Office of the Inspector General
Corporation for National and Community Service

Semiannual Report to the Congress
for the period
April 1, 1998 — September 30, 1998

Fiscal Year 1998
Semiannual Report No. 2

As required by the Inspector General Act of 1978, as amended, this report describes our activities and accomplishments for the second half of fiscal year 1998. Section 5 of the Act requires that the Corporation's Chief Executive Officer submit this report to the Congress and the Corporation's Board of Directors within 30 days of its receipt.

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EXECUTIVE SUMMARY

AUDIT SECTION

During this semiannual reporting period, we issued 13 audit reports, including reports on the Corporation's internal control, its actions regarding Year 2000 issues, and an assessment of AmeriCorps Member service hour reporting (summaries of all audit reports issued during this period are on pages 1 through 15).

Financial Management

Our auditability assessment of the Corporation revealed that the Corporation has made improvements in internal control but significant problems continue to exist (*page 1*).

We reported that the Corporation lacks an effective procurement system and that it has not complied with all applicable statutory and regulatory requirements. Moreover, the number, nature, and significance of the audit's findings indicate that the Corporation's procurement process is vulnerable to fraud, waste, and abuse *(page 3)*.

EDP Operations

Our report on the computer difficulties facing the Corporation as the Year 2000 approaches noted that the Corporation's most critical system, its financial management system, is at risk of not being compliant in time to avoid disruptions in the Corporation's operations *(page 6)*.

Grant Management and Oversight

We evaluated the controls over AmeriCorps Member service hour reporting at 40 program sites. The report describes material management control deficiencies that increase the likelihood of errors or irregularities, including fraud, in the reporting of service hours *(page 8)*.

Audits and Reviews of Corporation Grants

Six reports on Corporation grant programs were issued during the period. Their combined total questioned costs (Federal and match) exceeded $400 thousand (*page 11)*.

Audit Resolution

The Corporation continued to make progress in reducing unresolved audit reports. The management decisions backlog continued to decline, and reports pending final action were reduced from 18 to 16 *(page 16)*.

INVESTIGATIONS SECTION

During this semiannual reporting period we received and processed 63 Hotline calls, opened 18 investigative actions, and completed 10 investigative actions. We referred three matters to the Department of Justice for a prosecutive determination and one matter to the Department of Justice for recovery of damages under the False Claims Act *(page 22)*.

We issued three reports to Corporation management documenting various conditions we found that were conducive to fraud, waste, or abuse. The reports were provided in an effort to assist management in increasing Government integrity and improving program operations and effectiveness. The referrals to management related to allegations of conflict of interest *(page 18)*, allegations of embezzlement *(page 20)*, and allegations of prohibited lobbying *(page 21)*.

IG ACT REPORTING REQUIREMENTS

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

Requirement		Page
Section 4 (a)(2)	Review of legislation and regulations.	23
Section 5 (a)(1)	Significant problems, abuses, and deficiencies related to the administration of Corporation programs and operations.	*Throughout*
Section 5 (a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies found in the administration of Corporation programs and operations.	*Throughout*
Section 5 (a)(3)	Prior significant recommendations on which corrective action has not been completed.	27
Section 5 (a)(4)	Matters referred to prosecutive authorities.	22
Section 5 (a)(5)	Summary of instances where information was refused.	*None this period*
Section 5 (a)(6)	List of audit reports by subject matter showing dollar value of questioned costs and recommendations that funds be put to better use.	17
Section 5 (a)(7)	Summary of each particularly significant report.	*Throughout*
Section 5 (a)(8)	Statistical table showing number of reports and dollar value of questioned costs.	24
Section 5 (a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	25
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.	26
Section 5 (a)(11)	Significant revised management decisions.	*None this period*
Section 5 (a)(12)	Significant management decisions with which the Inspector General disagrees.	*None this period*

AUDIT SECTION

The Office of the Inspector General (OIG) Audit Section is responsible for reviewing financial, administrative, and program aspects of Corporation operations. It carries out these responsibilities by conducting the audit of the Corporation's annual financial statements, evaluating the Corporation's management controls, and auditing specific Corporation operations. The Audit Section is also responsible for auditing grants, contracts, and cooperative agreements funded by the Corporation. All audit reports are referred to Corporation management for action or information. Additionally, the Audit Section advises and assists the Corporation in resolving audit recommendations. A list of all reports issued by the Audit Section during this period can be found on page 17.

FINANCIAL MANAGEMENT

Auditability Assessment of the Corporation for National Service at September 30, 1997 (OIG Audit Report 98-23)

The Government Corporation Control Act (31 U.S.C. 9101 *et seq.*) requires the Office of Inspector General to annually audit the financial statements of the Corporation for National and Community Service. However, as OIG has previously reported, material weaknesses in management controls and other deficiencies precluded the required audits for fiscal years 1994, 1995 and 1996. Although the Corporation has made progress toward correcting some of the conditions, during fiscal year 1997, the Corporation decided that due to the nature and significance of weaknesses that had not been corrected, only its Statement of Financial Position as of September 30, 1997, could be submitted for audit.

As part of our efforts to perform the audit, OIG engaged KPMG Peat Marwick to assess the Corporation's progress in correcting the previously reported conditions. The report concluded that, while there are still internal control deficiencies that require correction, the Statement of Financial Position could be audited. We also reported that the nature of the audit report on the statement of financial position would depend on the Corporation's ability to

- resolve the material unreconciled difference included on the fund balances with Treasury reconciliation as of September 30, 1997;

- provide adequate support for the assumptions used in estimating the service award liability for the National Service Trust;

- provide adequate support for the assumptions used in estimating grants payable and grants advances at September 30, 1997; and

- provide adequate support for the components of the liability related to former Commission grant awards administered by the General Services Administration.

