
CORPORATION

FOR NATIONAL

 SERVICE

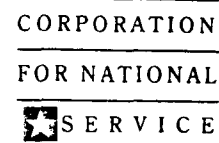
OFFICE OF THE INSPECTOR GENERAL

Semiannual Report to the Congress

October 1, 1995 - March 31, 1996

April 26, 1996

Harris Wofford
Chief Executive Officer
Corporation for National
and Community Service
1201 New York Avenue, NW
Washington, DC 20525



Dear Senator Wofford,

I am pleased to submit the Office of the Inspector General Semiannual Report for the six-month period ending March 31, 1996. In this reporting period both investigative and audit activity increased. For investigations, however, comparisons with activity reported in prior periods would inflate the increase because we changed our methods for tracking cases as part of our quality improvement efforts.

On the audit side, we issued 14 reports, seven of which report more than \$1 million of Federal and Non-Federal questioned costs (of which more than \$700 thousand represents Federal funds). This is an exponential increase compared to the first half of 1995.

Moreover, during this period, OIG and CNS management were twice asked to testify on issues resulting from OIG audits and investigations, most recently on March 19, 1996. On that date we testified on the results of our attempt to audit CNS' fiscal year 1994 financial statements as required by the Government Corporation Control Act. On October 17, 1995 we testified on issues related to ACORN Housing Corporation. That audit and resulting investigation (reported in the prior Semi-Annual Report) resulted in termination of the Corporation's grant to AHC as of September 1, 1995.

We are committed to establishing performance measures and other assessments to improve the timeliness, quality and usefulness of OIG products. In this report we have included information on the timeliness of OIG audit reports; specifically, the elapsed time between the start of the job and issuance of the final report. This measure will be used comparatively in future reporting periods. Along with audit staff performance measures that we now maintain for each auditor and for the audit staff as a group, we will assess how we can better schedule and budget our work and to decide whether or not to contract out certain projects.

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Washington, DC 20525
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Getting Things Done.
AmeriCorps, National Service
Learn and Serve America
National Senior Service Corps

Letter to Senator Wofford

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As you are aware, the Inspector General Act of 1978, as amended, requires that you submit this report, along with any comments you may wish to make, as well as statistical tables and reports required by the law, to the Congress within 30 days. In addition, the Act requires that you submit this report, with your comments and the required information, to CNS' Board of Directors no later than the date on which you submit the report to the Congress.

Yours truly,


Luise S. Jordan
Inspector General

OFFICE OF THE INSPECTOR GENERAL

Semiannual Report to the Congress

October 1, 1995 - March 31, 1996

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INTRODUCTION

The Corporation for National and Community Service (CNS) was created under the National and Community Service Trust Act of 1993. Through several programs, CNS offers Americans of all ages and backgrounds the opportunity to participate in community-based service programs. These programs include AmeriCorps State and National Direct grants, VISTA, the National Civilian Community Corps, Learn and Serve America, and the Senior Volunteer Program.

AUDITS AND REVIEWS OF CNS OPERATIONS

Financial Audit of CNS' Fiscal Year (FY) 94 Financial Statements (OIG 96-36) and Auditability Study of CNS' Accounting Systems (OIG 96-38)

Under the Government Corporation Control Act,¹ the OIG is responsible for the audit of CNS' financial statements. To meet our responsibilities under the Act we contracted with Williams, Adley & Company, LLP and Arthur Andersen, LLP (the firms) to audit the Corporation's FY 1994² financial statements. However, the firms informed the OIG and CNS that due to weaknesses in CNS' financial systems, accounting records and management controls, the financial statements were unauditible. OIG's reports, summarized below, describes the conditions that made it impossible to audit the financial statements. OIG recommended that the firms perform a comprehensive auditability study to further assess CNS financial systems and management controls and to determine what actions the Corporation must take to produce auditable financial statements in future years. CNS accepted the recommendation.

Material Weaknesses in Accounting Systems

We found that CNS' general ledger system is outmoded and poorly designed. Moreover, the firms identified information security weaknesses that increase the risk that information in the general ledger system could be inappropriately accessed and modified.

In addition, CNS uses three subsidiary systems to manage and account for CNS grants. In the manual process of consolidating grant financial information from the systems, CNS noted that no system maintains complete grant information. However, during FY 1994, CNS did not routinely reconcile the general ledger grant information with the information in the subsidiary grant systems. Although CNS reconciled the information as of September 30, 1994, and adjusted the grant-related liabilities, advances, and expense balances in the financial statements, detailed

¹ 31 U.S.C. 9101 et seq.

² CNS' initial year of operations.

accounting information supporting the adjustments was not readily available. Therefore, the accuracy of the adjustments could not be substantiated.

Accounting Records Not Properly Maintained

Further, CNS predecessor agencies (ACTION and the Commission for Community Service) had not previously been required to produce audited financial reports. Therefore, subsidiary and detailed records substantiating October 1, 1993 opening balances and related supporting information were not appropriately retained to facilitate an audit. These conditions rendered an attempt to audit the financial statements ineffective and impractical.

