
CORPORATION

FOR NATIONAL



S E R V I C E

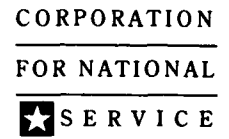
OFFICE OF THE INSPECTOR GENERAL

Semiannual Report to the Congress

October 1, 1996 - March 31, 1997

Fiscal Year 1997
Report No. 1

Office of the Inspector General



April 30, 1997

Harris Wofford
Chief Executive Officer
Corporation for National and Community Service
1201 New York Avenue, NW
Washington, DC 20505

Dear Senator Wofford,

This report covers the first half of the Corporation for National and Community Service's fourth year of operations, during which the Corporation's AmeriCorps program moved into its third year. During this period, the Office of the Inspector General issued 12 audit reports and completed action on 25 investigations.

Audit Activities

The Office of the Inspector General is in its third year of a strategic plan that focuses on financial management risks in the Corporation's new programs. During this semiannual reporting period, our audits have assessed the financial management of the Corporation and its AmeriCorps grantees. These efforts, and the Corporation's responses to our reports, have led us to conclude that while the Corporation improved financial management in some areas, additional efforts must be devoted to improving management controls and resolving other financial management issues.

Corporation for National and Community Service Financial Management Issues. As a result of issues raised in March 1996, OIG reports,¹ the conferees on the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Public Law 104-134) requested² that our office periodically report to the Congress on the Corporation's progress in improving its financial

¹ In Report 96-36, OIG reported that the Corporation's FY 1994 financial statements could not be audited because of deficiencies in systems, lack of documentation supporting the statements, and material weaknesses in CNS' management control structure; and in Report 96-38, a two volume report to OIG, Williams, Adley and Company, LLP and Arthur Andersen LLP made 99 recommendations for corrective actions necessary to produce auditable financial statements for the Corporation.

² House Report 104-537.

1201 New York Avenue, NW
Washington, DC 20525
Telephone 202-606-5000

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

management systems and in developing auditable financial statements. In December 1996, we issued OIG Report 97-09, *Report on the Follow-up Study to the Auditability Survey*. The *Follow-up Study* revealed that the Corporation had implemented 28 of the 99 recommendations made in the original *Auditability Survey*. However, the corrective actions were not sufficient to improve the Corporation's internal accounting controls so as to enable an auditor to perform an effective and efficient audit of the Corporation's financial statements for fiscal years 1994 and 1995. The report also concluded that an audit of the Corporation's fiscal year 1996 financial statements may not be possible because many significant deficiencies remained uncorrected throughout fiscal year 1996.

Under the direction of its new Chief Financial Officer, the Corporation has indicated that it has embarked on efforts to strengthen its management controls and to correct its accounting records, and that it has made significant progress in correcting the deficiencies described in the *Auditability Survey* and the *Follow-up Study* reports. This month (April 1997) we began a second assessment of the Corporation's progress in correcting the deficiencies reported in the *Auditability Survey*. We expect to report on this assessment during the final quarter of this fiscal year.

Notwithstanding the announced improvements, we have noted that the Corporation has not adhered to the Government Corporation Control Act's requirement to submit an annual management report. Under the Act (31 U.S.C. § 9106), the Corporation's management report must include its financial statements and a statement on the Corporation's assessment of its internal accounting and administrative control systems. To date, the Corporation has not submitted to Congress (and others as required by the Act) the management reports for fiscal years 1995 and 1996, including financial statements and reports on its internal accounting and administrative control systems. As of March 31, 1997, the Corporation had not prepared financial statements for fiscal years 1995 and 1996. Moreover, while the *Auditability Survey* and the *Follow-up Study* provide assessments of the Corporation's internal accounting controls, the Corporation has yet to undertake an assessment under which it could report on the effectiveness of its administrative controls. In our view, a comprehensive study of management controls is essential to establishing an efficient and effective organization.

In March 1997, we issued OIG Report 97-27, *Audit of the National Service Trust Fund Fiscal Year 1995 and 1994 Financial Statements*, in which we reported that material and pervasive internal control, record keeping, and EDP systems deficiencies precluded an audit in accordance with generally accepted government auditing standards. The report disclosed accounting and record keeping deficiencies similar to those revealed by the previous *Auditability Survey* and the *Follow-up Study*. However, the report also discloses that the Trust Fund System had serious deficiencies. These conditions are discussed in the Audit Section of this Semiannual Report.

Finally, the report discloses that the Corporation has failed to comply with reporting requirements established under the National and Community Service Act, as amended (45 U.S.C. 12601(d)). Under those provisions, the Corporation was required on March 1 of 1995 and 1996, to submit reports to the Congress on Trust Fund receipts and expenditures for the preceding fiscal years. However, the Corporation did not submit its fiscal year 1994 report to Congress until December 1996 (21 months late) and has not submitted its fiscal year 1995 or 1996 reports at all.

Under the Corporation's audit resolution system, a corrective action plan addressing the findings and recommendations in the Trust Fund report is due no later than June 16, 1997. Under Federal law (section 6009 of the Federal Acquisition Streamlining Act of 1994, as amended by section 810 Public Law 104-106), the Corporation's final corrective actions must be completed by March 11, 1998.

Financial Management Issues Related to CNS Grantees. In fiscal year 1995, we reoriented our approach to auditing CNS' grantees to concentrate on CNS' newly established AmeriCorps programs. Over the past three years, the Corporation has awarded more than \$500 million to its AmeriCorps grantees. We began these efforts not only because these awards represent the Corporation's largest spending category, but also because we were told that CNS had not performed nor required assessments of its grantees' capacity to account for grant spending in accordance with Federal requirements.

We also expanded our audit universe to cover grants made by one of the Corporation's predecessor organizations, the Commission on National and Community Service. When the Corporation was established, it assumed the responsibility for oversight of these grants. We included them in our audit universe because we were informed that, during their performance, oversight by the Commission was minimal.

Since 1995, we have issued 36 reports on AmeriCorps grantees and nine on grantees funded by grants awarded by the former Commission on National and Community Service. Many of our reports have disclosed deficiencies in grantee internal control systems and failure to comply with Federal requirements. Questioned costs to date exceed \$3 million.

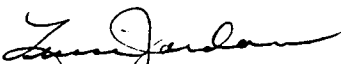
In previous Semiannual Reports, we have included tables that depicted the conditions commonly found when we audited Corporation grantees. In this report we have added two additional issues related these reports: audit resolution and grantee administrative costs.

Finally, as required under the Inspector General Act, we are reporting that, as of March 31, 1997, the Corporation has not made final management decisions on 31 audit reports within the six months required under Federal law. These delays are now causing the Corporation to fail in meeting the statutory requirement to complete corrective action on audit reports within one year. As required by law, we are reporting that, as of March 31, 1997, the Corporation had failed to complete final action on nine audit reports that were more than a year old. Further, as this Semiannual Report indicates, on average, 300 days have elapsed before the Corporation has even responded and proposed corrective action for many of the reports we have issued. These conditions indicate that the Corporation's oversight processes need improvement. Moreover, these conditions portray practices that are unfair to grantees awaiting resolution of questioned costs and other audit-related issues.

Investigative Activity

Reporting statistics for this period reveal that while the level of activity remained steady, the number of cases closed with significant findings increased. As described in the Investigations section of this report, in several instances, these investigations resulted in reports to the Corporation requesting management action.

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.


Luise Jordan
Inspector General

OFFICE OF THE INSPECTOR GENERAL

Semiannual Report to the Congress

October 1, 1996 - March 31, 1997

CORPORATION FOR NATIONAL SERVICE

TABLE OF CONTENTS

Introduction	1
Auditing Activities	1
Reports Issued During the Period October 1, 1996 -- March 31, 1997	8
Investigations	13
Statistical Summary of Investigations	16
Review of Legislation and Regulations	17
Index to Reporting Requirements of the Inspector General Act	26
 TABLE I -- Inspector General Issued Reports with Questioned Costs for the Six-month Period Ending September 30, 1996	 21
TABLE II -- Inspector General Issued Reports with Recommendations That Funds Be Put To Better Use for the Six-month Period Ending September 30, 1996	 22
TABLE III -- Summary of Audits with Overdue Management Decisions	23
TABLE IV -- Significant Reports Described in Prior Semiannual Reports Without Final Action	 25

INTRODUCTION

The Corporation for National and Community Service (CNS) was created under the National and Community Service Trust Act of 1993. Through several programs, the Corporation 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 National Senior Service Corps.