During the course of this work a complete reassessment of previously identified internal control weaknesses was also performed. The remaining weaknesses were regrouped into eight process-related categories. Most notably, material weaknesses were reported in the processes related to the National Service Trust, Fund Balance with Treasury, and Payroll and Allowances. Processes related to Financial Management and Reporting, Grants Management, Revenue, and Electronic Data also require improvement.

On October 9, 1998, OIG reported[1] on the results of the Statement of Financial Position audit. In that report, the auditor's opinion was qualified because of the Corporation's inability to provide sufficient evidence to support: its methodology to estimate grant advances and grants payable or the reasonableness of amounts recorded for these line items; and the reasonableness of amounts recorded in net position as unexpended appropriations and cumulative results of operations.

The audit report also discloses material weaknesses in six financial management areas: the overall control environment that sets the tone for the organization, the National Service Trust, cash reconciliations, grants management, financial systems, and financial management. Finally, the report also discloses two areas of non-compliance with laws and regulations: the Corporation's failure to establish a system to assess its internal controls and to report in a manner consistent with the Federal Mangers' Financial Integrity Act; and the Corporation's substantial non-compliance with Federal financial systems requirements.

[1] OIG audit report 99-01, *Audit of the Corporation for National and Community Service, Statement of Financial Position, September 30, 1997.*

Audit of the Corporation's Procurement and Contracting Processes and Procedures (OIG Audit Report 98-24)

OIG engaged Cotton & Company to audit the Corporation's contract and procurement processes and procedures during the period October 1996 through February 1998. The audit's primary objectives were to determine if the Corporation had an effective procurement system in place during the period, and whether the procurement system complied with statutory and regulatory requirements applicable to the Corporation.

We concluded that the Corporation lacks an effective procurement system and that it has not complied with all applicable statutory and regulatory requirements. Further, the Corporation has inadequate procedures for contractor selection and award of contracts, contract administration, and contract monitoring and oversight. Moreover, the number, nature, and significance of the audit's findings indicate that the Corporation's procurement process is vulnerable to fraud, waste, and abuse.

Regarding procedures for contractor selection and award of contracts, the report includes 12 findings that range from violations of the Federal Acquisition Regulation (use of cost plus percentage of cost contracts, sole source contracting, and personal services contracts), to the use of internally inconsistent contract terms making contract documents confusing and difficult to enforce. In one instance, the Corporation used a contract statement of work written and used by another government agency although its requirements were different from those intended by the Corporation. In addition, the report identifies more than $1.6 million that the Corporation could save by hiring staff at the same salaries paid under contracts — the differences are due to the contractors' mark-ups for indirect costs and profits versus the government's fringe benefit rates.

Regarding procedures for contract administration, monitoring and oversight, the report identifies five areas where ineffective controls increase the Corporation's vulnerability, including —

- lack of controls over contractor payment and performance;
- inadequate review of contractor billings; and
- inadequate contract files.

Questioned costs and other cost savings in this area exceed $500 thousand.

In the report we made recommendations to improve the Corporation's management controls over procurement operations and to recover excess billings and fees from its contractors. In its response to the report, the Corporation generally agreed with the recommendations and identified steps it planned to take to address some of the deficiencies.

Review of Corporation Budgetary Controls
(OIG Audit Report 98-12)

Following up on conditions identified in previous OIG reports,[2] OIG engaged Arthur Andersen LLP to review the Corporation's budgetary controls. The primary finding in the report was that the Corporation has not implemented a cost accounting methodology to enable it to systematically allocate costs to its various activities. A cost accounting methodology is necessary if the Corporation is to quantify the costs to conduct and administer its programs and to assess their effectiveness. The report also noted that the controls over budget cuff records were not working effectively. Cuff records are manual records or personal computer-based spreadsheets maintained by individual offices outside the control of the Corporation's financial management system. Budget officers maintain cuff records to track the dollar amounts of expenditures for which they have certified funds availability.

To address these conditions, we recommended that the Corporation

- implement a cost accounting methodology which allows it to assign indirect and overhead costs to its programmatic activities based on acceptable managerial cost accounting principles; and

- establish and monitor controls to ensure that amounts input into its general ledger are complete and accurate and performed in a timely manner.

In responding to the report, the Corporation did not address OIG's specific recommendations, but stated that it would work with its General Counsel on the issues of documentation and cost allocations. A management decision describing the corrective actions proposed by the Corporation was due by October 3, 1998. However, as of October 1998, it had not been submitted to OIG.

[2]Weaknesses in the controls over cuff records were first reported in March 1996 (OIG Audit Report 96-38, *Report on the Results of the Auditability Survey*). Follow-up studies reported that these weaknesses continued to exist throughout fiscal year 1997 (OIG Audit Reports 97-09, *Report on the Follow-up Study to the Auditability Survey*; and 97-29, *Report on the Follow-up Study to the Auditability Survey — Phase 2*).

Review of the Corporation for National Service's Reconciliation and Adjustment of its FY 1995 Fund Balance with the Treasury Accounts (OIG Audit Report 98-18)

OIG engaged Cotton & Company to review the Corporation's reconciliation of differences between the cash balances maintained on its general ledger and the balances maintained at Treasury and the documentation supporting the resulting $12 million reduction of cash on the Corporation's accounting records. The review disclosed that the procedures employed during the reconciliation were generally adequate and support the write down of the Corporation's cash balance. However, the Corporation excluded former Commission on National and Community Service appropriated funds accounted for by the General Services Administration (GSA) from the reconciliation even though it is responsible for managing and reporting on these funds. Several mathematical errors in the reconciliation were also found.

However, apart from the reconciliation, the review raised two additional issues. First, according to GSA accounting records, the former Commission's funds totaled about $77 million as of September 30, 1995. As of September 30, 1997, the funds had been reduced to approximately $14 million related to grants awarded by the former Commission. However, the Corporation was not monitoring or closing-out these grants. We recommended that the Corporation review these grants and close them out as soon as possible. In addition, OIG identified the Corporation's administration and close-out of certain of these grants for future review.