Material Weaknesses in Management Controls

In addition to the deficiencies in the Corporation's accounting and financial reporting and its financial information systems the firms identified numerous weaknesses in CNS financial management practices, such as:

- In FY 1994 CNS did not reconcile its Funds with the U. S. Treasury (Cash) accounts, and previously ACTION had never performed these reconciliations. Although CNS began to reconcile its Treasury accounts, reconciliations to support amounts reported for FY 1994 were unavailable. By not reconciling cash balances on a timely basis, errors or irregularities may occur and not be detected.
- CNS procedures for processing cash receipts during FY 1994 were inadequate to ensure that assets were safeguarded. At headquarters, the employee who received cash also made the deposits and recorded the related general ledger entries. This represents an inadequate segregation of duties, and creates the risk of errors or irregularities in the cash accounts.
- CNS budgetary controls did not ensure that all obligations were promptly recorded in the accounting system. Because of the inadequacies in the budgetary accounting system, CNS budget officials maintain cuff records to monitor their budgets and status of funds. Reviews of those records by OIG and the firms revealed that cuff records were not always up-to-date or reconciled to the accounting records, and that not all purchases had prior budget authorization.
- Management had not implemented a framework of policies and procedures designed to ensure that financial management is adequate. In its initial year of operations, CNS adopted ACTION's policies and procedures. However, OIG and the firms found that critical accounting controls, such as procedures to ensure that all transactions are entered to the accounting system and that accounts are properly reconciled, had not been established, and that existing management controls were sometimes circumvented or otherwise ineffective.

Further, CNS had not assessed and reported on its management control structure as required by the Government Corporation Control Act, as amended.³ Although CNS had performed some assessments, it had not performed a comprehensive review of its management control systems. An effective review would have detected and corrected weaknesses such as those described above.

On March 29, 1996, the OIG issued the results of the Williams Adley/Arthur Andersen auditability study. The study makes 99 recommendations to address the aforementioned material weaknesses and other reportable conditions found during their survey. CNS has acknowledged the weaknesses in its financial and management control systems and initiated corrective actions.

Pre-audit Survey of CNS' Grants Management Process (OIG 96-31)

To facilitate the audit of the Corporation's financial statements OIG performed a pre-audit survey of CNS' grants management process. Based on the results of the survey we were unable to conclude that CNS had established a control structure to provide reasonable assurance that grant obligations and expenditures were properly recorded because of the absence of timely and periodic reconciliations between the Health and Human Services Payment Management system, CNS' general ledger, and its grant management database for AmeriCorps and Learn and Serve program grants. The absence of periodic and timely reconciliations is a material weakness that limits CNS' ability to prevent and detect misstatement of accounting information and impedes CNS' ability to prepare useful and reliable financial reports. The survey revealed other conditions that impact the reliability of CNS financial information including:

- CNS utilized three systems to record grant activity for AmeriCorps and Learn and Serve grant programs. The use of the three systems not only increases the risk of errors, but is also inefficient when financial reports are prepared.
- Management had not performed necessary procedures to adjust the accounts for Financial Status Reports (FSRs) received and entered after fiscal year end. The FSRs provide grant data on the performance of grantees and thus, should be used to determine grant expense for financial reporting purposes.

Pre-audit Survey of CNS' Procurement Process (OIG 96-32)

Our pre-audit survey of the Corporation's procurement process revealed that controls had been established to require that obligations are appropriately authorized, in compliance with applicable laws and regulations, recorded in a timely manner, and materially accurate. Similar controls had

³ 31 U.S.C. 9106 (a) (1) (E) states that a government corporation is to include in its annual management report to Congress a statement on accounting and administrative controls consistent with the requirements of the Federal Managers' Financial Integrity Act.

been established for the related expenditures. However, we found several conditions that indicate that the controls were not working as intended including:

- Instances where procurement and budgeting *procedures* may be circumvented. While we recognize that every organization occasionally has "emergency" needs which must be satisfied immediately, we recommended that CNS forecast its needs so that it can adequately plan for the procurement of goods and services and minimize the number of purchases made outside the normal procedures.
- High frequency of late payments to vendors. As of February 28, 1995, close to one-third of all invoices paid in FY 1995 were paid after the prompt payment due date. Furthermore, we identified errors in the calculation of prompt pay penalty interest which indicate that procedures may not be effective enough to ensure the accuracy of the penalty interest paid.
- Staff not following Corporation procedures. Throughout the procurement process, we identified Corporation requirements that were ignored. In light of the administration's current emphasis on streamlining the procurement process, management should reevaluate the necessity of these requirements and then maintain and enforce those requirements which have the most impact.
- The Corporation failed to file a report required by the Prompt Payment Act for FY 94. Although we do not consider this to be a material non-compliance with applicable laws and regulations, we believe that CNS should comply with the requirements of all applicable statutes. Furthermore, we understand the Chief Financial Officer's office was unaware the report had not been filed until our survey inquiries brought the issue to management's attention.

Review of 1994 AmeriCorps National Direct Grant Award Process (OIG 96-10)

In response to a request from Senators Christopher S. Bond and Charles E. Grassley, we performed a review of the 1994 AmeriCorps National Direct Grant Award process. The purpose of our review was to assess whether the Corporation exceeded its discretion in awarding grants to organizations that received relatively low scores during a peer review process, thereby skipping over many organizations who scored higher.

We found that the Corporation acted within its discretion when it awarded grants to lower-ranked applications at the expense of higher-ranked applications. Overall, we found that the Corporation decided to award grants to lower-rated applicants consistent with its methodology and the statutory and regulatory selection criteria governing competitive grant awards. While we found one award to a low-ranked grantee that it treated as a higher-ranked application, the Corporation had a reasonable basis to conclude that the peer review score that resulted in the application's poor ranking was inappropriately low. Thus, the Corporation acted within its discretion in treating that application as a higher scoring proposal.