AUDITING ACTIVITIES

OIG REPORTS ON CNS FINANCIAL MANAGEMENT

During this reporting period we issued two reports assessing CNS' financial management and operations. These reports disclosed material deficiencies in the Corporation's financial systems, accounting records, and management controls. Although the Corporation has embarked on efforts to strengthen its management controls and to correct its accounting records, correction of these deficiencies is critical to achieving auditable financial information for the Corporation.

Report on the Follow-up Study to the Auditability Survey (OIG 97-09)

In December 1996, we issued our report on the Corporation's progress in correcting deficiencies in its financial systems and management controls first identified in OIG Report 96-38, *Report on the Results of the Auditability Survey* (March 1996). The review was performed by Arthur Andersen LLP under contract to the OIG, and was limited to 62 corrective actions planned for implementation by CNS by August 31, 1996.

The report noted that, of the 62 corrective actions assessed, 28 were adequately designed and operating effectively. However, 34 of the corrective actions were not adequate to correct or mitigate the related internal control deficiencies. The following table depicts the status of CNS' corrective actions for the material weaknesses, other reportable conditions, and other observations as reported in the *Follow up Study*.

	Originally Reported	Total Assessed	Corrected	Not Corrected	Not Assessed
Material Weaknesses	33	22	6	16	11
Other Reportable Conditions	41	29	15	14	12
Other Observations for Improvement	25	11	7	4	14
Total	99	62	28	34	37

We also concluded that the corrective actions that had been implemented were not sufficient to improve the Corporation's internal controls so as to enable an auditor to perform an effective and efficient audit of the Corporation's financial statements for fiscal years 1994 and 1995. Further, an audit of the Corporation's fiscal year 1996 financial statements may not be possible because many significant deficiencies remained uncorrected throughout the fiscal year.

During the course of the work, we informed CNS of our assessments of the adequacy of the corrective actions. In its response to the report related to the 34 uncorrected conditions, CNS included descriptions of actions it initiated after the assessment. We began a second review of the Corporation's corrective actions in April 1997 and anticipate reporting the results in July.

Audit of the National Service Trust Fund Fiscal Year 1995 and 1994 Financial Statements (OIG 97-27)

In March 1997, we issued our report on the audit of the Corporation's National Service Trust Fund financial statements for fiscal years 1995 and 1994. The report noted that the Corporation's internal controls were not adequate to ensure complete and accurate financial statements. In addition, the Corporation did not maintain adequate accounting records and other evidential matter in support of the Fund's service award liability, service award expense, and appropriations transactions. As a result of these conditions, the auditors were unable to express an opinion on the fairness of the Fund's financial statements.

The report noted material weaknesses in the Trust Fund System and the Trust Fund's financial records, including the Corporation's failure to properly reconcile the Trust Fund's fund balance and investment accounts with those maintained with Treasury. The Trust Fund System was created to maintain a database of AmeriCorps Members' educational awards. Its database includes, among other items, information on Members' enrollment, status, education level, service hours completed, completion dates, awards earned, and amounts paid for educational benefit awards. However, the auditors found that the database information (1) could not always be verified from or reconciled to external documentation of enrollment or certification of completion; (2) could be changed in the system without any evidence of approval or supporting documentation (audit trail); and (3) was not limited by system or other controls which prohibit or limit certain types of incomplete or erroneous data entry.

In addition, the report cited as a material instance of noncompliance with laws and regulations, the Corporation's failure to submit the required Trust Fund reports to Congress on a timely basis.

In responding to the report, CNS generally concurred with the findings and recommendations. CNS also stated that it was conducting an over-all review of the system's internal control structure, and that it would develop corrective actions to address the control issues raised in the report.

CONGRESSIONAL REQUEST TO REVIEW THE PRESIDIO LEADERSHIP CENTER (OIG 97-17)

The Chairman of the Subcommittee on Oversight and Investigations of the House of Representatives Committee on Education and the Workforce requested that the OIG review the Presidio Leadership Center and provide the Subcommittee with information on its activities and costs. CNS established the Presidio Leadership Center (PLC) in January 1995 as the Corporation's training arm to equip and support leaders of community service organizations, state commissions, and CNS staff with the leadership skills and service strategies to achieve the Corporation's mission.

We found that the Corporation has a clear statutory basis for establishing and operating the PLC. The various programs operated by the Center are targeted at, and demonstrate a commitment to, the development and enhancement of CNS-affiliated service programs and appear to adhere to the purposes and goals of the National and Community Service Act. Further, although we concluded that the PLC did not have adequate controls over the review and acceptance of participants in the National Service Executive Program during fiscal year 1996, we found that all participants who attended the National Service Executive Program were affiliated with CNS and its programs. Further, our review of participants attending other training sessions offered by the Center revealed that the participants were affiliated with CNS programs.

Our review of PLC costs revealed that CNS lacked an adequate method and systems to account for and record the total costs of the PLC's operations and training activities. PLC records were incomplete and inaccurate, and we found that CNS cost estimates for PLC using these records were understated. However, based on the information and records we were able to review, we estimated that the per participant cost for the National Service Executive Program was comparable to similar leadership training offered by Federal and commercial entities.

AUDITS AND REVIEWS OF CORPORATION GRANTEES

OIG performs audits and reviews of selected AmeriCorps programs that have completed one or more years of program activity. The audits and reviews are carried out by both OIG staff and independent public accounting firms under contract to the OIG.

The audits are intended to assess whether reported costs were allowable under Federal regulations and whether grantees complied with the terms and conditions of the award. The reviews are primarily performed to evaluate the accounting systems and management controls of AmeriCorps programs to determine whether they are adequate for managing the award in accordance with Federal and grant requirements and for safeguarding Federal funds. We also audit grants that were awarded by the CNS' predecessor agencies, the Commission on National and Community Service and ACTION.

We issued 9 reports on grantees during this period. As illustrated in the table below, our work has revealed issues in several areas. A brief discussion on the results of our work at each grantee follows the table.

Grantee	Award Amount	Systems & Controls	Subrecipient Monitoring	Questioned Costs	Other Compliance Issues
Audits					
PennSERVE (Pennsylvania Association of Colleges and Universities; OIG 97-01)	\$3,930,029	✓	✓	✓	✓
Oregon Youth Conservation Corps (OIG 97-02)	551,592	✓	✓	✓	✓
Serve Houston (OIG 97-26)	2,207,015	No Findings			
Reviews					
YMCA of USA (OIG 97-03)	586,947		✓		✓
Kansas City Consensus (OIG 97-04)	1,010,000	✓			✓
YouthNet of Greater Kansas City (OIG 97-05)	317,906	✓	✓		✓
Legal Services Corporation (OIG 97-06)	752,000	✓	✓	✓	✓
National Council of Churches of Christ in the USA (OIG 97-07)	850,000	✓	✓		✓
University of Maryland at Baltimore County (Shriver Center; OIG 97-08)	625,963	✓	✓	✓	

Summary of Audits and Reviews of AmeriCorps Grantees Issued During the Reporting Period

AUDITS

PennSERVE (Pennsylvania Association of Colleges and Universities; OIG 97-01)

We audited the funds awarded to PennSERVE for the period August 1, 1992 to December 31, 1995 (award number 92NMSTPA0007). The former Commission on National and Community Service awarded the grant under the National and Community Service Act of 1990. Our audit disclosed that PennSERVE lacked adequate

- controls over its financial management system;
- controls for monitoring subrecipients; and
- segregation of duties.

In addition, we reported that PennSERVE incurred administrative costs in excess of the maximum allowed under the terms of the award. We also questioned \$874,971 in costs claimed under the award.

In response to the report PennSERVE stated that it had taken corrective actions to improve the program's effectiveness. However, PennSERVE disagreed with the questioned costs related to Administration.

Oregon Youth Conservation Corps (OIG 97-02)

We audited the funds awarded to the Oregon Youth Conservation Corps (OYCC) for the period June 1, 1992 to July 10, 1994 (award number 92COSTOR0021). The former Commission on National and Community Service awarded the grant under the National and Community Service Act of 1990. The report disclosed that

- OYCC incurred unallowable and/or unsupported costs and incurred costs after the date the award expired;
- OYCC did not incur the required matching share of 25 percent;

- procedures did not exist to determine the allowability of incurred costs by OYCC or its subrecipients;
- funds were disbursed to subrecipients who did not have adequate accounting systems which were able to segregate grant funds;
- subrecipients were not adequately monitored by OYCC; and
- OYCC incurred administrative costs in excess of the maximum allowed under the terms of the award.