Second, while the errors found in the reconciliation do not have a material impact on the net amount of the Corporation's "cash write-off," they impact its ability to properly reconcile cash at the appropriation level, and may affect the fund balances available for individual appropriations. Moreover, the number, and dollar significance of, errors related to the posting of appropriations to the Corporation's general ledger raises questions as to the ability of the Corporation to comply with the requirements of the Antideficiency Act. OIG continues to emphasize the Corporation's need to assure that controls over the maintenance of accurate appropriations information in its accounting and other records are working effectively.

In its response to the report, the Corporation stated that it agreed with the findings and that it will implement most of the recommendations. However, in our recently issued report on the audit of the Corporation's fiscal year 1997 statement of financial position,[3] lack of timely cash reconciliations continued to be reported as a material weakness.

[3]OIG Audit Report 99-01, *Audit of the Corporation for National and Community Service, Statement of Financial Position, September 30, 1997*, issued on October 9, 1998.

EDP OPERATIONS

Assessment of Computer Difficulties Associated With the Year 2000 (OIG Audit Report 98-20)

The Year 2000 computing crisis is one of the most urgent information problems facing government today. The problem has arisen because, as computer applications were developed, programmers saved space on disk drives by using two digits to represent the year rather than four. As long as the year could be assumed to be of the form 19XX, these codes could be translated back into years (i.e. 1998 is represented as 98). However, as we approach the millennium, this paradigm changes. The Year 2000 is represented by 00. We can no longer assume that a year begins with 19. The result is that date related information will become inaccurate and misleading. Consequently, many computer systems, including those relied on by the Corporation to carry out its operations, must be updated to properly recognize the year 2000.

To assess the risk to the Corporation, OIG reviewed the Corporation's efforts to achieve Year 2000 compliance for its information systems. The report identifies several high risk areas regarding the Corporation's Year 2000 effort. OIG believes that two are of particular importance to the Corporation. First, there was little awareness throughout the Corporation of the Year 2000 problem. The Corporation's Office of Information Technology was leading an effort to remediate the Corporation's systems, however, there were no representatives from other operational units participating in the project. As a result, the Corporation is at risk of not identifying all critical functions and of not focusing its corrective actions on those systems that are most critical to the Corporation's operations.

Second, the Corporation's financial management system, Federal Success, is not Year 2000 compliant. The Corporation currently plans to replace Federal Success with a new financial management system, but this effort is in its early stages and may not be completed in time to avoid a Year 2000 failure. Recently, the Corporation began exploring alternatives to replacing Federal Success, including making the current system Year 2000 compliant. However, until such corrective actions are completed, the Corporation is at risk. The implications of the failure of Federal Success are numerous since the Corporation relies on this system to perform many of it key processes, such as recording financial information, paying vendors and processing grants.

To address these conditions we recommended that the Corporation immediately create a Year 2000 Steering Committee to manage the project to its completion. The committee should have representatives from senior management as well as from the Corporation's Operations, Programs, and Finance areas to ensure that all areas of risk at the Corporation have been considered. We also recommended that the Corporation accelerate the implementation of the new financial management system and develop a contingency plan in the event that the system is not

operational in time to avoid Year 2000 problems. In its response to the report, the Corporation stated that it agreed with the findings and is taking steps to augment its Year 2000 effort.

On October 8, 1998, OIG testified before the House Committee on Education and the Workforce, Subcommittee on Oversight and Investigations, on the results of our June 1998 assessment. During the hearing OIG reiterated our concern that the Corporation's financial management system is not Year 2000 compliant. Further, it will not be until November 1998, at the earliest, that the Corporation decides its course of action regarding Federal Success.

We plan to begin a follow-up assessment of the Corporation's corrective actions during the 2nd quarter of fiscal year 1999. At that time we will examine the Corporation's efforts to test and validate Year 2000 compliance.

GRANT MANAGEMENT AND OVERSIGHT

Assessment of AmeriCorps Service Hour Reporting
(OIG Audit Report 98-19)

AmeriCorps Members performing service in Corporation funded programs are awarded post-service education benefits based on the hours of service they perform. In prior OIG audits and reviews of AmeriCorps programs,[4] we found that AmeriCorps Members' service hours were not always accurately reported by grantees. We also found service hours credited to AmeriCorps Members who performed inappropriate activities. Congressional committee oversight staff also requested information on the Corporation's oversight of the activities performed by AmeriCorps Members and the awarding of benefits to AmeriCorps Members who prematurely leave the program.

To address these matters, OIG engaged KPMG Peat Marwick to evaluate the controls over AmeriCorps service hour reporting and whether the service performed was in accordance with the National and Community Service Trust Act of 1993, as amended. The assessment was made at the program operating site level because the sites are responsible for direct oversight of the AmeriCorps Members and the systems that report the information to the National Service Trust. The Corporation relies on this information when paying post-service benefits, to support its financial records, and as the source from which many statistics on participation in national service programs are derived.

The report cites material management control deficiencies that increase the likelihood of errors or irregularities, including fraud, in the reporting of AmeriCorps service hours. These deficiencies could result in the calculation of a materially incorrect service award liability, the reporting of inaccurate membership data, and educational awards being paid to AmeriCorps Members who have not successfully completed the required term. The summary of high risk concerns related to service hour reporting includes —

- membership rosters prepared at the Corporation disagree with membership records at the program sites;

- not all program sites have effective procedures to monitor the types of activities performed by AmeriCorps Members;

[4]OIG Report 98-22, *Summary of the Results of Audits and Reviews of Grants, Fiscal Years 1995 through 1997*, summarizes management control weaknesses and other conditions, including inaccurate reporting of AmeriCorps service hours and service hours were credited to AmeriCorps Members who performed inappropriate activities.