However, we also found several areas where the Corporation could improve its future AmeriCorps National Direct grant competitions. In particular, we found that the peer review process for the 1994 AmeriCorps National Direct grant competition gave the Corporation little assurance that it could rely on the scores assigned by peer review panels to compare grant proposals against one another. The variances in scores assigned to particular grantees could be attributed to differences in scoring practices of each panel, rather than the relative merits of individual applications. Thus, the scores from different peer review panels were not an effective basis of comparison between grant applications.

Based on what we learned during our review, we made a number of recommendations on how the Corporation could improve its future AmeriCorps National Direct grant competitions. Our recommendations included:

- Adopting a comprehensive set of written procedures for the Corporation's grant award process.
- Implementing a specific set of quality controls over Corporation grant competitions (including preparing specific written justifications for its grant award decisions and adopting regularly scheduled external quality control reviews of its grant award process).
- Redesigning the AmeriCorps National Direct grant application peer review process to provide greater assurance that the Corporation can rely upon the results of its peer reviews as an indicator of the relative worthiness of grant proposals.

In its response to our report, the Corporation stated that it was in general agreement with our conclusions and indicated that it will take actions to improve its grant award processes consistent with our recommendations.

AUDITS AND REVIEWS OF AMERICORPS GRANTEES

We issued nine reports on grantees during this period, including two reports on close-out audits of ACORN Housing Corporation and Public Allies, Inc. The other seven reports were on reviews of recently awarded CNS grants.

As illustrated below, the audits and reviews have revealed issues in several areas. We have recommended corrective actions and brought the issues to the Corporation's attention for resolution. A brief discussion on the results of our work at each grantee follows.

Grantee	Grant Amount	Issues Related to		
		Mgmt. Controls	Federal Reporting	Other ¹
Audits				
ACORN Housing Corporation	\$ 816,843	✓	✓	✓
Public Allies	689,000	✓	✓	✓
Reviews²				
Arizona-Mexico Commission/ Border Volunteer Corps	2,210,624	✓	✓	✓
Council of Great City Schools	200,000	✓		
Local Initiatives, Inc.	998,247	✓		✓
National AIDS Fund	504,600			✓
New Orleans Youth Action Corps	867,078	✓	✓	✓
Woodrow Wilson National Fellowship Foundation	1,479,206	✓		✓
Youth Build USA, Inc.	1,510,428			

¹ Other includes such issues as inadequate support for non-Federal match, non-approved indirect cost rate, and unallowed activities such as fund raising, charged to the grant.

² A review concentrates on specific areas of risk or grantee activities. Therefore, its procedures are less comprehensive than an audit and would not necessarily disclose all issues or reportable conditions.

ACORN Housing Corporation (OIG 96-21)

Leonard G. Birnbaum and Company, under contract to the OIG, performed a close-out audit of grant number 94ADNIL001 to ACORN Housing Corporation (AHC). ACORN Housing Corporation had been the subject of an earlier OIG audit and investigation. Evidence obtained in the OIG investigation indicated that AHC violated the National and Community Service Act, as amended, CNS regulations, and policies as well as the grant agreement. CNS and AHC agreed to terminate the grant as of September 1, 1995.

The auditors' report questioned costs totaling \$87,556 because AHC claimed labor and administrative costs in excess of the CNS approved budget and claimed rental costs for which there was no adequate documentation. In addition, the audit disclosed instances of non-compliance and other reportable conditions including:

- AHC did not comply with the procurement requirements articulated in Office of Management and Budget Circular A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations.
- AHC lacked adequate controls over labor reporting; personnel files for AmeriCorps members; cash disbursements; and rental costs.
- AHC had not complied with the requirements of Circular A-110 which relate to program income.

Public Allies (OIG 96-20)

Leonard G. Birnbaum and Company, under contract to the OIG, audited costs claimed by Public Allies related to CNS grant number 94ADNDC038. The audit questioned costs totaling \$105,383 because Public Allies lacked supporting documentation or the supporting documentation indicated that the expenses were other than expenditures from grant funds; credits were erroneously recorded against the grant; and Public Allies failed to demonstrate that it incurred the required matching costs. In addition, the audit disclosed instances of non-compliance and other reportable conditions including:

- Public Allies did not maintain adequate cost-sharing records.
- Public Allies did not maintain an adequate financial management system and lacked segregation of duties and controls in the cash disbursement cycle.
- Public Allies did not obtain written permission from CNS to permit participants to spend more than 20 percent of a participant's required service hours in education and training activities.

Arizona Mexico Commission/Border Volunteer Corps (OIG 96-04)

OIG performed a limited review of costs related to Commission on National and Community Service grant number 93LOAZ0001 to the Arizona Mexico Commission/Border Volunteer Corps (BVC). We selected this grant for review because it was a large dollar grant. In addition, prior to the start of our work we received allegations of mismanagement at BVC. As a result of the review, we found that:

- BVC did not adequately manage grant funds.
- Certain staff salaries were excessive.
- BVC staff did not allocate time between allowable and unallowable activities.
- BVC used grant funds to pay costs that were unallowable under Federal regulations including the commuting expenses of two BVC staff. As a result, we questioned \$148,415 in salaries paid to BVC staff and \$41,658 in improper and/or unsupported costs.

We also found that in two instances, BVC carried out lobbying activities that were prohibited by Federal and CNS regulations.