In addition, we questioned \$280,147 in costs claimed under the award.

In its response to the report OYCC disagreed with the questioned costs, stating that supporting information was available that had not been provided to the auditors.

Serve Houston (OIG 97-26)

We audited the funds awarded by CNS to Serve Houston through the Texas Commission for National and Community Service under Cooperative Agreement number 94ASCTX045. The audit covered the costs claimed during the period August 1, 1994 through December 31, 1996 and was intended to determine whether financial reports prepared by Serve Houston presented fairly the financial condition of the award and the award costs reported to CNS were documented and allowable in accordance with the terms and conditions of the award.

The audit disclosed no questioned costs, material instances of noncompliance, or any matters involving the internal control structure and its operations that were considered to be material weaknesses.

REVIEWS

YMCA of the USA (OIG 97-03)

We performed a limited review of the YMCA of the USA's financial reporting and accounting systems to assess their ability to comply with Federal fiscal accounting and reporting requirements applicable to its AmeriCorps grant, as well as its ability to safeguard related funds. We concluded that the YMCA of the USA's accounting system and internal control procedures were generally adequate to report grant expenditures in accordance with applicable requirements, and to safeguard Federal funds. However, we also noted the following deficiencies

- the YMCA of the USA frequently understated its total Federal expenditures in its Financial Status Reports (FSRs) and filed its FSRs late; and
- the YMCA of the USA did not adequately monitor its subgrantee's compliance with OMB Circular A-133, which called for the YMCA of the USA to request and review the subgrantee's A-133 reports.

In its comments on the report, the YMCA of the USA generally agreed with the findings and stated that they were taking corrective actions.

Kansas City Consensus (OIG 97-04)

We performed a review of CNS' AmeriCorps grant to Kansas City Consensus (KCC). Prior to issuing a report on the review, CNS began to transfer the grant and the program from KCC to the YMCA of Greater Kansas City. We issued a letter report to advise CNS of conditions that may not have been corrected by the transfer of program oversight to the YMCA. Specifically

- KCC experienced a high degree of AmeriCorps Member attrition during the first two years of the program;
- we noted several conditions relating to KCC's Federal financial reports and grant costs that were not reported by KCC's independent auditors. These conditions, an audit under Federal standards of the final months of operation of the grant, and final closeout of

KCC's fiscal responsibility need to be resolved by CNS grants management officials; and

- KCC paid living allowances during the program's first year of operations to 36 AmeriCorps Members whose names were not listed on CNS-produced AmeriCorps Member rosters. Failure to include individuals enrolled in a program understates CNS' statistics for the number of AmeriCorps Members and Member attrition rates.

In its response to the report, KCC and the YMCA agreed with the findings and stated that corrective actions were under way to improve the program.

YouthNet of Greater Kansas City (OIG 97-05)

We reviewed an AmeriCorps*State grant awarded by the Missouri Community Service Commission to YouthNet of Greater Kansas City. The purpose of the review was to assess YouthNet's accounting and management control systems to determine their ability to comply with Federal fiscal accounting and CNS grant requirements. We issued a letter report to advise CNS of conditions that we believe warrant further review and oversight by the Corporation and the Missouri Community Service Commission. Specifically

- YouthNet may have used as much as \$176,000 in excess AmeriCorps funds to temporarily finance its non-AmeriCorps operations;
- YouthNet claimed a flat 5 percent charge for the Federal share of its administrative costs without the documentation required by CNS regulations; and
- YouthNet had weaknesses in its controls over its AmeriCorps Member time sheets and service activity, and monitoring of its subrecipients.

In their response to the report, the Missouri Community Service Commission and YouthNet substantially agreed with the findings and stated that corrective actions had been implemented.

Legal Services Corporation (OIG 97-06)

In our review of the Legal Services Corporation (LSC) we concluded that LSC's accounting systems and management controls were inadequate to report grant expenditures and to safeguard Federal funds because

- subgrantee staff salaries and fringe benefit costs charged to the grant were unsupported due to inadequate subgrantee time keeping procedures;
- LSC did not adequately monitor subgrantee financial activities; and
- LSC costs claimed for administration exceeded the Corporation's five percent limitation on such costs.

As a result, we questioned \$82,114 in costs claimed under the award.

In its comments on the report, LSC disagreed with the findings and provided additional information on several issues. We considered some of this information sufficient to revise the findings. Additionally, LSC disagreed with the questioned costs related to Administration.

National Council of the Churches of Christ in the United States of America (OIG 97-07)

Our review of the National Council of the Churches of Christ in the United States of America found that the Council'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. We noted the following deficiencies

- matching share costs were not recorded in the accounting system and the participant support matching share reported did not meet the percentage required by the grant budget;

- the Council did not maintain written contractual agreements with its subrecipients;
- the August 31, 1995, Financial Status Report contained a mathematical error, which resulted in an understatement of \$4,213 of cumulative claimed costs; and
- the Federal Cash Transactions Report and the Financial Status Report were not reconciled to the general ledger.

University of Maryland at Baltimore (The Shriver Center; OIG 97-08)

In our review of The Shriver Center, we concluded that its accounting systems and management controls and the applicable portions of the University of Maryland at Baltimore County's (UMBC) accounting systems and management controls were inadequate to report grant expenditures in accordance with grant requirements and to safeguard Federal funds. Our audit identified several conditions which warrant correction including

- lack of adequate oversight by management leading to lapses in financial controls;
- labor costs charged to the grant for non-professorial and non-professional staff not based on an after-the-fact labor distribution system; we questioned \$58,531 of salaries and related costs;
- Member time sheets that were not signed by a supervisor at one of the three operating sites;
- Financial Status Reports that were not always submitted on time; and
- instances of noncompliance with certain provisions in the subgrant agreements.

In its response to a draft of this report The Shriver Center generally concurred with the findings and stated that they were taking corrective action.

**REPORTS ISSUED DURING THE PERIOD
OCTOBER 1, 1996 — MARCH 31, 1997**

Report Number	Start Date	Report Date	Report Name	Federal Dollars Questioned	Federal Dollars Unsupported
97-01	6/27/96	11/25/96	Audit of PennSERVE (Pennsylvania Association of Colleges and Universities)	\$ 874,971	\$ 1,749
97-02	9/21/95	12/23/96	Audit of the Oregon Youth Conservation Corps	280,147	0
97-03	11/20/95	12/16/96	Review of the YMCA of USA	0	0
97-04	12/4/95	1/27/97	Review of Kansas City Consensus	0	0
97-05	12/4/95	3/10/97	Review of YouthNet of Greater Kansas City	0	0
97-06	6/6/96	3/14/97	Review of the Legal Services Corporation	82,114	62,929
97-07	12/22/95	12/23/96	Review of the National Council of Churches of Christ in the USA	0	0
97-08	6/27/96	12/23/96	Review of the University of Maryland at Baltimore County (The Shriver Center)	58,531	0
97-09	7/22/96	12/9/96	Report on the Follow-up Study to the Auditability Survey	N/A	N/A
97-17	9/16/96	3/07/97	Review of the Presidio Leadership Center	N/A	N/A
97-26	9/9/96	3/24/97	Audit of Serve Houston	0	0
97-27	9/9/96	3/10/97	Audit of the National Service Trust Fund FY95 and FY94 Financial Statements	<u>N/A</u>	<u>N/A</u>
TOTAL				\$ <u>1,295,763</u>	\$ <u>64,678</u>

FINANCIAL MANAGEMENT ISSUES RELATED TO CNS GRANTEES

Since beginning our reviews and audits of the Corporation's AmeriCorps grantees, we have issued 36 reports. As this Semiannual Report indicates, many of our reports have disclosed deficiencies in grantee internal control systems and failure to comply with Federal requirements. Many have also included questioned costs.