- not all program sites have procedures in place to ensure that an independent review of education award certifications is performed (these program sites were generally unaware of what constitutes a sound control environment for award certification); and

- at two of the 40 sites visited, pro-rated awards were granted for questionable reasons, such as to obtain employment or to avoid negative publicity.

In its August 7, 1998, response the Corporation stated in part that

> *". . . . The report emphasizes the administration of the program at the subgrantee and site levels, and does not discuss the responsibilities and roles of state commissions and national direct parent organizations. The Corporation has no direct contractual relationship with operating or placement sites. Accordingly, the Corporation's efforts are focused on strengthening state commissions and parent organizations so that they conduct proper training and oversight at the local level. We think the report should reflect this reality.*
>
> *Even though a direct contractual relationship does not exist, the Corporation emphasizes the importance of proper training and monitoring at the operating site level and placements where AmeriCorps Members serve. The Corporation also provides national training sessions which include, among other things, sessions on fiscal oversight, prohibited activities, and the National Service Trust, including service hour reporting. The Corporation will continue to provide guidance to all AmeriCorps programs through training sessions and written material. We will continue to examine current policies and update them as necessary. . . . ."*

The lack of a direct contractual relationship, however, does not relieve the Corporation of its responsibility as the Federal agency providing AmeriCorps funding to establish effective controls over compliance with laws and regulations related to the program. OIG continues to view the absence of controls that provide reasonable assurance as to the accuracy of information used as the basis for Federal payments, financial records, and performance data as an area of high risk for the Corporation. This report indicates that the Corporation's actions to date have not effectively corrected root causes of the conditions we have reported.

Four OIG reports on the Corporation's financial controls and numerous OIG reports on individual grantee awards have cited deficiencies relating to service hour reporting and recommended corrective actions. In our most recent report on the auditability of the Corporation's financial systems and records (OIG Report 98-23, *Auditability Assessment of the Corporation for National Service at September 30, 1997,* discussed above), we classified the National Service Trust System as "materially weak" and reported that, among other deficiencies, membership roster confirmations designed to validate the accuracy and completeness of the data used to calculate the service award liability are ineffective; and quality control procedures are

not in place to ensure file maintenance and data entry errors are detected and corrected in a timely manner. The *Auditability Assessment* also reported that the Corporation has not fully implemented corrective actions to address deficiencies related to oversight of service hour reporting that were first reported in 1995.

In addition, OIG has conducted numerous inquiries into allegations or other accusations involving AmeriCorps Member time sheets and service hour accounting in general. The investigative findings that OIG reported to management since early 1995 have ranged from AmeriCorps Members claiming and receiving certified service hours for inappropriate activities such as working at McDonald's, to novel approaches for accruing service hours, such as the "team concept" where everyone on a team earns the total accumulated hours of the team for any given day, to "inherited service hours," where new AmeriCorps Members "inherit" all the service hours of a departing Member. We obtained a guilty plea in Federal District Court for the most basic instance of service hour reporting abuse, reporting and certifying service for someone who never performed any service hours, but was enrolled merely on paper.

In July 1998, the Corporation requested authority to reprogram funds to increase its administrative funding. As part of its justification, the Corporation wrote

> *". . . . We need to provide greater oversight of grantees. A recent draft audit has confirmed what we already knew, that there are issues about the quality of service record keeping and reporting with some grantees. We need to add resources to our oversight program. These would take the form of additional staff and contract support, and support for increased training . . . ."*

To provide reasonable assurance that resources are appropriately directed toward effective corrections, OIG recommended that the Corporation implement a *comprehensive corrective action plan.* OIG recommended that the plan take into consideration: the Corporation's need for accurate information for the National Service Trust's operations and expenditure of Federal funds and its performance reporting; the oversight and responsibility role of state commissions and national direct grantees; and the actual performance of national service activities at the program site level. We recommended that the comprehensive plan

- identify and address all reported oversight and management control deficiencies related to service hour reporting;
- assess risk and provide detailed descriptions of specific corrective actions;
- identify the individuals responsible for implementing the corrective actions; and
- require quarterly progress reporting to the Corporation's Chief Executive Officer and to other interested oversight entities.

Review of Corporation for National Service Pre-Award Financial Assessment of Grant Applicants (OIG Audit Report 98-02)

OIG reviewed the Corporation's guidelines and procedures for performing pre-award financial management assessments for its AmeriCorps grants. Our objective was to evaluate whether the Corporation's guidelines and procedures were adequate to provide reasonable assurance that grantees have basic financial management capabilities.

Our assessment revealed that, because the guidelines may have been haphazardly implemented, the Grants Management Office's pre-award financial assessment of grants does not provide reasonable assurance that grantees have the basic financial management capabilities needed to administer grant funds in accordance with Federal requirements. We found that grants management staff did not always collect information required for assessing the grantees and did not always resolve deficiencies that were identified during the assessment process. We concluded that the Grants Management Office's pre-award assessment guidance is flawed, in that it is not specific enough to clearly describe the procedures to be applied. Finally, we noted that the Grants Management Office did not maintain a current and accurate listing of grant applicants and grant awards during the 1997 grant award review process.

In the report we made several recommendations to assist the Corporation in clarifying and strengthening its procedures for performing pre-award financial assessments of grantees. We also recommended that the Grants Management Office develop procedures to ensure that information in its grants database is complete, accurate, and updated on a timely basis. The Corporation did not respond to a draft of this report.

AUDITS AND REVIEWS OF CORPORATION GRANTS

The OIG Audit Section also performs financial related audits of Corporation grants. These 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. Each of our reports on Corporation grants contains recommendations for correcting the deficiencies identified in the reports. Typically, the recommendations are for the grantees to reimburse questioned costs and to establish and implement policies and procedures to prevent future instances of non-compliance and improve internal controls.