Further, an individual who had been a consultant with BVC from its inception, was hired as its Assistant Director in March 1995, and subsequently fired thirty-six days later, alleged that BVC's monitoring of AmeriCorps Members was inadequate, CNS inappropriately interfered with the firing of a BVC staff member, and CNS covered up BVC deficiencies after a site visit. While we did find that at least one AmeriCorps Member inappropriately performed service hours in Mexico, we also noted that the Mexico service project was terminated and was otherwise appropriately resolved by the Corporation prior to the allegations. We found no other evidence that AmeriCorps Members were not performing service as required, however, we did find weaknesses in BVC's system to record and track service hours performed by AmeriCorps Members.

We concluded that CNS did not inappropriately interfere with the firing of BVC's Program Manager or cover up deficiencies at BVC as alleged. In response to the complaints, CNS appropriately informed BVC's parent organization, AMC, about the Corporation's concerns and performed a follow up visit to BVC. The Corporation's follow up actions also included issuing a letter to AMC outlining grant renewal concerns related to the BVC's program design and management and requested a written response to these issues. Subsequently, AMC notified CNS that it was withdrawing its legal applicant status as of August 31, 1995, stating that the program no longer met its mission. Citing a "lack of a satisfactory parent organization, significant management problems and numerous other issues," CNS formally notified AMC that BVC would not be renewed.

Council of Great City Schools (OIG 96-14)

Tichenor and Associates, under contract to the OIG, performed a limited review of the Council of Great City Schools' (CGCS) financial reporting and accounting systems to assess their ability to comply with Federal fiscal accounting and reporting requirements applicable to its AmeriCorps grant. Based on that review, we found that CGCS's accounting systems and system of internal controls were not adequate to report grant expenditures in accordance with grant requirements and to safeguard Federal funds. The following conditions were reported:

- CGCS's oversight of subgrantees/subrecipients needs improvement.
- CGCS lacks written accounting policies and procedures.
- CGCS does not adequately track labor hours.

Local Initiatives Support Corporation (OIG 96-28)

Haag and Company, under contract to the OIG, reviewed the Local Initiatives Support Corporation's (LISC) financial reporting and accounting systems and management controls. Haag and Company found that LISC's financial reporting and accounting systems and management controls were inadequate to ensure compliance with applicable Federal fiscal accounting and reporting requirements and to safeguard related funds. Based on the results of the review we questioned costs totaling \$75,693. Specific findings included:

- Salary costs for LISC's New York staff employees charged directly to the AmeriCorps grant were not properly documented. The grantee's time recordation system did not identify each employee's daily activity by project or function. Estimated salary and fringe benefits charged to the grant through March 31, 1995 were \$46,526.
- Administrative salaries for the LISC Vice President of Human Resources and the Vice President of Field Strategy were being charged directly to the grant rather than being included as part of the grant's administrative costs. Both vice presidents are part of LISC's central management and support functions that are not assigned to projects on an hourly or use basis. Without specific evidence to the contrary, we believe that their functions meet the definition for administrative expenses and as such, should be part of the grant's administrative costs. Reclassification of these costs, approximately \$12,500 through March 31, 1995, would raise LISC's administrative expense charges to nearly 14 percent of total Federal costs incurred through March 31, 1995, and thus exceed the five percent administrative expense limitation in the National and Community Service Act, and CNS regulations. Further, the charges were based on budget estimates rather than actual costs.
- Administrative expenses charged to the AmeriCorps grant were based on budget estimates rather than actual costs. Total administrative costs charged through March 31, 1995--for

rent, telephone, FAX, reproduction, and postage--amount to \$29,167. The charges were prorated monthly billings of \$4,167 derived from budget estimates, have no relationship to costs recorded in LISC's general ledger, and fail to meet the requirements of OMB Circular A-122. Because LISC's administrative charges appear to have been based on budget estimates rather than actual costs incurred, we questioned administrative costs reported on LISC's FSRs. We recommended that CNS determine the proper amount of administrative expenses that LISC is entitled to at the end of the grant period.

- Hours recorded and charged to the grant by AmeriCorps members were not properly controlled. LISC failed to implement controls to assure that reported member hours were accurate.
- Costs reported by LISC in its quarterly Financial Status Report (FSR) to the Corporation were not developed from its general ledger accounting records. Rather, costs were obtained from the project manager's manually prepared worksheets. Although reported differences were not significant at the time of review, we recommended that all future FSRs prepared by the grantee should be based on actual expenses that are supported by LISC's accounting records, in accordance with Federal accounting and reporting requirements.

National AIDS Fund (OIG 96-05)

We performed a limited review of the National AIDS Fund's (NAF) financial reporting and accounting system to assess the organization's ability to comply with Federal fiscal accounting and reporting requirements applicable to its CNS grant, as well as its ability to safeguard Federal funds. Our review revealed that NAF's accounting system and management controls and procedures appear adequate to safeguard Federal funds and to report grant expenditures in accordance with Federal requirements, with certain exceptions. First, NAF did not have adequate documentation to support third-party in kind contributions. Second, NAF's accounting procedures and policies were not formally documented in a written manual. Based upon the first exception, we questioned costs of \$91,458 used to meet NAF's matching requirement.

New Orleans Youth Action Corps (OIG 96-01)

We performed a limited review of the New Orleans Youth Action Corps' (NOYAC) financial reporting and accounting system to assess the organization's ability to comply with Federal fiscal accounting and reporting requirements applicable to its CNS grant, as well as its ability to safeguard Federal funds. We found that NOYAC's financial reporting and accounting systems and management controls were inadequate to ensure compliance with applicable Federal fiscal accounting and reporting requirements and to safeguard related funds. The conditions leading to this conclusion included inadequate:

- documentation of staff time charged to the grant;
- controls over receipts and disbursements; and
- supporting documentation for expenses charged to the grant.