In addition to reports on AmeriCorps grantees, we expanded our work to audit various grants awarded by one of the Corporation's predecessor organizations, the Commission on National and Community Service. To date, we have issued nine reports on Commission-awarded grants. We included these grants in our audit universe because we were informed that, during their performance, oversight by the Commission was minimal. The Corporation has assumed the responsibility for oversight and close-out of these grants. However, few (if any) of these grants have been formally closed. Instead, many of the same grantees have received continued funding for the same, or similar, programs through the AmeriCorps program.

Costs questioned in OIG reports on Corporation grantees now exceed \$3 million, including more than \$495 thousand related to questioned administrative costs. However, resolution of financial management issues and questioned administrative costs has been slowed by CNS' grants management office's ineffective practices, as discussed below.

Audit Resolution

Under the Corporation's audit resolution policy, and in accordance with applicable laws and regulations, CNS management is responsible for evaluating findings in OIG reports, proposing corrective actions, and verifying that corrective actions are implemented within established time frames. Corrective actions must address all conditions identified in the reports. Proposed Management Decisions (PMDs) addressing findings are to be made within 100 days of a reports issuance and final management decisions within 6 months. However, in our view, the Corporation has not taken this responsibility seriously.

In fiscal year 1995, the OIG began a series of reviews and audits of CNS' AmeriCorps grantees because we were informed that the Corporation had done little to assess the financial management capabilities of its grantees. We also expanded our coverage to include various grants made by one of the Corporation's predecessors, the Commission on National and Community Service.

In fiscal year 1996, we issued 28 such reports on CNS grantees (21 AmeriCorps and 7 Commission). Of these 28 reports, 26 identified deficiencies in grantee management controls and/or questioned costs charged to the grants. However, it was not until March 1997, due mainly to efforts of the Corporation's new Chief Financial Officer, that CNS submitted PMDs for 23 of the reports (three PMDs had been submitted and accepted prior to March 1997). On average, these PMDs were 200 days late according to the Corporation's standards. In other words, on

average, it took about 300 days to even *propose* corrective actions in response to the OIG reports. We noted similar delays in submitting PMDs addressing conditions noted in our reports on the Corporation's operations as well.

The Corporation's audit resolution policy also requires CNS to maintain a computerized audit follow up tracking system. Such a system could be used to monitor the progress of the Corporation in implementing OIG recommendations and provide information on the status of its responses. However, CNS has not routinely updated information in the system or used it to monitor the audit resolution process.

An analysis of the PMDs submitted in March for fiscal year 1996 grantee audits and reviews reveals that CNS proposed to allow more than 80 percent of all costs questioned in the reports, including 90 percent of costs questioned for the lack of documentation. The PMDs usually reported that all management control weakness had been corrected by the grantees.

Based on our preliminary review of PMDs submitted in March, we do not believe that CNS grants management is adequately reviewing grantee corrective actions prior to preparing a PMD. In some cases, CNS is accepting a grantee's assertion that correction action has been taken rather than performing a site visit to confirm that the corrective action was implemented. In other cases, CNS has proposed to accept supporting documentation for costs that does not meet Federal standards, or that was not made available during the audit or review. Documents provided after the fact, in our view, are suspect. We would expect CNS to accord them less evidentiary value as support for the allowability and allocability of grant costs.

We recommend that the Corporation appropriately follow up OIG findings and recommendations by

- promptly visiting grantees to review and assess the adequacy of their corrective action measures or plans; and
- requiring them to provide supporting documentation that meets Federal standards.

We also recommend that the Corporation

- establish an audit resolution tracking system in compliance with OMB requirements;
- use it to monitor the status of its follow up activities and to assess whether conditions reported in OIG reports are unique to a specific grantee or symptomatic of problems that should be corrected by the Corporation; and
- hold personnel accountable for appropriate resolution of audit findings and recommendations.

Administrative Costs

A number of OIG reports have raised concerns about how AmeriCorps programs are classifying costs in their budgets and charging costs to their grants in light of the five percent cap on Federal funding for "administrative costs."

The CNS regulations that define administrative costs subject to the cap discuss how personnel costs charged to AmeriCorps grants are to be split between "programmatic" and "administrative" costs according to the type of work being performed. However, in a number of our audits and reviews, we saw almost no staff time included in the administrative cost budgets or being charged as administrative costs. This led OIG to examine the work being done by the grantee staff. Based on this analysis, OIG determined that certain staff costs should be reclassified to administrative costs subject to the five percent cap. Reclassifications often led total administrative costs that exceeded the five percent cap. To date, our reports have questioned about \$495 thousand in costs as exceeding the five percent cap after we reclassified personnel costs to administration.

The Corporation's Office of Grants Management uniformly disagreed with our interpretations of the CNS regulations defining administrative costs. Efforts over the past year to reach a common understanding of the definition and how it applies to staff costs in AmeriCorps program staff costs have not been fruitful.

In January 1997, to bring a fresh, outside perspective to this problem, OIG retained a consultant. This consultant has extensive experience in advising human resource programs that receive Federal grants on cost accounting issues. We recently asked the consultant to review OIG Report 96-07, *Review of the ARC of the United States*, in which we reclassified significant amounts of grantee staff costs as administrative costs subject to the five percent cap. The consultant reported

"Both the OIG audit staff and ARC have certain valid points of view even though they are conflicting. The disagreements revolve around the interpretation of CNS regulations with regard to administrative costs and demonstrate a lack of clarity in the regulations. The fact that the regulations can be validly interpreted in several ways creates a fundamental weakness in grants administration.

In addition, the structure of the ARC budget creates ambiguities as to the requirements for meeting proper accountability. Therefore, the grantee should not be held solely liable with regard to the findings. The CNS grants management staff is culpable regarding advice that resulted in faulty procedures and adverse audit findings."

In regard to OIG's recommendations to reclassify certain personnel costs as subject to the administrative cost cap, the consultant advised

"In light of the lack of specificity and clarity in the regulations and the budget, the grantee should not be penalized and the disallowed costs should be rescinded with a finding that CNS grants management clarify the specific elements of cost that comprise 'Administration' in future budgeting."

Although we agree with our consultant that the grantees should not be penalized for problems with the CNS regulations in this area, OIG recommends that the Corporation immediately address this problem through interim regulations established to provide clearer guidance. The interim regulations would define fixed percentages of certain positions that would be charged to administrative costs for the current round of awards. We also recommend that the Corporation issue final regulations clearly defining administrative costs and the application of indirect cost rates. Further, we recommend that CNS use a budget structure which relates grant spending to the grant's objective rather than the arbitrary cost categories that it now uses. This change would aid in monitoring grantee costs and provide useful information to support Government Performance and Results Act analysis.

INVESTIGATIONS

We began this reporting period with 26 previously-opened investigative actions. During the reporting period we opened seventeen new investigative actions and closed 25. We had 18 investigative actions pending at the end of this reporting period.

HIGHLIGHTS OF INVESTIGATIONS CLOSED DURING THIS REPORTING PERIOD

False Time Sheets - Theft of Federal Funds - State Conviction

A former employee of an RSVP grant recipient, whose salary was paid with Federal funds from the RSVP grant, prepared and submitted fraudulent time sheets reflecting she worked 243 hours more than she actually worked. As a result, she received \$1,557 in wages for hours she did not work. The U.S. Attorney declined to prosecute. The individual was prosecuted in state court, and in return for her guilty plea, the state dismissed 19 counts of First Degree Offering a False Instrument for Recording and 2 counts of Theft of More Than \$500 but Less Than \$15,000. The employee was ordered to pay a fine of \$500, pay various court and associated costs, serve 2 years probation, and make restitution. We provided this information to Corporation management and they took action to ensure the receipt of the court-ordered restitution was processed correctly. (97-002)

Alleged False or Inaccurate Time Sheets - Prosecution Declined

We completed an inquiry into potential criminal matters that we found during our investigation of an unrelated AmeriCorps Member complaint. Our inquiry disclosed evidence to indicate that an AmeriCorps site coordinator certified on several AmeriCorps Member's end of service forms that the AmeriCorps Members completed more total service hours than were reflected on the AmeriCorps Member's time sheets. Further, many of the individual time sheets that supported the hours reported on the end of service forms contained errors which overstated the amount of service hours actually performed, indicated that service hours were allowed for inappropriate service activities, or, in some instances, the time sheets simply could not be located. We determined that five full-time AmeriCorps Members were awarded full-time service education awards when they had not accumulated the required number of service hours, and two part-time AmeriCorps Members were awarded part-time service awards when they had not accumulated the required number of service hours. The U.S. Attorney declined to prosecute due to the nature of the matter and the low dollar amount involved. The grantee ultimately withdrew their application to renew their AmeriCorps grant. (96-017)