We issued six reports on Corporation grants during this period. As reported in previous Semiannual reports, our work has revealed issues in several areas as depicted in the following table. A summary of each report follows the table.

Grant Audits and Reviews — April 1, 1998 through September 30, 1998

Grantee	Incurred Costs*	Questioned Costs*	Systems & Controls	Subrecipient Monitoring	Other Compliance Issues
National Multiple Sclerosis Society (OIG Report 98-08)	$1,221,053	$ 1,733	—	—	√
National Endowment for the Arts (OIG Report 98-09)	$1,026,708	$ 9,600	√	√	√
Los Angeles Veterans Initiative, Inc. (OIG Report 98-13)	$1,443,569	$122,114	√	—	√
Student Conservation Association (OIG Report 98-14)	$5,823,042	$ 66,658	√	—	√
Navajo Nation (OIG Report 98-15)	$4,043,879	$ 10,848	√	—	√
Youth Volunteer Corps of America (OIG Report 98-16)	$3,548,682	$190,106	√	—	√
Total Questioned Costs (Federal & Match)*		$401,059			

*The amounts reported above include both Federal grant funds and funds provided by grantees as match. The amount of Federal dollars questioned is presented in the summary listing of audit reports issued on page 17 of this report.

Summary of Grant Audits and Reviews

National Multiple Sclerosis Society (OIG Audit Report 98-08)

OIG engaged Leonard G. Birnbaum & Company to review the amounts claimed by the National Multiple Sclerosis Society under grant number 94ADNNY031. The grant, which had a period of performance of July 1, 1994 through December 31, 1996, was awarded in an amount of $1,415,150.

Based on the review, we questioned $1,733 (less than one percent) of the costs claimed under the award We also reported that

- claimed costs included payroll and related benefit expenses in the amount of $1,733 which was incurred after the grant period; and
- the National Multiple Sclerosis Society lacked adequate controls over the preparation and completion of financial reports related to the grant.

We recommended that the National Multiple Sclerosis Society implement policies and procedures to review and verify the accuracy of its financial reports prior to submission.

In its response to a draft of the report, the National Multiple Sclerosis Society agreed that it had incurred costs after the award period but that it had verbal approval from the Corporation to do so. It stated that the costs were related to preparation of its final report on the grant.

National Endowment for the Arts (OIG Audit Report 98-09)

OIG engaged Leonard G. Birnbaum & Company to audit the funds awarded by the Corporation to the National Endowment for the Arts (NEA) under grant number 94ADFDC029. The audit covered the costs claimed ($535,502) during the period October 1, 1995 through December 31, 1996. Funding for this program was provided through an AmeriCorps interagency cooperative agreement between the Corporation and the NEA. The Corporation no longer enters into grant agreements with Federal agencies and thus is no longer funding this program.

The report noted that

- NEA claimed costs in excess of the amount supported by its financial records, as a result, we questioned $9,600 of the costs claimed under the award;
- NEA did not submit its Financial Status Reports on a timely basis;
- the Bronx site, one of the three sites where the WriterCorps operated, lacked an adequate labor distribution system; and
- Member timesheets at the Bronx and San Francisco sites were not consistently signed by the Member and/or approved by the appropriate personnel.

We recommended that NEA submit revised Financial Status Reports and that it develop and implement policies and procedures related to the other management controls and compliance findings identified in the report.

Under the grant, the WritersCorps was to focus on helping to improve written and verbal skills by leading creative writing and poetry classes, arranging opportunities for students to meet with guest writers and poets, supervising field trips, developing publications, encouraging journaling, and helping local institutions develop on-site literary centers. The report questioned whether the limited benefits accruing from activities performed at and published by the program's San Francisco site filled a 'pressing issue' of need in the community, in particular noting that certain material that was produced at the San Francisco site might be viewed as "crude and/or obscene." The material was published in anthologies bearing the AmeriCorps logo as well as those of the NEA and the San Francisco Art Commission.

In its response to a draft of the report, the NEA generally agreed with the findings and recommendations related to compliance and internal control issues. However, the NEA disagreed with the questioned costs and challenged the merits of our assessment that we had "reservations as to whether the limited benefit accruing from this program filled a pressing need in the community" and that "some of the printed output of the program's participants included in publications produced as a result of this program could be viewed by some individuals as crude and/or obscene...." NEA stated that an evaluation of the program was beyond the scope of the work.

Admittedly it was not within the scope of the audit to evaluate the effectiveness or the outcome of this program. However, in OIG's view, using Federal money to finance the production of such materials as those published by the San Francisco site is questionable. It is also questionable that by doing so this program addressed a pressing need within the community as required by the AmeriCorps program's authorizing legislation.

Los Angeles Veterans Initiative (OIG Audit Report 98-13)

OIG engaged Navarro & Associates to audit the amounts claimed by LA Vets, a program operated by the Los Angeles Veterans Initiative, Inc., under grant numbers 94ADFDC011 and 96ADNCA001. The audit covered the costs claimed ($1,443,569) during the period July 1, 1994 through September 30, 1997.

The report questioned $122,114 of costs claimed under the grant and identified significant management control deficiencies including

- inadequate controls over the purchase of goods and services;

- an inadequate labor distribution system;
- inadequate segregation of duties; and
- consultant and other costs that were not allocable or properly supported.