In addition, we found that NOYAC needs to improve its cash management practices. As a result of these conditions, we questioned \$36,419 in salaries paid to NOYAC staff and \$9,065 in unsupported or unallowable charges to the grant.

Woodrow Wilson National Fellowship Foundation (OIG 96-02)

We performed a limited review of the Woodrow Wilson National Fellowship Foundation's (WWNFF) financial reporting and accounting system to assess the organization's ability to comply with Federal fiscal accounting and reporting requirements applicable to its CNS grant, as well as its ability to safeguard Federal funds. We found that WWNFF's accounting system did not report expenditures in accordance with Federal and grant requirements. The findings included:

- WWNFF staff assigned to the CNS grant did not maintain time and attendance records. Consequently, we questioned related salary costs charged to the grant in the amount of \$228,700.
- Adequate documentation was not maintained to support in-kind contributions for liaison services provided by the Philadelphia School District. Absent sufficient documentation, we questioned related non-Federal costs in the amount of \$41,400. In addition, WWNFF overstated non-Federal expenses in its Financial Status Report.
- Indirect expenses charged to the grant were based on a rate that was developed over ten years ago. A current rate must be developed and approved prior to inclusion as part of the grant's non-Federal expenses. Accordingly, we questioned \$218,198 of indirect costs charged to the grant through June 30, 1995.

In addition, we noted that based on non-Federal expenditures reported to date, and discussions with the grantee, it is likely that WWNFF will not meet their budgeted non-Federal match.

YouthBuild USA, Inc.

We performed a limited review of the YouthBuild USA, Inc. financial reporting and accounting systems to assess their ability to comply with Federal fiscal accounting and reporting requirements applicable to its AmeriCorps grant and to safeguard related funds. Our review resulted in no findings or recommendations.

**REPORTS ISSUED DURING THE PERIOD
OCTOBER 1, 1995 -- MARCH 31, 1996**

Report Number	Start Date	Report Date	Report Name	Federal Dollars Questioned	Federal Dollars Unsupported
<i>(Dollars in thousands)</i>					
96-01	10/02/95	03/05/96	Review of the New Orleans Youth Action Corps, New Orleans, LA	\$ 46	\$ 9
96-02	08/01/95	02/05/96	Review of Woodrow Wilson National Fellowship Foundation, Princeton, NJ	229	229
96-03	05/30/95	10/31/95	Review of Youth Build USA, Inc., Boston, MA	0	0
96-04	07/12/95	12/04/95	Review of the Arizona-Mexico Commission/Border Volunteer Corps, Tucson, AZ	189	97
96-05	07/17/95	02/09/96	Review of the National AIDS Fund, Washington, D.C.	0	0
96-10	10/06/95	03/05/96	Review of 1994 AmeriCorps National Direct Grant Award Process, Washington, D.C.	0	0
96-14	10/23/95	03/21/96	Review of the Council of Great City Schools, Washington, D.C.	0	0
96-20	12/07/95	03/27/96	Close-out Audit of Public Allies, Washington, D.C.	105	12
96-21	11/27/95	03/29/96	Close out Audit of ACORN Housing Corporation, New Orleans, LA	61	40
96-28	05/12/95	01/17/96	Review of the Local Initiatives Support Corporation, New York, NY	76	76
96-31	01/25/95	03/20/96	Pre-audit Survey of CNS Grants Management Process		
96-32	02/01/95	03/20/96	Pre-audit Survey of CNS Procurement Process		
96-36	06/15/95	03/15/96	Audit of CNS' FY 1994 Financial Statements		
96-38	09/29/95	03/29/96	Auditability Study of CNS	—	—
TOTAL				<u>\$706</u>	<u>\$463</u>

INVESTIGATIONS

We began this reporting period with sixteen previously-opened investigative actions. During the reporting period we opened seventeen new investigative actions and closed eleven. We had twenty-two investigative actions pending at the end of this reporting period.

The following highlights our investigative activity during this reporting period:

Alleged False Statement - Management Takes Administrative Action

As previously reported, we completed an investigation into an allegation that an employee at one of CNS' state offices falsified his Confidential Financial Disclosure Report form (SF 450) by not reporting his outside employment. During the previous reporting period the U.S. Attorney's office declined criminal prosecution in favor of administrative action and we referred the incident to the Corporation for action as they deemed appropriate. During this reporting period we were advised by management that they issued the employee a letter of reprimand, a copy of which will remain in the employee's Official Personnel Folder for a period of up to one year.

False Time Sheets - Guilty Plea Results in Restitution

A former AmeriCorps Member facing charges of grand larceny stemming from his submission of false time sheets while serving as an AmeriCorps Member was allowed to plead guilty in State court to petty larceny. The former AmeriCorps Member was sentenced to serve three years probation, one year conditional discharge, four work weekends in the county jail, and to pay full restitution.

Alleged Misconduct - Unsubstantiated

We completed a preliminary inquiry into an allegation that a Corporation supervisor promoted an employee into a position for which the employee was not qualified. The caller further alleged that the supervisor and the employee were engaged in an intimate relationship. Our inquiry disclosed no evidence or indication that the supervisor engaged in improper conduct surrounding the promotion of the employee and we closed the inquiry concluding that the allegation was unsubstantiated.