Alleged Sexual Harassment - Findings Reported to Management

We completed an inquiry into allegations that AmeriCorps Members at a grantee's site were sexually harassed when a supervisor had unspecified sexual relations with unnamed AmeriCorps Members, and when a former supervisor took unnamed AmeriCorps Members

to his home for lunch and to unidentified "strip clubs." Our inquiry developed evidence that tended to substantiate the allegations. We also learned that the grantee was aware of the allegations prior to our being notified and had already taken corrective action regarding all but the most recent allegation. We issued a letter to Corporation management reporting our findings for whatever action the Corporation deemed appropriate. (97-007)

Alleged Forgery - Crime Conducive Conditions Referred to Management

We completed an inquiry into allegations that a Corporation employee forged the signature of a Corporation management official and made improper travel related charges using his (the employee's) Corporation-issued government charge card. We did not feel there was sufficient evidence to substantiate the alleged forgery. Our inquiry determined that many of the employee's travel related charges, characterized by management as questionable, were approved by management and all such claims submitted by the employee were paid by the Corporation. We also noted that some of the travel vouchers we reviewed were not submitted for approval and payment until several months after the employee's travel was complete. Two of the vouchers were not submitted for almost one year after the travel was complete. We issued a letter to Corporation management reporting our findings and the need for improved policy, training, and guidance. (96-021)

Alleged Theft - Prosecution Declined

We completed an inquiry into allegations that a former Corporation employee may have obtained, for other CNS employees, one or more travel advances and subsequently failed to provide some or all of the money to the employee for whom it was obtained. The employee was terminated (for reasons unrelated to the alleged theft of travel advances) several months prior to the discovery of the alleged thefts. The U.S. Attorney's Office declined to prosecute, stating that the dollar loss was below their threshold. (95-11)

Alleged Travel Abuse - Findings Reported to Management

We completed an inquiry into the propriety of lodging payments made to a Corporation employee while that employee was detailed to various positions within the Corporation. Our inquiry identified no criminality or abuse, however, a senior manager's admitted unfamiliarity with the Federal travel regulations may have resulted in the Corporation incurring higher per diem costs than necessary. Further, the Corporation employee circumvented travel procedures when he used a government travel card to pay for lodging for a visiting consultant and later submitted a voucher to obtain reimbursement for the lodging (although the voucher did accurately state the purpose of the expense). We issued a letter to Corporation management reporting our findings and the need for improved policy, training, and guidance. (96-027)

Alleged Falsification of Identity Documents - Referred to Appropriate Agencies

We completed an inquiry that disclosed evidence that fraudulent dates of birth of four AmeriCorps Members, all 16 years of age, were entered on Immigration and Naturalization Service (INS) forms by an employee of a Corporation grantee. We also found evidence that this same employee altered the date of birth of one of the four AmeriCorps Members on a copy of the AmeriCorps Member's state driver's license. We referred the falsification of INS documents to the INS and we referred the alteration of the state driver's license to state authorities. The Corporation did not renew the funding for this program. (95-21)

Alleged Criminal Misconduct - Referred to IRS

We received allegations that a Corporation employee was involved in misconduct that involved income tax fraud. We conducted a preliminary inquiry and subsequently referred the information regarding the alleged income tax fraud to the Internal Revenue Service (IRS). We found no additional evidence of criminal misconduct. (96-039)

OTHER SIGNIFICANT MATTERS

In December 1996, the Corporation's former Acting Executive Director notified the OIG of an alleged conflict of interest situation and possible unauthorized expenditure of grant funds involving a grantee in Puerto Rico. From the documents provided by the Corporation official, it appeared that in a letter dated June 18, 1996, the program director for the grant informed the Corporation's program officer of the alleged conflict of interest situation. There was nothing to indicate why six months elapsed before the OIG was notified of the alleged conflict of interest, nor was there anything to indicate what, if any, actions were taken by the Corporation during the six-month period.

The allegation concerning the "unauthorized expenditure" of grant funds appeared to involve a *failed attempt in December 1995 by Corporation staff* to restrict advances of grant funds made to the grantee by the Department of Health and Human Services. However, there was nothing to reflect what actions, if any, the Corporation undertook to ensure the grantee was unable to obtain unapproved advances, after the Corporation placed a hold on the grantee's "Payment Management Account."

In January 1997, we informed the Corporation's Chief Executive Officer (CEO) of the aforementioned six-month delay in reporting allegations of impropriety to the OIG, and of the failed attempt to stop payment to a grantee. We requested that the CEO direct the appropriate Corporation staff to provide, in writing, all measures they have taken regarding the alleged conflict of interest situation and the unauthorized advances of grant funds to the grantee, or a statement that they have done nothing to address or resolve the allegations. In February 1997, we repeated this request to the Corporation's Acting Chief Operating Officer. At the close of this reporting period the requested information had not been provided. On April 9, 1997, we again requested a report from management on these matters. We are holding further action by our office in abeyance pending receipt of the requested information.

STATISTICAL SUMMARY OF INVESTIGATIONS

Opened and Closed

Number of Cases Open at Beginning of Reporting Period.....	26
Number of New Cases Opened During This Reporting Period.....	17
Number of Cases Closed During This Period With Significant Findings.....	8
Number of Cases Closed During This Period With No Significant Findings.....	17
Total Cases Closed This Reporting Period.....	25
Number of Cases Open at End of Reporting Period.....	18

Referred

Number of Cases Referred for Prosecution During This Reporting Period.....	3
Number of Cases Accepted for Prosecution During This Reporting Period.....	0
Number of Cases Declined for Prosecution During This Reporting Period.....	4 ³
Number of Cases Pending Prosecutive Review.....	1 ⁴

³ Includes one case presented for prosecution during a previous reporting period and declined during this reporting period.

⁴ Pending from previous reporting period.

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 we are to include in our Semiannual Reports, should specifically address the impact of the legislation and regulations on the economy and efficiency of the administration of the Corporations' programs and operations. The OIG is also to make recommendations in its Semiannual Reports concerning the impact of the legislation and regulations on the prevention and detection of fraud and abuse in programs and operations administered or financed by the Corporation.

REAUTHORIZATION OF CNS PROGRAMS

Under the National and Community Service Act of 1990, as amended, and the Domestic Volunteer Services Act of 1973, as amended, Congress must reauthorize the Corporation's programs before the end of fiscal year 1997.⁵ To date, there has been no specific legislation proposed to reauthorize Corporation programs. However, on March 27, 1997, the Corporation issued a "discussion draft" of a document entitled "Reauthorization of National Service Legislation: Major Issues and Proposals for Discussion."

The discussion draft reflects the results of the Corporation's internal deliberations and discussions with outside parties on issues that it should raise with the Congress in the context of seeking reauthorization. The Corporation issued the discussion draft to allow interested parties the opportunity to express their views on certain key issues and possible legislative options raised in the discussions held to date. The Corporation grouped the issues and options included in the draft under four general categories: Goals of National Service; Program Structures for the Delivery of National Service; Program-Specific Issues; and Administrative and Other Issues. The Corporation also stated that a fifth category of issues raised by interested groups would be added later.

Under our responsibility to review proposed legislation under section 4(a)(2) of the Inspector General Act, we have reviewed the legislative options included in the discussion draft. Based on that review, and on the work we have conducted in reviewing the Corporation's programs and operations, we have the following comments and recommendations concerning reauthorizing CNS's programs.

⁵The National and Community Service Trust Act amended the National and Community Service Act of 1990 and authorized appropriations for the covered CNS programs through fiscal year 1996. In addition, the National and Community Service Act, 42 U.S.C. 12641, makes the provisions of 20 U.S.C. 1226a applicable to the Corporations' authorizing statute. Section 1226a provides for an automatic one-year extension of authorization of any covered program, unless the Congress enacts a law reauthorizing or repealing the prior authorization.

