 2003.

Although the IG made an adverse finding regarding our information security testing last year, two separate, recently completed audits identified no significant security vulnerability. In addition, the FY 2004 financial audit included significant security review that did not find any significant security weakness. The Corporation has a comprehensive security program that has been reviewed as part of this process with no significant changes recommended.

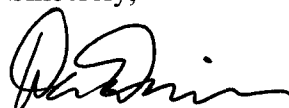
In addition to the five areas listed by the IG, and on which we are providing detailed information, the Corporation has also made significant progress in other areas of management reform, including a top-to-bottom reform of our peer review and competitive grant process and significant structural realignment to reflect greater customer focus and accountability.

The Corporation's senior management and Board of Directors are committed to ensuring that our programs are accountable and effective. At all levels of the Corporation, we are reviewing our business processes, benchmarking with other agencies, measuring customer satisfaction and demanding excellence from our staff.

We are sending copies of this Semiannual 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, please contact me at (202) 606-5000, Ext. 167.

Sincerely,

A handwritten signature in black ink, appearing to read 'David Eisner', with a stylized, cursive script.

David Eisner  
Chief Executive Officer

Attachments

OIG Semiannual Report

CNCS Annual Performance Report section related to Management Challenges

Audit Resolution Tables