CORPORATION
FOR NATIONAL
SERVICE

December 7, 1998

The Honorable Albert Gore, Jr.
President of the Senate
Washington, DC 20510

The Honorable Newt Gingrich
Speaker of the House of Representatives
The Capitol
Washington, DC 20515

Dear Mr. Vice President and Mr. Speaker,

I hereby transmit the Inspector General's Semi-Annual Report to the Congress along with the Corporation's Report of Final Action, as required under Section 5 of the Inspector General Act. These reports cover the six-month period from April 1, 1998, to September 30, 1998. During this period, the Corporation made management decisions on 10 audits and took final action on 6 audits. Tables I, II, and III contain the information required by the Act regarding these audits and the status of final actions by management on audits. As mentioned in the Inspector General's report, the Corporation continues to make progress in reducing the backlog of overdue audits.

The Corporation also continues to make progress to improve financial management and correct previously reported conditions. Our progress and plans are described below and follow the order of presentation in the Inspector General's report.

Financial Management

Auditability Assessment of the Corporation at September 30, 1997, Report 98-23. We are pleased that this auditability assessment of the Corporation concluded that the 1997 Statement of Financial Position could be audited, demonstrating that the Corporation has made significant progress to improve its financial management. Subsequent to that report, the Corporation received a qualified opinion on the 1997 Statement of Financial Position. This is an important milestone in the Corporation's continued efforts to achieve an unqualified opinion on its full set of financial statements.

One of the most critical tasks facing the Corporation is implementing the new financial management system. A new system is needed to (1) correct and establish an operating environment that will permit accurate and timely collection and reporting of financial data; and (2) achieve Year 2000 compliance. On November 25, 1998, the Corporation completed its

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review of potential financial management systems and selected a new system – American Management Systems' (AMS) Momentum package. Through a cross-servicing agreement with the Department of the Interior's National Business Center, we are working to implement the new system by June 1999. The National Business Center, along with staff from the software developer and Corporation staff, will provide support to the Corporation as the system is installed and implemented. Enhanced control and the successful implementation of the financial management system is one of the Corporation's top priorities.

Audit of the Corporation's Procurement and Contracting Processes, Report 98-24, revealed a number of deficiencies in the Corporation's procurement and contracting processes. The findings demonstrated a need for management intervention, and the Corporation has already begun to take the steps necessary to remedy the deficiencies noted. For example, the audit questioned the Corporation's use of personal service contracts. Prior to the audit report, the Corporation had initiated action to address this matter. Corrective actions are on-going, and as of December 31, 1998, the Corporation's contract for administrative support services will expire and the Corporation will not renew it. Administrative support staff are being hired directly by the Corporation through appropriate personnel actions.

The Corporation agrees with the Inspector General that a systematic program of training for staff on procurement policies and procedures is needed and that we can make better use of technology in our procurement process. The Corporation will reach a management decision by the March 1999 deadline and is committed to implementing all corrective actions by the September 30, 1999, deadline. The Corporation takes these findings seriously and is committed to strengthening management controls to minimize vulnerability to fraud, waste, and abuse.

Review of Corporation Budgetary Controls, Report 98-12. This report recommended that the Corporation (1) implement a cost accounting methodology that allows the Corporation to assign indirect and overhead costs to its programmatic activities based on acceptable managerial cost accounting principles; and (2) establish and monitor controls to ensure that (expenditure) amounts input into the general ledger are complete and accurate and performed in a timely manner.

These recommendations can be implemented after we install the new financial management system. The new system is able to assign costs to organizational as well as functional classifications, track all budgetary accounts from appropriations through commitments, obligations and expenditures, and post transactions for reporting purposes on a near real time basis. The allocation of administrative cost to program areas will be considered during fiscal year 2000 for use during fiscal year 2001 and beyond.