Fixed Grant Amounts for AmeriCorps Programs

The Corporation currently expends significant resources in the process of negotiating detailed budgets and final grant amounts for many of its AmeriCorps*State and National Direct programs. To reduce this administrative burden, the Corporation is considering asking the Congress to allow it to fix maximum and average amounts per AmeriCorps Member that may be awarded to each program. The actual amount of awards would then be determined based on the number of AmeriCorps Members each program is allowed and the funding allowed per AmeriCorps Member subject to the maximum and average cost requirements.

We agree that a fixed grant approach would improve the efficiency of the Corporations' grant award processes. In addition, a fixed grant approach would ameliorate some of the compliance problems noted in our AmeriCorps program audits. Our audit work has shown that some AmeriCorps programs, particularly those with little experience with Federal grants, have difficulty in complying with Federal grant management requirements. These problems often occur in regard to properly supporting the costs charged to AmeriCorps program grants. AmeriCorps grants of a fixed amount for each AmeriCorps Member would not be subject to Federal cost principles. Therefore, AmeriCorps programs would not have as many difficulties in complying with the requirements applicable to their grants.

However, if AmeriCorps program grants are no longer going to be subject to Federal cost principles, the Corporation will have to adopt some other means of holding AmeriCorps grantees accountable for their use of the Corporations' grant funds. To achieve this accountability, we recommend that the Corporation require each program to establish measurable performance goals that will be achieved through their AmeriCorps grant, and use the extent to which programs achieve their performance goals as a means to assess whether programs should continue to be funded.

Learn and Serve America National Service Scholars

In 1997, the Corporation began a new program of offering \$500 matching scholarships for high school juniors and seniors students who have been active in community service for at least a year. A matching scholarship is available to a single student at each high school, who will be selected by the school's principal. The Corporation is considering asking the Congress to allow the National Service Trust to be used to finance this program.

On March 10, 1997, we issued OIG Report 97-27, *Audit of the National Service Trust Fund Fiscal Year 1995 and 1994 Financial Statements*. In that report, the auditors stated that they were unable to express an opinion on the Trust Fund's financial statements. One of the principal reasons that the firm was not able to express an opinion was that the Corporation did not maintain sufficient accounting records regarding its liability for post-service education benefits that the Trust will be required to pay. Until the Corporation is able to produce and maintain auditable accounting records to support the amount of this liability, the Corporation and the

Congress will not have reliable information about the extent of any surplus within the Trust Fund. We recommend that the Corporation develop a reliable estimate of the surplus, if any, in the National Service Trust Fund before using present Trust Fund balances to finance new initiatives. Until then, new initiatives should be financed through other funding sources.

Program Structures for the Delivery of National Service

Based on its discussions with interested parties so far, the Corporation has identified a need to increase collaboration between the Corporation's service programs (AmeriCorps*State, National Direct, and VISTA; Learn and Serve America; and the programs of the National Senior Service Corps). The Corporation also identified the need to reduce the confusion and administrative burdens on organizations seeking the Corporation's assistance under these programs, and to increase the efficiency and effectiveness of the Corporation's own operations.

To address these needs, the Corporation is considering asking the Congress to consolidate the administrative structures for its programs within each state. Currently, AmeriCorps*VISTA and National Senior Service Corps programs within each state are administered by a Federal agency office (a Corporation State Office) while AmeriCorps*State programs are administered by a state agency (the State's Commission on National and Community Service). The Corporation is considering several options to consolidate these two offices within each state, generally by transferring greater responsibility to the various State Commissions. Through consolidating the offices, the Corporation hopes to increase collaboration among the various programs, simplify the processes for applicants seeking financial assistance for their service programs, and reduce the resources devoted to administration of the Corporation programs in each State.

In considering various options, we recommend that the Corporation pay particular attention to how consolidating its State Offices and State Commission operations will affect the oversight of Corporation - handled programs in each State. The Corporation State Offices have been overseeing the performance of VISTA, Foster Grandparents, Senior Companions and RSVP programs for as long as 30 years. In contrast, the State Commissions have been administering AmeriCorps programs in their States only since 1994. As part of any efforts to consolidate its field structure, we recommend that the Corporation perform an assessment of its oversight practices for both National and Community Service Act and Domestic Volunteer Service Act programs, and compare them to oversight practices at other Federal agencies. The Corporation should then incorporate the best practices identified in the assessment as part of its oversight and monitoring efforts.

The Corporation's Status as a Government Corporation

The National and Community Service Act of 1993 created the Corporation for National and Community Service as a wholly-owned government corporation under the Government Corporation Control Act (31 U.S.C. 9101 to 9110). Generally, government corporations have been created when the Federal government needed an instrumentality to engage in business-like

operations, such as providing insurance or selling goods or services. Furthermore, through their commercial-type operations, government corporations are able to achieve a significant part of their operating fund requirements through revenue-generating activities. Because of these differences from other Federal agencies, which must rely almost exclusively on Congressional appropriations for their operating fund needs, government corporations were given the authority to set up business-type budgets, were given greater flexibility in managing their operations, and were required to prepare annual management reports including audited business-type financial statements.

However, the central role and functions of the Corporation are unlike other government corporations. The Corporation is principally a grant-making and program oversight agency, much like many other Federal agencies. Although it has the authority to solicit and accept donations, the corporation does not engage in business-like operations that produce regular revenue, operations are financed by appropriations. Moreover, the Corporation has been unable to comply with the requirement to prepare and submit an annual management report with audited financial statements.

Accordingly, in reauthorizing National and Community Service Act and Domestic Volunteer Service Act programs, we suggest that the Congress reconsider the Corporation's status as a government corporation. While being a government corporation has given the Corporation some greater flexibility in managing its operations, it does not need to be a government corporation to be given this flexibility. In establishing the Corporation as an independent Federal agency, the Congress would be able to establish the specific type of performance goals, measures of success, and oversight and accountability reporting that would best suit its needs, rather than relying on those established for government corporations.

REVIEWS OF CNS PROGRAM GUIDANCE

Section 4(a)(2) of the Inspector General Act only requires OIG to review the Corporation's existing and proposed regulations. However, the Corporation has adopted the practice of using less formal means than regulations to impose requirements, issue instructions, and provide guidance to its grantees. These more informal means (including Notices of Funds Availability, Policy Statements, Program Guidelines, Grant Application Instructions, Grant Provisions, Updates, Memoranda and other documents) often affect the Corporation programs and grantee operations as significantly as regulations included in the Code of Federal Regulations. Accordingly, OIG has asked Corporation management to give OIG the opportunity to review and comment on all documents intended to set or reiterate policies regarding the Corporation programs and operations. Between October 1, 1996 and March 31, 1997, OIG reviewed a number of Corporation policy-setting documents including the guidelines and application instructions for the AmeriCorps and Learn and Serve grants. OIG will continue reviewing these draft policy-setting documents and will include recommendations in future Semiannual Reports as required under section 4(a)(2) of the Inspector General Act.

TABLE I
INSPECTOR GENERAL REPORTS WITH QUESTIONED COSTS

		Federal Costs	
		Number	Questioned Unsupported
		<i>(Dollars in thousands)</i>	
1.	For which no management decision has been made by the commencement of the reporting period	22	\$1,766 \$1,199
2.	Which were issued during the reporting period	<u>4</u>	<u>1,296</u> <u>65</u>
3.	Subtotals (1 plus 2)	26	3,062 1,264
4.	For which a management decision was made during the reporting period	1	4 0
(i)	dollar value of disallowed costs		1 0
(ii)	dollar value of costs not disallowed	<u>—</u>	<u>3</u> <u>0</u>
5.	For which no management decision has been made by the end of the reporting period (3 minus 4)	<u>25</u>	<u>\$3,058</u> <u>\$1,264</u>
6.	Reports with questioned costs for which no management decision was made within six months of issuance	20	\$1,762

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		
-- 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	Report Title	Federal Dollars Questioned (in thousands)	Mgmt. Decision Due*	Status of as March 31, 1997
94-02-37	Senior Service Corps, Inc.	1	12/18/94	1
94-09-60	Fresno Adult Literacy	2	4/5/95	1
95-27	Commonwealth of Kentucky	1	3/24/96	1
96-01	Review of the New Orleans Youth Action Corps	46	9/1/96	2
96-02	Review of the Woodrow Wilson National Fellowship Foundation	273	8/4/96	2
96-04	Review of the Arizona-Mexico Commission/Border Volunteer Corps	189	6/2/96	2
96-05	Review of the National AIDS Fund	0	8/8/96	2
96-06	Review of the National Center for Family Literacy	234	2/17/96	2
96-07	Review of The Arc of the United States	12	12/3/96	2
96-08	Review of the National Association of Community Health Centers, Inc.	0	12/11/96	2
96-10	Review of the 1994 AmeriCorps National Direct Grant Award Process	N/A	9/1/96	2
96-11	Review of the Home Instruction Program for Preschool Youngsters, USA	0	1/28/97	2
96-12	Audit of Northwest Service Academy	90	3/17/97	2
96-14	Review of the Council of Great City Schools	0	9/17/96	2
96-16	Audit of Greater Miami Service Corps	625	1/3/97	2
96-20	Audit of Public Allies	14	9/23/96	2

* Under Federal regulations a final management decision must be made within 6 months of the final report's issuance.