However, the conditions noted in the report are only part of OIG's concerns related to the Corporation's award and oversight of its grants to the Los Angeles Veterans Initiative. Specifically

- In fiscal year 1997, despite the Los Angeles Veterans Initiative's non-compliance with Federal requirements and the AmeriCorps grant provisions, the Corporation renewed its grant to the Los Angeles Veterans Initiative, Inc., providing $1.4 million to support the LA Vets program.
- In fiscal year 1998, having received a Single Audit Act report that indicated material weaknesses in the Los Angeles Veterans Initiative's financial management systems and a draft OIG audit report that reported additional deficiencies, the Corporation opted to renew the award for another program year at $1.3 million. Corporation officials stated that this second renewal was "contingent" upon the Los Angeles Veterans Initiative addressing issues raised in the fiscal year 1997 Single Audit Act report.
- In April 1998, prior to issuing a draft of this report, OIG auditors had discussions with the Corporation's Grants Management Office staff and representatives of LA Vets to determine the status of corrective actions (if any) and extent of the Corporation's oversight. We also reviewed the Corporation's grant files. We concluded that the Corporation had been slow to take action and follow up on the material weaknesses that were reported in the fiscal year 1997 Single Audit Act report. The Corporation's files indicate that, at the end of April, the report and additional information received from the Los Angeles Veterans Initiative, Inc., were still being evaluated by the Corporation.

In our view, it is troubling that the Corporation did not place a higher priority on reviewing and resolving the reported deficiencies and nevertheless began the funding renewal process. In its response to this report, the Corporation disagreed with our assessment of the timeliness of the Grants Management Office's review and resolution of the reported deficiencies. LA Vets generally disagreed with the questioned costs but generally agreed with the control and compliance findings.

In light of the number and significance of the findings revealed in our report and the fiscal year 1997 Single Audit Act report, we recommended that the Corporation increase its oversight of the LA Vets program, including making site visits to determine that corrective actions are in place, and provide LA Vets with the training and technical assistance necessary to appropriately administer this program. We also recommended that the Corporation require the Los Angeles Veterans Initiative, Inc., to submit an audit for fiscal year 1996 as required by the Single Audit Act and OMB regulations.

Student Conservation Association (OIG Audit Report 98-14)

OIG engaged Dembo and Associates to audit the funds awarded by the Corporation to the Student Conservation Association, Inc. (SCA) under grant numbers 94ADFDC055 and 96ADNNH004. The audit covered $5,823,042 in costs claimed by SCA during the period July 1, 1994 through September 30, 1996, as a subgrantee to the Department of the Interior (DOI) and from October 1, 1996 through December 31, 1997, as a direct grantee to the Corporation, to operate two AmeriCorps projects — the South Florida Ecosystem and the Lower Rio Grande Ecosystem.

The report notes questioned costs of $66,659, about one percent of the costs claimed, and reported internal control and compliance conditions. SCA generally agreed with the findings and/or presented additional information explaining its actions.

Other Matters

As discussed above, under grant number 94ADFDC055, from July 1, 1994 through September 30, 1996, SCA was a subgrantee of the Department of the Interior (DOI). When the Corporation ceased making awards to Federal agencies, SCA became the grantee. Under grant number 96ADNNH004, DOI continued its participation in the AmeriCorps program by providing matching costs for the program, primarily in-kind support in the form of the salaries of National Park Service employees who supervised AmeriCorps Members. From October 1, 1996 to December 31, 1997, DOI provided $395,000 to SCA in the form of such in-kind services.

Language in the DOI appropriations acts for fiscal years 1995, 1996, and 1997, prohibited the use of funds made available to DOI to support AmeriCorps programs unless DOI follows "appropriate reprogramming guidelines." We contacted DOI officials who stated that, under DOI reprogramming guidelines, reprogramming requests "must be submitted if the amounts exceed $500,000 annually." This threshold was not met under grant number 96ADNNH004 because the support provided by DOI was less than $500,000.

Navajo Nation (OIG Audit Report 98-15)

OIG engaged Leonard G. Birnbaum & Company to audit the amounts claimed by the Navajo Nation under grant number 94ADMAZ033. The audit covered the costs ($2,984,460) claimed during the grant period from July 1, 1994 through December 31, 1997. Based on the audit, we questioned $10,848 (less than one percent) of the costs claimed under the award. We also reported that

- progress reports were not submitted on a timely basis and one progress report was not submitted at all;
- living allowances were paid based on an hourly basis rather than a stipend basis as required;
- depending on the program year, either Member contracts were not used or all of the Members did not sign contracts;
- documentation supporting Member eligibility was not always maintained;
- written evaluations of each Member's performance were not available; and
- the Navajo Nation lacked an adequate system to evaluate the program.

In its response to the report, the Navajo Nation disagreed with most of the questioned costs and generally offered further explanation for the internal control and compliance findings.

Audit of the Youth Volunteer Corps of America (OIG Audit Report 98-16)

OIG engaged Leonard G. Birnbaum & Company to audit the amounts claimed by Youth Volunteer Corps of America (YVCA) under grant number 94ADNKS060. The audit covered the costs ($2,482,433) claimed during the grant period from June 29, 1994 through December 31, 1997, and included tests to determine whether financial reports prepared by YVCA presented fairly the financial condition of the award and the award costs reported to the Corporation were documented and allowable in accordance with the terms and conditions of the award.

The primary finding in the report is that YVCA lacked adequate controls in its financial management system in regard to documentation supporting its matching contributions. As a result, we questioned $187,676 in matching costs that were not supported by adequate documentation. We also questioned $2,430 of claimed costs which were not allocable to the grant. In its response to the report, YVCA described actions it has taken to address the findings and recommendations.

AUDIT RESOLUTION

During this reporting period the Corporation continued to make progress in resolving open audit findings. In our March 30, 1998, Semiannual Report, we reported that the Corporation had four overdue management decisions (management decisions are due within 6 months of issuance of an OIG report). At the end of this period, three reports were overdue. For one of these reports, the Corporation's audit resolution committee had reached agreement on the issues, however, management had not documented and approved the decision (see Table III, *Summary of Audits with Overdue Management Decisions*, page 26). The number of reports for which the Corporation has not completed final action has also been reduced from 18 to 16 (see Table IV, *Reports Described in Prior Semiannual Reports Without Final Action*, page 27).