Alleged Embezzlement - Unsubstantiated

We completed a preliminary inquiry into an allegation that an employee affiliated with an AmeriCorps grant recipient was embezzling money from the Corporation grant. We determined that the complainant made the allegation of embezzlement after seeing documents that indicated salaries of some grantee employees were paid in part with Corporation funds. Review of the agreement between the grantee and the Corporation revealed that varying amounts, from 0-100%,

of staff salaries and benefits were approved and budgeted to be paid with funds from the Corporation grant. Our inquiry disclosed no evidence or indication to support the allegation of embezzlement and we closed the inquiry concluding that the allegation was unsubstantiated.

Alleged Fiscal Misconduct - Unsubstantiated

We completed a preliminary inquiry into an allegation that officials of a grant recipient admitted fiscal irresponsibility and potentially criminal actions. There was no indication of criminality and the phrase "...fiscal irresponsibility and potentially criminal actions..." which was contained in a letter written by the complainant to a third party, was, in the complainant's words, incorrect and a poor choice of words. We closed the inquiry concluding that the allegation was unsubstantiated.

VISTA Complaint - Referred to and Resolved by Management

We completed a preliminary inquiry subsequent to receiving a Hotline complaint from a former VISTA volunteer who alleged she had been improperly terminated from her VISTA assignment. We determined the complaint involved management issues only and referred the matter to Corporation management. Management concluded that proper procedures had been followed in the termination of the VISTA volunteer but did offer her placement assistance and the opportunity to complete her full year of service.

Proactive Outreach - Crime Prevention - Fraud Awareness

During this reporting period we presented a briefing to approximately 40 AmeriCorps project directors attending an AmeriCorps Senior Staff Training Workshop held in Albany, NY, by the State of New York Office of National and Community Service. The presentation focused upon the existence, goals and activities of the Corporation's OIG, the existence and purpose of the OIG's Fraud, Waste, and Abuse Hotline, and included a basic fraud awareness briefing tailored to the recipients of federal grants.

During this reporting period we also began more aggressive efforts to publicize the OIG and the OIG Fraud, Waste, and Abuse Hotline within the Corporation. In addition to developing and printing brochures announcing the existence and addressing the purpose of the OIG, we are ensuring local "take one" displays remain stocked with our brochures and we have mailed the brochures to all of the Corporation state offices. We are presently pursuing additional cost-effective, and in most cases pre-existing, channels through which we can educate our customers and hopefully become involved in challenging areas before they become problem areas.

STATISCAL SUMMARY OF INVESTIGATIONS

Opened and Closed

Number of Cases Open at Beginning of Reporting Period.....	16
Number of New Cases Opened During This Reporting Period.....	17
Number of Cases Closed During This Period With Significant Findings.....	2
Number of Cases Closed During This Period With No Significant Findings.....	9
Total Cases Closed This Reporting Period.....	11
Number of Cases Open at End of Reporting Period.....	22

Referred

Number of Cases Referred for Prosecution During This Reporting Period.....	1
Number of Cases Accepted for Prosecution During This Reporting Period.....	0
Number of Cases Declined for Prosecution During This Reporting Period.....	1
Number of Cases Pending Prosecutive Review.....	0

REVIEW OF LEGISLATION AND REGULATIONS

Section 4(a)(2) of the Inspector General Act directs the Office of the Inspector General to review and make recommendations about existing or proposed legislation and regulations relating to the Corporation's programs and operations. The OIG recommendations, which are to be included in its Semiannual Reports, are to specifically address the impact of the legislation and regulations on preventing and detecting fraud and abuse, as well as the economy and efficiency in the administration of CNS' programs and operations.

As discussed in our last Semiannual Report, the National and Community Service Trust Act of 1993 currently authorizes appropriations for some of the Corporation's programs and operations through fiscal year 1996. There has been no specific legislation proposed to reauthorize Corporation programs under the Act. OIG has discussed several issues regarding the Corporation's programs and operations with staff members of the Senate Committee on Labor and Human Resources, which has legislative jurisdiction over the reauthorization of the Act. OIG has also participated in some discussions with Corporation officials on matters of economy and efficiency in the administration of the Corporation's programs and operations that could be addressed in the reauthorization process.

In response to several requests during this reporting period, OIG reviewed draft legislation regarding the Corporation's Fiscal Year 1996 appropriations. OIG provided comments on how the draft legislation could affect the Corporation's process of resolving the findings in the report on the results of the Auditability Study discussed elsewhere in this Semiannual Report.

Finally, during this reporting period, the OIG reviewed proposed legislation and regulations that would generally affect the operation of federal agencies by participating in reviews coordinated by the President's Council on Integrity and Efficiency.

TABLE I
INSPECTOR GENERAL REPORTS WITH QUESTIONED COSTS

	Number	Federal Costs	
		Questioned	Unsupported
		<i>(Dollars in thousands)</i>	
1. For which no management decision has been made by the commencement of the reporting period	13	\$241	\$ 99
2. Which were issued during the reporting period	<u>6</u>	<u>706</u>	<u>463</u>
3. Subtotals (1 plus 2)	19	947	562
4. For which a management decision was made during the reporting period	4	111	82
(i) dollar value of disallowed costs		81	0
(ii) dollar value of costs not disallowed	—	<u>30</u>	<u>82</u>
5. For which no management decision has been made by the end of the reporting period (3 minus 4)	<u>15</u>	<u>\$836</u>	<u>\$480</u>
6. Reports for which no management decision was made within six months of issuance	7	57	