Status

- 1 Proposed Management Decision (PMD) not received.
- 2 PMD was not received until March 1997; PMD is currently under review.
- 3 PMD was not accepted; further action is required by CNS.

TABLE III
SUMMARY OF AUDITS WITH OVERDUE MANAGEMENT DECISIONS
Continued

Report Number	Report Title	Federal Dollars Questioned (in thousands)	Mgmt. Decision Due*	Status of as March 31, 1997
96-21	Audit of ACORN Housing Corporation	61	9/25/96	2
96-28	Review of Local Initiatives Support Corporation	76	7/16/96	2
96-29	Review of the National Council of Educational Opportunity Associations	36	3/25/97	2
96-31	Pre-Audit Survey of CNS Grants Process	N/A	9/16/96	3
96-32	Pre-Audit Survey of CNS Procurement Process	N/A	9/16/96	3
96-33	Audit of East Bay Conservation Corps	0	11/12/96	2
96-34	Audit of Georgia Department of Community Affairs	48	10/23/96	2
96-35	Audit of Montana Conservation Corps, Inc.	0	11/4/96	2
96-36	Audit of CNS' FY 94 Financial Statements	N/A	9/11/96	3
96-37	Review of I Have a Dream Foundation	4	11/9/96	2
96-38	Auditability Study	N/A	9/25/96	3
96-39	Audit of Los Angeles Conservation Corps	27	12/22/96	2
96-41	Review of the Oneida Indian Nation	12	2/5/97	2
96-43	Review of the Mid-Atlantic Network of Youth & Family Services Network	5	2/5/97	2
96-51	Review of Bowie State University	<u>6</u>	9/26/96	2
	Total	<u>\$1,762</u>		

* Under Federal regulations a final management decision must be made within 6 months of the final report's issuance.

Status

- 1 Proposed Management Decision (PMD) not received.
- 2 PMD was not received until March 1997; PMD is currently under review.
- 3 PMD was not accepted; further action is required by CNS.

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

Report Number	Title	Date Issued	Final Action Due*	Final Action
96-01	Review of the New Orleans Youth Action Corps	3/05/96	3/06/97	Final Action has not been reported.
96-10	Review of the 1994 AmeriCorps National Direct Grant Award Process	3/05/96	3/06/97	``
96-14	Review of the Council of Great City Schools	3/12/96	3/13/97	``
96-20	Audit of Public Allies	3/27/96	3/28/97	``
96-21	Audit of ACORN Housing Corporation	3/29/96	3/30/96	``
96-31	Pre-Audit Survey of CNS Grants Process	3/20/96	3/21/97	``
96-32	Pre-Audit Survey of CNS Procurement Process	3/20/96	3/21/97	``
96-36	Audit of CNS' FY 94 Financial Statements	3/15/96	3/15/97	``
96-38	Auditability Study	3/29/96	3/30/97	``

* Under section 6009 of the Federal Acquisitions Streamlining Act, CNS must take final corrective action on recommendations made in OIG reports, issued after February 10, 1996, within one year of the date of issuance. OIG must include information about those audit reports in its Semiannual Report when CNS has not completed corrective action on the audit findings and recommendations within this timeframe.

INDEX TO REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL

IG Act Reference*	Reporting Requirement	Page
Section 4 (a)(2)	Review of Legislation and Regulations.	17
Section 5 (a)(1)	Significant problems, abuses, and deficiencies related to the administration of CNS programs and operations.	9, 11
Section 5 (a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies found in the administration of CNS programs and operations.	10, 12
Section 5 (a)(3)	Prior significant recommendations on which corrective action has not been completed.	25
Section 5 (a)(4)	Matters referred to prosecutive authorities.	16
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.	8
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.	21
Section 5 (a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	22
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.	23
Section 5 (a)(11)	Significant revised management decisions.	N/A
Section 5 (a)(12)	Significant management decisions with which the Inspector General disagrees.	N/A

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

Response to the Semiannual Report to Congress

CORPORATION

FOR NATIONAL



S E R V I C E

October 1, 1996 - March 31, 1997

CNS Semiannual Report Number 7

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 - 6
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

RESPONSE TO OIG'S SEMIANNUAL REPORT TO CONGRESS

Introduction

This Response is to the Office of the Inspector General's (OIG) Semiannual Report to the Congress for the period ending March 31, 1997. It discusses management decisions made and final actions taken in response to audits issued by the Office of the Inspector General, and it provides additional information related to certain concerns expressed in the OIG Report. This Response is submitted in conformity with the requirements in the Inspector General Act of 1978, as amended.

Authorized under the National and Community Services Trust Act of 1993, the Corporation engages Americans of all ages and backgrounds in community-based service to help meet the Nation's educational, environmental, public safety, and other human needs. The Corporation is working to harness the talent, energy, and commitment of America's citizens through three major programs: AmeriCorps, Learn and Serve America, and the National Senior Service Corps.

During the reporting period:

Management decisions were made for three audits and final actions were taken on three audits, which resulted in a recovery of \$9,000.

Three audit reports with disallowed costs continued to be open more than a year after a management decision was made. One report was with the Department of Justice for action; the other two reports have been referred to collection agencies.

During February and March of 1997 the Corporation completed and submitted Proposed Management Decisions for 24 of the 31 audit reports that were required to have been submitted to the Office of the Inspector General prior to March 31, 1997. These Proposed Management Decisions involved audit reports dating back to early 1996 and included required submissions through the current reporting period. The seven audit reports still outstanding are currently being processed and submission of proposed management decisions on these items is expected early in the next reporting period. We have established procedures to enable us to respond to audits within the appropriate timeframe, and we are monitoring the process. Our goal and commitment is to be current during the next reporting period.

None of the audit reports issued during the period involved a recommendation that funds be put to better use. The single unresolved audit report involving funds to be put to a better use was resolved during the prior reporting period.

As noted by the OIG, the Corporation is mindful of its responsibilities to prepare annual financial reports as required by the Government Corporation Control Act and to prepare assessments of its overall management controls structure. The Corporation could not meet the stated deadlines because it was essential to complete account reconciliations before reasonable account balances could be produced. Currently, the Corporation plans to complete its 1995 financial statements by June 15, 1997, and to complete its 1996 financial statements by September 1, 1997. The Corporation is aware of the requirement to complete assessments of internal accounting and administrative control systems and will comply with it.

As part of its Report, the OIG provided additional commentary on the operations of the Corporation. These observations and recommendations covered issues involving Auditing Activities, a Congressional Request, Financial Management Issues Related to CNS Grantees, Investigations, Other Significant Matters, and Review of Legislation and Regulations. Our comments on those sections of the Report follow. In each case we have referred these matters to the responsible departments within the Corporation for consideration, action or resolution as appropriate.

AUDITING ACTIVITIES

The Corporation continued its efforts to resolve management control issues which were identified in the Auditability Survey (OIG 96-38) which was conducted under the direction of the OIG in a prior reporting period. A partial assessment of the effectiveness of the Corporation's actions to resolve these control issues was completed during this reporting period. The results of this survey disclosed that a number of improvements had been made in correcting these deficiencies. A significant effort still remains before all of the necessary management control corrections are complete and the Corporation is able to submit audited financial statements as required. Those efforts at improvement are continuing at this time. A follow-up survey that is scheduled to be completed during the next reporting period will reflect significant improvements in this area. However, because the deficiencies existed throughout the 1996 fiscal year, the Chief Financial Officer (CFO) of the Corporation agrees with the Inspector General's (IG) judgment that it would serve no useful purpose to seek an audit of 1996; instead, a plan has been implemented to do significant work on achieving solid ending balances on the Corporation's books at the end of 1996 so that the Corporation can seek an audit of the 1997 financial statements.