During this reporting period, the Corporation disallowed $326 thousand, or 37 percent, of the costs questioned in the OIG's reports (see Table I, *Inspector General Reports with Questioned Costs*, page 24). For costs questioned by OIG due to the lack of supporting documentation, the Corporation disallowed 34 percent of the costs ($81 thousand out of $157 thousand).

Management Decisions on OIG Reports With Questioned Costs

	Federal Questioned Costs				
	Allowed		Disallowed		Total
	(Dollars in thousands)				
Overall	$206	63%	$120	37%	$326
Unsupported	$157	66%	$81	34%	$238

AUDIT REPORTS ISSUED DURING THE PERIOD APRIL 1, 1998 THROUGH SEPTEMBER 30, 1998

Report Number	Start Date	Issue Date	Report Name	Federal Dollars Questioned	Federal Dollars Unsupported
				(Dollars in thousands)	
98-02	9/23/97	4/27/98	Review of Corporation Pre-Award Financial Assessment of Grant Applicants	—	—
98-08	11/6/97	4/2/98	Review of National Multiple Sclerosis Society	$ 2	$ 0
98-09	8/4/97	4/8/98	Audit of the National Endowment for the Arts	5	5
98-12	10/15/97	4/6/98	Review of Corporation Budgetary Controls	—	—
98-13	10/10/97	7/15/98	Audit of the Los Angeles Veterans Initiative, Inc.	122	68
98-14	12/2/97	8/25/98	Audit of the Student Conservation Association	67	2
98-15	2/2/98	6/29/98	Audit of the Navajo Nation	11	0
98-16	12/8/97	6/29/98	Audit of the Youth Volunteer Corps of America	2	0
98-18	1/20/98	4/30/98	Review of the Corporation's Reconciliation & Adjustment of its FY95 Fund Balance with Treasury Accounts	—	—
98-19	2/6/98	8/27/98	Assessment of AmeriCorps Service Hour Reporting	—	—
98-20	4/14/98	7/7/98	Assessment of Computer Difficulties Associated with the Year 2000	—	—
98-23	3/2/98	7/8/98	Auditability Assessment of the Corporation's FY97 Statement of Financial Position	—	—
98-24	4/3/98	9/30/98	Audit of the Corporation's Procurement and Contracting Operations	547	0
			TOTAL	$756	$75

INVESTIGATIONS SECTION

We began this reporting period with 14 previously opened investigative actions. During the reporting period we opened 18 new investigative actions and closed 10. We had 22 investigative actions pending at the end of this reporting period.

HIGHLIGHTS OF INVESTIGATIONS CLOSED DURING THIS REPORTING PERIOD

Alleged Conflict of Interest - Prosecution Declined - Management Does Not Respond

We completed an investigation into allegations concerning a conflict of interest situation involving a senior staff member of a Learn and Serve America grantee, and unauthorized *drawdowns* of grant funds by the grantee. We began our investigation after we were notified by Corporation management that a senior staff member of the Puerto Rico Department of Education (PRDE), awarded a contract to a friend's consulting firm in exchange for a teaching position at the university where the friend was employed. We were further informed that the contract was funded by unauthorized *drawdowns* made against PRDE's Learn and Serve America grant.

Our investigation determined that PRDE did in fact award a contract to Educavipro, Inc., a consulting firm owned by a personal friend of a senior PRDE staff member. We determined that the PRDE staff member was involved somewhat in the selection of Educavipro, Inc. as the contractor, although a lack of documentation prevented us from determining the full extent of her involvement. We also determined that the PRDE senior staff member subsequently retired from PRDE and began teaching at the same university where the friend was employed, and in the same department in which the friend was employed.

We presented the results of our investigation to an Assistant U. S. Attorney (AUSA) in the U.S. Attorney's Office in Hato Rey, Puerto Rico. The AUSA declined to accept this matter for prosecution based on the low dollar amount involved and the poor health of the PRDE staff member.

It was also alleged that payment for the aforementioned contract was improperly made inasmuch as PRDE's account, administered by the U.S. Department of Health and Human Services (HHS), was frozen, and PRDE should not have been allowed to *drawdown* funds. Our investigation found no evidence of impropriety by the grantee concerning the *drawdown* of funds after the account had been frozen. However, we did identify a practice, described below, that if not corrected could allow additional unauthorized *drawdowns* to occur in the future.

After Corporation staff found what they characterized as serious financial and management issues concerning the Learn and Serve America grants awarded to PRDE, they took steps on December 6, 1995, to freeze PRDE's ability to *drawdown* funds from their Learn and Serve America grant without prior authorization from the Corporation. The HHS, who administers the *drawdowns* of these grant funds for the Corporation, actually placed this freeze, or hold, on PRDE's account. On February 8, 1996, the HHS grants manager for PRDE's account mistakenly removed the hold, thereby allowing PRDE to make several unauthorized *drawdowns*. HHS reinstated the hold on the account on July 7, 1996, when they discovered it had been inadvertently removed. The *drawdown* documents from HHS and payment records from PRDE indicate that $61,000 used by PRDE to pay Educavipro, Inc., for services provided under the contract were *drawndown* during the period the account should have been frozen but was not. It is apparent that the primary causative factor responsible for allowing the unauthorized *drawdowns* was the inadvertent removal of the hold on PRDE's account by the HHS grants manager.

Both the Corporation's grants officer and program officer failed to discover that PRDE was drawing down funds at a time when the account was frozen. There are, however, reports generated by HHS and provided to the Corporation that should have enabled Corporation staff to detect and correct this error. HHS provides the Corporation's Grants Management Office a daily activity report, which lists *drawdowns* by grantee. Information from the daily activity report is entered into the Corporation's grants management database. The data entry person in grants management scans the report for unusually high expenditures but does not scan for frozen accounts, although it is reportedly rare for an account to be frozen and could thus be easily detected.