Review of the Corporation's Reconciliation and Adjustment of FY 1995 Fund Balance with Treasury, Report 98-18. In the discussion of this report, the semi-annual report pointed out that the Corporation is responsible for managing and reporting on funds appropriated to and awarded as grants under the former Commission on National and Community Service. As of September 30, 1998, most Commission grant funds have been canceled because the five-year period of availability of obligation had been reached. The Corporation has deobligated

unliquidated balances in the HHS Payment Management System on Commission grants. Procedures have been developed for making any payments to Commission grantees for which we have a continuing responsibility to fund post service awards to former program participants. Because some grantees had award availability terms of up to seven years, there may be some continuing liability for such payments through fiscal year 2003. In addition, the Corporation developed procedures for closing out these grants and began that process during the summer of 1998.

In that same discussion, the Inspector General re-emphasized the Corporation's need to assure that controls over the maintenance of accurate appropriations information in its accounting and other records are working effectively. The Corporation shares that concern. Reconciliation continues to be a major effort for the Corporation. Reviews of Treasury balances are continually in progress and adjustments are made as soon as resolutions are reached. In addition, a new allotment identifier has been assigned for cost share funding as of the beginning of FY 1999. This will reduce some of our difficulties in reconciling by appropriation even before we implement the new financial system. The timeliness of reconciliations will be improved with the new financial system because the Corporation's financial accounting operations will be able to feed into a single, integrated system. The system will interface with all subsidiary accounts and all financial transactions will be captured.

Computer Operations

As recommended by the Inspector General in its **Assessment of Computer Difficulties Associated with the Year 2000, Report 98-20**, the Corporation established a Year 2000 Steering Committee to provide direction and oversee the work of the Year 2000 project team. We have also put in place a Year 2000 Users Group, which includes a representative of the Office of the Inspector General, that works directly with the Year 2000 project team members to identify Corporation applications, systems, and equipment and make them Year 2000 compliant.

The Corporation identified 26 mission critical systems, including hardware platforms, system software, and application systems and has almost completed assessing and testing the hardware and system software to determine compliance with Year 2000 standards. Most, but not all of the systems listed as mission critical are compliant. Major challenges include replacing the current Domestic Volunteer Service Act grant award module; completing known upgrades for software and communications equipment; completing minor corrections to vendor supplied software; and continuing to help offices and staff resolve remaining problems with local applications. The Corporation's Y2K project team developed an action plan and is reporting to the Steering Committee and management regularly on progress. In addition, replacing our financial accounting system with a new, fully Year 2000 compliant financial system will solve our most pressing Y2K problem.

As the Inspector General noted in her report, independent verification and validation is an important area that needs attention. We believe that our testing of compliance has been adequate, but we have not had the resources to follow-up with independent quality assurance reviews. We

will conduct independent verification and validation of certain of our systems on a risk-based approach during FY 1999.

Grants Management and Oversight

Assessment of AmeriCorps Service Hour Reporting, Report 98-19. The Corporation shares the concerns described in this report related to the proper accounting of AmeriCorps member service hours on which the award of education benefits is based. Programs are responsible for maintaining accurate records of service hours performed by AmeriCorps members and reporting them to the National Service Trust. The audit identified several problems related to the accuracy of service hour reporting and data entry. This problem was made more difficult by the indirect relationship the Corporation has with the programs -- they are sub-grantees, not grantees. Our grantees are the state commissions and national, non-profit organizations that sub-grant program funds to local agencies and governments. The Corporation works through those grantees to resolve problems. Therefore, the Corporation is focusing its training and oversight efforts on strengthening the capacity of its grantees -- the state commissions and national non-profit organizations -- to monitor and ensure proper documentation of member service hours by their sub-grantees. The Corporation has also revised its site visit protocols to ensure that program officers examine and focus on service hour reporting issues when they conduct monitoring visits to grantees.

The Corporation is emphasizing member hour issues at its forthcoming grantee conference and is considering the issues raised in the audit report as to needed revisions to its requirements for member documentation of citizenship and service hour records and the certifications to the Corporation's Trust of education awards earned.