In January 1997, the OIG issued its final audit report on the financial statements of the National Service Trust Fund for fiscal years 1995 and 1994. The report identified a number of problems within the financial operations of the Trust Fund including difficulties in reconciling data within the Trust Fund System database and inadequate system controls over data entry, as well as an inability of the Corporation to appropriately support its determination of the Trust Fund's service award liability and expense. These are the same types of problems, and are for the same audit period, which resulted in the Corporation's not obtaining audits of its regular financial statements. At the present time, the Corporation is actively working to correct these deficiencies. Specifically, the Corporation has:

- Drafted a statement of work to create computer images all of the paper associated with the Trust to address the need for better filing, and is seeking technical advice on this system.
- Identified changes needed in the Trust data system and completed about 75 percent of those changes. The remaining changes are scheduled to be completed in the next two months.
- Identified software, developed by the Overseas Private Investment Corporation, to track our investment portfolio and provide reports needed for the financial statements.
- Tightened access to the Trust system.
- Refined procedures for estimating the Trust Fund's liability and completed a new estimate of Trust liability using data as of February 26, 1997. That data have been frozen for later audit.

The Corporation's CFO has decided not to seek a separate audit of the Trust Fund in future years. The activities of the Trust Fund will be included with the audit of the 1997 financial statements. The reports required to be submitted to the Congress on Trust Fund receipts and expenditures for the preceding fiscal years are currently being prepared and will be submitted with the Corporation's Annual Reports.

CONGRESSIONAL REQUEST

The Corporation appreciates the information provided to it as a result of the OIG's review of the Presidio Leadership Center (PLC). We have enhanced controls over the review and acceptance of participants in the programs, and we are improving our ability to know and record the costs associated with PLC's operations and training activities.

FINANCIAL MANAGEMENT ISSUES RELATED TO CNS GRANTEES

The Corporation continues to review its grants processes with a view toward streamlining procedures and ensuring that appropriate controls remain in place. Currently, the National Academy of Public Administration (NAPA) has been engaged to review certain operations at the Corporation, and they have been asked to review the entire grants process and make recommendations for improvement. We are committed to implementing suggestions that will enhance and strengthen our grants process.

At present, it would be premature to comment on the specific resolutions of the various audit comments and recommendations until the respective auditees have had an opportunity to respond and a management decision has been made specifying the final, mutually agreeable determination of the required corrective actions.

We are currently implementing a computerized audit follow-up tracking system as suggested by the OIG. We are collecting relevant data and will systematize it over the next few months.

Under the Corporation's follow-up system, the recipient of an audit has an opportunity to provide management with comments or additional information on audit findings. Management reviews the comments and provides the OIG with a proposed management decision, which is an evaluation of the weaknesses and recommendations identified in the audit report, as well as proposed actions to correct the deficiencies. This part of the audit resolution process may take up to 100 days. The proposed management decision becomes a final management decision upon concurrence by the OIG, a process that is to be completed within six months of an audit report being issued. The audit report is resolved, or closed, when all corrective actions have been completed.

In the area of administrative costs, the CFO and the IG have been working together to resolve differences and to come to an agreed-upon definition of what should be included in this category. The Corporation is pleased that the OIG has brought in a consultant to assist in this process. Both the CFO and the IG agreed not to penalize the grantees for following previous procedures, and there is an on-going, joint project to revise the guidelines to clarify this issue. The Corporation is committed to resolving this matter.

INVESTIGATIONS

The Corporation is committed to taking appropriate actions upon the completion of investigations conducted by the OIG.

OTHER SIGNIFICANT MATTERS

On April 24, 1997, the Corporation responded to the OIG's requests for a management report regarding the grantee in Puerto Rico. It is our understanding that the OIG has now opened an investigation into this matter. The Corporation will continue to

research ways to ensure that our practices do not allow unauthorized advances of grant funds to be made and that we guard against potential conflict-of-interest situations.

REVIEW OF LEGISLATION AND REGULATIONS

The OIG has offered suggestions in a number of areas related to legislation and regulations. Below are comments on several of those areas.

Reauthorization. The OIG has chosen to comment on an early discussion paper on possible proposals for a reauthorization bill. The draft bill currently being considered with the Administration bears only a partial resemblance to the discussion draft. The Corporation does not wish to comment on any discussion draft and believes the issues raised by the OIG should be addressed when a draft bill is finished.

Learn and Serve America National Service Scholars. The OIG has offered the opinion that the President should not have included the proposal for the National Service Scholars program supported from the National Service Trust in the 1998 Budget because the auditors were not able to offer an opinion about the Corporation's 1994 and 1995 financial statements for the National Service Trust. The Corporation has changed its methodology for assessing the liability in the Trust and has a good understanding of this liability. The President's proposal can be supported with the amounts requested for the Trust. Congress appropriates funds for a number of organizations, including the Department of Defense, for which audited financial statements are not available.

Corporation's Status as a Government Corporation. The OIG has asserted that the Congress would be better able to establish specific performance goals and accountability reporting if the Corporation were to become an independent Federal Agency rather than a Federal Corporation. We continue to believe the government corporation status improves our ability to manage the authorized programs and better reflects the public-private partnership of much of what we do.

The policy-setting document reviews conducted by the OIG have been most helpful to the Corporation.

* * * * *

Management Decisions and Final Actions

During the reporting period, three management decisions were finalized, reflecting \$10,291 in disallowed costs. Also, final actions were taken on three reports that were outstanding in the Audit Resolution Tracking System (Table 1).

Audits With Management Decisions and Recommendations to Put Funds to Better Use

There were no audit reports with recommendations to put funds to better use (Table 2).

Audits With Disallowed Costs That Had No Final Action Within a Year of a Management Decision

Table 3 shows the three audit reports with disallowed costs that had not received final action within a year of the management decision. All of these reports will receive final action within the subsequent reporting period.

Management Decisions not Made Within Six Months

The OIG's Semiannual Report for this period identified thirty-one audit reports for which management decisions had not been made within six months of the audit report being issued. As discussed previously, proposed management decisions for 24 of these reports were submitted to the OIG during the months of February and March 1997 and are presently awaiting final resolution. Four of the remaining reports are part of the ongoing auditability issues which are currently in resolution and the remaining three are under review at this time as to an appropriate resolution of these relatively old items. We expect to resolve these issues in the next reporting period.

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

(for the period October 1, 1996 - March 31, 1997)

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

Table 2.

FINAL ACTION TAKEN ON AUDIT REPORTS WITH DISALLOWED COSTS

(for the period October 1, 1996 - March 31, 1997)

	<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, 1996.	13	259.6*
B. Audit reports upon which management decisions were made during the six-month reporting period.	3	10.3
C. Total audit reports with management decisions upon which final action was pending during the reporting period (total of A and B).	16	269.9
D. Audit reports upon which final action was taken during the reporting period (total of D.1. through D.4.).	3	35.2
1. Recoveries		
(a) Collections and offsets	1	9.0
(b) Property in lieu of cash	0	0
(c) Other (Reduction of questioned costs)	0	26.2
2. Write-offs	0	0
3. Audits with no disallowed costs	2	0
4. Adjustment to disallowed costs resulting from a new, close-out audit which superseded an earlier audit report	0	0
E. Audit reports with management decisions upon which no final action had been taken as of March 31, 1997.	13	234.7**

* 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 an adjustment of \$14.8 from the previous report.

** Of this amount, \$182.0 has been referred to the Department of Justice for collection.

Table 1.

**Audits With Disallowed Costs That Had No Final Action
Within One Year of a Management Decision
(as of March 31, 1997)**

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

<u>Audit Number</u>	<u>Auditee</u>	<u>Management Decision Date</u>	<u>Amount of Disallowed Costs</u>	<u>Reason No Final Action Was Taken by September 30, 1995</u>
89-41	Labor Agency of Metropolitan Washington D.C.	3/23/90	\$182,001	Debt was forwarded to the Department of Justice on January 16, 1992
90-R21-31	Seneca Center, Inc.	10/15/90	\$ 9,230	Debt was placed with a private collection agency
96-09	Okiciyapi	3/12/96	\$ 29,631	Debt was placed with a private collection agency

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

Table 3