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

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period	0	0
B. Which were issued during the reporting period	0	0
C. For which a management decision was made during the reporting period	0	0
(i) dollar value of recommendations that were agreed to by management		0
-- based on proposed management action		0
-- based on proposed legislative action		0
(ii) dollar value of recommendations that were not agreed to by management		0
D. For which no management decision has been made by the end of the reporting period	0	0
Reports for which no management decision was made during six months of issuance	0	0

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

Report Number	Name of Grantee	Federal Dollars Questioned	Mgmt Decision Due	Status as of March 31, 1996
<i>(Dollars in thousands)</i>				
94-02-36	Senior Service Corps, Inc.	\$ *	12/20/94	Management decision not received
94-02-37	Senior Service Corps, Inc.	*	12/20/94	" " "
94-02-38	Senior Service Corps, Inc.	*	12/20/94	" " "
94-HQ-53	Round Rock Navajo Tribe	0	12/27/94	Note 1
94-HQ-54	Portland Youth Service Corps	0	01/25/95	Note 1
94-HQ-57	Youth Volunteer Corps of America	0	02/15/95	Note 1
95-01	National Association of Child Care Resource & Referral Agencies	0	11/06/95	Note 1
95-02	City Year of Boston	51	02/29/95	Note 1
95-03	Arkansas Division of Volunteerism, Delta Service Corps	2	12/29/95	Management decision not received
95-09	Public Education Fund Network	0	02/29/96	Note 1
9510	Neighborhood Green Corps	0	03/29/96	Note 1
95-11	Association of Farmworkers Opportunities Program	0	02/26/96	Note 1

(Continued on next page)

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

Report Number	Name of Grantee	Federal Dollars Questioned	Mgmt Decision Due	Status as of March 31, 1996
<i>(Dollars in thousands)</i>				
95-16	Multi County Community Action Against Poverty	*	02/27/96	Note 1
95-27	Commonwealth of Kentucky	*	03/25/96	Management decision not received

* Amount questioned less than \$1,000.

Note 1: At the end of the current semiannual reporting period, CNS proposed a number of management decisions to resolve outstanding audit findings. Under CNS's audit follow-up procedures, OIG's agreement with a proposed management decision concludes the audit resolution process.

However, OIG could not agree to most of the proposed resolutions submitted in late March 1996. OIG objected to proposed decisions that were based on unsupported assertions by the auditees that reported conditions had been remedied because CNS had not verified, and proposed no plans to verify, that corrective actions had been put into place and were working effectively to correct the reported conditions.

In April 1996, OIG and CNS began working on a plan to monitor and assess grantee corrective actions. The plan is to be reported by CNS' in its "Semiannual Report to Congress on Audit Follow-up."

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

Report Number	Title	Date Issued	Mgmt. Decision Due	Final Action
94-HQ-54	Portland Youth Service Corps	07/27/94	01/25/95	*
95-01	National Association of Child Care Resource Referral Agencies	05/08/95	11/06/95	*
95-02	City Year of Boston	08/31/95	02/29/95	*
95-03	Arkansas Division of Volunteerism, Delta Service Corps	08/17/94	12/29/95	*
95-04	American Institute of Public Service	04/24/95	03/26/96	No target date has been established for final resolution actions.
95-10	Neighborhood Green Corps	08/02/95	03/29/96	*

* Management decision is overdue.

INDEX TO REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL

IG Act Reference*	Reporting Requirement	Page
Section 4 (a)(2)	Review of Legislation and Regulations.	16
Section 5 (a)(1)	Significant problems, abuses, and deficiencies.	N/A
Section 5 (a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	N/A
Section 5 (a)(3)	Prior significant recommendations on which corrective action has not been completed.	21
Section 5 (a)(4)	Matters referred to prosecutive authorities.	15
Section 5 (a)(5)	Summary of instances where information was refused.	N/A
Section 5 (a)(6)	List of audit reports by subject matter showing dollar value of questioned costs and recommendations that funds be put to better use.	12
Section 5 (a)(7)	Summary of each particularly significant report.	1
Section 5 (a)(8)	Statistical table showing number of reports and dollar value of questioned costs.	17
Section 5 (a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better us.	18
Section 5 (a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by end of reporting period.	17
Section 5 (a)(11)	Significant revised management decisions.	N/A
Section 5 (a)(12)	Significant management decisions with which the Inspector General disagrees.	19

*Refers to sections in the Inspector General Act of 1978, as amended.

CORPORATION FOR NATIONAL SERVICE

OFFICE OF INSPECTOR GENERAL

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Semiannual Report to Congress on Audit Follow-up

C O R P O R A T I O N

F O R N A T I O N A L



S E R V I C E

October 1, 1995 - March 31, 1996

CNS Semiannual Report Number 5

INDEX OF THE INSPECTOR GENERAL ACT REPORTING REQUIREMENTS

IG Act Reference	Reporting Requirements	Table
Section 5 (b)(1)	Comments determined appropriate by the agency head	pages 1 - 4
Section 5 (b)(2)(A-D)	Statistical tables showing the total number of audit reports and disallowed costs:	Table 1
	(A) for which final action had not been taken as of the commencement of the period;	Table 1, Item A
	(B) on which management decisions were made during the period;	Table 1, Item B
	(C) for which final action was taken during the period; and	Table 1, Item D
	(D) for which no final action has been taken by the end of the reporting period.	Table 1, Item E
Section 5 (b)(3)(A-D)	Recommendations from a management decision that funds be put to better use	Table 2
Section 5 (b)(4)(A-D)	List of audit reports on which final action had not been taken within a year of the management decision	Table 3

Comments on the Inspector General's Semiannual Report

The Corporation for National Service is covered by the Government Corporation Control Act and, as such, is required to prepare annual financial statements which are to be audited. The Corporation sought to conduct a financial audit for fiscal year 1994 but its systems and records did not meet standards of the Government Corporation Control Act. Thus, a survey was conducted to identify areas that need to be addressed in order to meet those standards. The Corporation is now systematically addressing recommendations resulting from the survey.