In addition, a system to transmit member enrollment rosters by fax to the programs and states will be put in place during the second quarter of FY1999. The enrollment rosters reflect our records of membership and service for each of the programs. Currently, state commissions and national non-profit organizations receive rosters every three months to make corrections. Because of the indirect relationship with the programs mentioned above, there is too long a delay in getting corrections into our system. Transmitting these rosters electronically to both grantees and to programs will speed the process. We also plan to send enrollment letters to members early in their service to verify the information we have regarding them. If corrections are needed, members will be asked to provide needed information. The Corporation is also working with state commissions on a Internet-based reporting system that should significantly reduce data errors and speed data collection. That system is being pilot tested and will be implemented in the state commissions over the next year.

Review of Corporation Pre-Award Financial Assessment of Grant Applicants, Report 98-02. As recommended in this report, the Corporation is revising its National and Community Service Act grants management database and has linked it to the program database. The report also noted that the Grants Management Office did not maintain a current listing of grant applicants. At the present time, the Department of Planning and Program Integration is responsible for maintaining an accurate listing of grant applicants. Planning and Program

Integration is responsible for the application review process and maintains the list of rejected applicants as well as those recommended for funding. Until an integrated management information system is in place, Planning and Program Integration will continue to be responsible for maintaining this listing.

Audit Resolution

As reported by the Inspector General, the Corporation has made progress in resolving open audits. In addition to the progress noted in the Inspector General's report, we have continued to decrease the number of overdue management decisions. Of the three overdue audits listed in Table III (Summary of Audits with Overdue Management Decisions), the Corporation transmitted management decisions to the Inspector General on all three subsequent to September 30. The backlog on corrective action has also gone down from 18 to 16. Three of the 16 reports that are awaiting final action (audits 96-16, 96-21, and 97-20) are currently under appeal. There can be no final action until the appeals are resolved. One additional audit under appeal (audit 96-04) was recently denied and is now in collection. Moreover, of the remaining 12, seven are directly related to the Corporation's financial management and control problems that will be addressed when the new financial management system is installed and through a comprehensive corrective action plan that will be submitted to Congress by December 21, 1998.

In summary, the Corporation continues to implement the necessary policies and procedures, management controls, and management practices it takes to become a high-performing organization. We are working cooperatively with the Inspector General, the Congress and our partners in national service toward that end.

We are sending copies of this report to interested Congressional committees, the Office of Management and Budget, and our Board of Directors. We will also make copies available to others on request.

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

Sincerely,

Harris Wofford

Harris Wofford

Enclosures

TABLE I

ACTION TAKEN ON AUDIT REPORTS
(for the Period April 1, 1998 - September 30, 1998)

		Number of Reports	Disallowed Costs ($000)
A.	Audit reports with final action not taken by the commencement of the reporting period April 1, 1998*	27	
B.	Audit reports issued by the OIG during the period	13	
C.	Audit reports for which final action was taken during the reporting period	6	
	1. Recoveries (a) Collections and offsets (b) Property in lieu of cash (c) Other (reduction of questioned costs)	2	$440
	2. Write-offs	0	
	3. Audits with no disallowed costs	4	
D.	Audit reports for which final action was not taken by the end of the reporting period.	34	
E.	Additional audit reports upon which management decisions were made during the six-month reporting period and for which final action is underway.	5	$201

* Includes nine audits issued during the period October 1, 1997, through March 31, 1998, for which management decisions and/or final action were not overdue.