During the survey, significant issues related to the Corporation's accounting, recordkeeping, and management control activities were identified. While the auditors' conclusions were not unexpected (experience with Chief Financial Officers Act auditing requirements has shown that most Federal agencies are initially unable to prepare auditable financial statements), the situation was compounded in the Corporation's case by the need to launch major new national service programs and to integrate programs of predecessor agencies. In doing so, the Corporation combined from these organizations financial management systems which had not been required to produce auditable financial statements.

The auditability survey was completed at the end of the reporting period, March 29, 1996, and its recommendations are now being implemented. Additionally, the Corporation is assessing a fundamental re-engineering of its financial management processes to meet challenges resulting from its expanded responsibilities. Finally, while the Inspector General's report discussed a number of audits that were issued during the reporting period, we have not commented on them since they are still undergoing resolution in accordance with OMB Circular A-50 and the Corporation's audit followup process. It would be premature to comment on them until the auditees have had an opportunity to respond and a management decision has been made specifying the final, mutually agreed to weaknesses and corrective actions.

Management Decisions not Made Within Six Months

The Inspector General's semiannual report for this period identified 14 audits reports for which management decisions had not been made within 6 months of the audit report being issued. Two of these reports had monetary findings over \$1,000; five had monetary findings under \$1,000; and seven involved only non-monetary findings.

By the end of the reporting period, the Corporation had proposed management decisions on 12 of the 14, for which the Office of the Inspector General requested additional management action in order to address the findings. The additional action included further verification that corrective actions had indeed taken place.

Since the end of the reporting period, management decisions have been agreed upon for 10 of the 14 reports; four of the 10 have received final action and are resolved. We expect that completion of correction actions for most of the remaining audits will take place before the close of the current six-month reporting period.

FINAL ACTION TAKEN ON AUDIT REPORTS WITH DISALLOWED COSTS

(for the period October 1, 1995 - March 31, 1996)

	<u>Number of Audit Reports</u>	<u>Disallowed Costs (\$000)</u>
A. Audit reports with management decisions upon which final action had not been taken as of September 30, 1995.	21	291.7 *
B. Audit reports upon which management decisions were made during the six-month reporting period.	10	142.8
C. Total audit reports with management decisions upon which final action was pending during the reporting period (total of A and B).	31	434.5
D. Audit reports upon which final action was taken during the reporting period (total of D.1. through D.4.).	18**	131.3
1. Recoveries		
(a) Collections and offsets	4	15.7
(b) Property in lieu of cash	0	0
(c) Other	0	0
2. Write-offs	2	20.5
3. Audits with no disallowed costs	11	0
4. Adjustment to disallowed costs resulting from a new, close-out audit which superceded an earlier audit report	1	95.0
E. Audit reports with management decisions upon which no final action had been taken as of March 31, 1996.	13	303.2***

* These disallowed costs are taken from the original management decisions and do not reflect revised figures resulting from appeals. Revised amounts will be noted in the reporting period in which the reports receive final action. This figure represents a rounding adjustment (-.1) from the previous report.

** Three reports were closed by the Department of Justice in prior reporting periods. The Corporation was notified during this reporting period.

*** Of this amount, \$256.1 has been referred to the Department of Justice for collection.

Table 1.

**AUDITS WITH RECOMMENDATIONS TO PUT FUNDS
TO BETTER USE**

(for the period October 1, 1995 - March 31, 1996)

	<u>Number of Audit Reports</u>	<u>Funds to be Put to Better Use (\$000s)</u>
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period.	0	0
B. Audit reports on which management decisions were made during the period.	0	0
C. Total audit reports pending final action during the period (Total of A and B)	0	0
D. Audit reports on which final action was taken during the period.	0	0
1. Value of recommendations that were completed.	0	0
2. Value of recommendations that management concluded should not or could not be implemented or completed.	0	0
3. Total of 1 and 2	0	0
E. Audit reports needing final action at the end of the period (Subtract D3 from C)	0	0

Table 2.

**Audits With Disallowed Costs That Had No Final Action
Within One Year of a Management Decision
(as of March 31, 1996)**

None of the audit reports in this table had a recommendation that funds be put to better use.

Audit Number	Auditee	Management Decision Date	Amount of Disallowed Costs	Reason No Final Action Was Taken by September 30, 1995
88-10K & 88-10L	American Legion Post #23	6/15/88 6/15/88	\$ 13,064 25,183	Debt was forwarded to the Department of Justice on June 21, 1991.
88-20	Carson River Basin Council of Governments	9/15/88	45,057	Debt was forwarded to the Department of Justice on June 16, 1992.
89-41	Labor Agency of Metropolitan Washington, Inc.	3/23/90	172,774	Debt was forwarded to the Department of Justice on January 16, 1992.
94-02-24	Schenectady Municipal Housing Authority	9/28/94	68	Collection process is underway.

Seven additional audits with no disallowed costs have not received final action within one year of a management decision. The corrective actions for most of these audits includes issuing new policies and procedures.

Table 3