TABLE II
AUDITS WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE
(for the period April 1, 1998 - September 30, 1998)

	Number of Audit Reports	Dollar value ($000s)
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period.	0	0
B. Audits which were issued during the period	1	$1,609
C. Total audit reports on which management decisions were made during the period.	0	0
D. Audit reports pending action during the period	1	$1,609
E. Audit reports for 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
F. Audit reports for which no management decisions were made during the reporting period	1	$1,609

TABLE III

STATUS OF AUDIT REPORTS WITH MANAGEMENT DECISIONS THAT HAD NO FINAL ACTION WITHIN ONE YEAR OF THE ISSUANCE OF THE REPORT
(As of September 30, 1998)

Audit Number	Date Issued	Title	Disallowed Costs	Status of Action/Reason No Final Action Was Taken
96-01	03/05/96	Review of the New Orleans Youth Action Corps	$31,300	In Collection
96-04	12/06/95	Review of the Border Volunteer Corps	$64,453	Appeal denied - In collection
96-16	07/09/96	Audit of Greater Miami Service Corps	$174,349	In Appeal
96-21	03/29/96	Audit of ACORN Housing	$52,068	In Appeal
96-31	03/20/96	Pre-audit Survey of CNS Grants Process	$0	Agreement has been reached with the OIG that the findings will remain open until the OIG financial audit confirms that actions were adequately implemented.
96-32	03/20/96	Pre-Audit Survey of CNS Procurement Process	$0	The management decision was accepted by the OIG 3/24/98. There is one remaining finding (handling of receiving reports) that is now also included in a more recent OIG audit report (98-23). The Corporation is continuing to work to correct this deficiency and it will be incorporated in an overall Action Plan that will be submitted to Congress by December 21, 1998.
96-36	03/15/96	Audit of CNS Fiscal Year 1994 Financial Statements	$0	The PMD, including a comprehensive Corrective Action plan to address items related to the auditability of CNS was accepted by the OIG 03/31/98. The Corrective Action Plan is being implemented and remaining items will be included as part of an overall Action Plan that the Corporation will submit to Congress by December 21, 1998.

Audit Number	Date Issued	Title	Disallowed Costs	Status of Action/Reason No Final Action Was Taken
96-38	03/29/96	Report on the Results of the Auditability Study	$0	The PMD, including a comprehensive Corrective Action plan to address items related to the auditability of CNS, was accepted by the OIG 03/31/98. The Corrective Action Plan is being implemented and remaining items will be included as part of an overall Action Plan that the Corporation will submit to Congress by December 21, 1998.
97-02	12/23/96	Oregon Youth Conservation Corps	$152,542	A proposed management decision was transmitted to the OIG on 11/2/98.
97-09	12/09/97	Follow-up Study to the Auditability Survey	$0	The PMD, including a comprehensive Corrective Action plan to address items related to the auditability of CNS, was accepted by the OIG 03/31/98. The Corrective Action Plan is being implemented and remaining items will be included as part of an overall Action Plan that the Corporation will submit to Congress by December 21, 1998.
97-12	4/11/97	Review of the National Alliance for Veteran Family Service Organizations	$0	A management decision was transmitted to the OIG on 4/18/98. All corrective action has been completed. OIG will be notified of final action by December 10, 1998.
97-20	9/30/97	Audit of the Great Miami Service Corps	$166,226	In Appeal
97-27	03/10/97	Audit of the National Service Trust Fund and FY 95 & 94 Financial Statements	$0	The PMD, including a comprehensive Corrective Action plan to address items related to the auditability of CNS, was accepted by the OIG 03/31/98. The Corrective Action Plan is being implemented and remaining items will be included as part of an overall Action Plan that the Corporation will submit to Congress by December 21, 1998.

Audit Number	Date Issued	Title	Disallowed Costs	Status of Action/Reason No Final Action Was Taken
97-29	7/14/97	Report on the Follow-up Study to the Auditability Survey	$0	Findings and recommendations in this report will be addressed as part of the Corporation's Action Plan to be submitted December 21, 1998, to the Congress.
97-30	9/3/97	Audit of the Corporation's Gift Fund	$0	All corrective action has been completed. OIG will be notified of final action by December 10, 1998.
97-31	4/30/97	Recommended Improvements to the National Service Trust Fund Operations	$0	The Corporation has completed most corrective action related to this audit. Final action will be completed with the implementation of the imaging system and a few additional final checks are completed, such as confirmation that recommendations in a risk analysis prepared for the Corporation have been implemented.