On March 9, 1998, we referred the above matter to Corporation management and recommended that they develop and implement written policy that addresses procedures that must be followed when an account is frozen. We advised Corporation management that such policy should include, at a minimum, requiring each grants officer to routinely review the HHS daily activity report, or the data extracted from that report, pertaining to the grantees for which they are responsible, for discrepancies. We also informed the Corporation that we felt that particular attention should be afforded to those grantees with frozen accounts. And finally, we recommended that discrepancies should be promptly reported to Corporation and HHS management, researched, resolved, and completely documented.

The above matter is closed within the files of our office. Corporation management has not responded to our findings, nor have they responded to our requests for the status of corrective measures that they may be contemplating. (Investigative Report 97-021)

Alleged Embezzlement - Prosecution Declined - Referred to Management

We completed an investigation we opened after receiving allegations that the Executive Director of the Southern California Interfaith Hunger Coalition (IHC) misapplied Federal funds. Although we found evidence indicating the Executive Director misapplied Federal funds, the cognizant United States Attorney declined to prosecute, citing the relatively low dollar amount, the availability of other remedies, and, considering the totality of the circumstances, the lack of jury appeal.

Our review of available documents disclosed that on August 31, 1996, the Corporation awarded the Congressional Hunger Center (CHC) $2,292,223 in Federal funds to implement and oversee an AmeriCorps program as outlined in a cooperative agreement (96ADNDC099) between the Corporation and CHC. This cooperative agreement allocated Federal funds to IHC, a sub-grantee, to accomplish the objectives set forth in the agreement.

On September 18, 1996, the Executive Director of IHC submitted to CHC a Request for Advance Reimbursement, requesting an advance of $104,563 to pay anticipated AmeriCorps expenses during the period October 1, 1996 to December 31, 1996. On September 24, 1996, CHC transferred $104,562.50 into IHC's credit union account.

We found evidence indicating that between September 24 and November 30, 1996, the Executive Director misapplied some of the Federal funds to pay debts incurred prior to the period covered by the cooperative agreement. These prior debts included delinquent employer's withholding taxes, past-due loan payments, late staff payroll and AmeriCorps Member stipends and other unpaid operating expenses incurred during the previous grant period or earlier.

In December 1996 the Internal Revenue Service (IRS) seized IHC's assets due to IHC's delinquent employer's tax account. These assets were sold at auction to satisfy IHC's debts to the IRS and IHC was subsequently dissolved.

During the course of our inquiry we found no indication that the Corporation conducted or requested a pre-award financial assessment of IHC. A review of IHC's bank and credit union statements would have disclosed that numerous IHC checks were returned for insufficient funds and that IHC was moving funds between various accounts in a manner indicative of check kiting. (It was reported that one of IHC's banks actually closed an IHC account because bank officials suspected IHC was using the account to kite checks.) Casual discussion with IHC staff might well have disclosed information concerning delinquent accounts and worthless payroll checks. A more comprehensive discussion of deficiencies in the Corporation's pre-award financial assessment process is documented in OIG Audit Report 98-02, *Review of Pre-Award Financial Assessment of Grant Applicants*, issued in April 1998. (See page 11 of this Semi-annual report.)

Corporation management was informed of the above on May 15, 1998. As management requested, the OIG is auditing CHC. The audit began in April 1998 and is being conducted by Leonard G. Birnbaum & Company. The results of the audit will be reported in OIG Audit Report 99-04, *Audit of Congressional Hunger Center*. We therefore made no further recommendations to management at the conclusion of this investigation, nor did we request a response from management as a result of our investigative activity at IHC and CHC. (Investigative Report 97-008)

Alleged Lobbying - Prosecution Declined - Referred to Management

We completed an investigation into allegations that a Corporation employee may have engaged in lobbying when he forwarded an email message found on an AmeriCorps *listserv* to several Corporation email account holders. We determined that a portion of the message obtained from the *listserv* contained a passage that requested recipients of the message contact Members of Congress in an apparent attempt to influence legislative decisions.

We found no evidence that the employee intended for recipients of his email message to contact Members of Congress. The employee was interviewed and provided a sworn, written statement wherein he denied any intent to lobby Members of Congress with appropriated funds. The AUSA declined this matter for prosecution because he felt the employee lacked the specific intent required to violate the statute and because there were administrative sanctions available to the Corporation.

Corporation management counseled the employee regarding the employee's conduct. Corporation management was provided a copy of our report for their use as appropriate. Inasmuch as action had been taken against the employee prior to completion of our report, we documented the disciplinary action in our report and did not request a response from Corporation management. (Investigative Report 98-023)

STATISTICAL SUMMARY OF INVESTIGATIONS

Opened and Closed

Number of Cases Open at Beginning of Reporting Period	14
Number of New Cases Opened During This Reporting Period	18
Number of Cases Closed During This Period With Significant Findings	3
Number of Cases Closed During This Period With No Significant Findings	7
Total Cases Closed This Reporting Period	10
Number of Cases Open at End of Reporting Period	22

Referred

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

REVIEW OF LEGISLATION & REGULATIONS

Section 4(a)(2) of the Inspector General Act directs the OIG 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.

LEGISLATIVE PROPOSALS

During this reporting period, OIG has monitored and reviewed several proposals which would amend the Inspector General Act. OIG provided advice and comment, as appropriate, to the President's Council on Integrity and Efficiency (PCIE) concerning each proposal for use in PCIE's response letter to the U.S. Congress.

In addition, as legislation that might affect the Corporation or the OIG has been developed and proposed, Counsel has monitored and advised the Inspector General.

REGULATORY PROPOSALS

During this reporting period, the Corporation finalized 45 C.F.R. Part 1201. This Corporation regulation concerns the disclosure of litigation-related information, and the assertion of privileges and objections, by the Corporation. In part, the final regulation mandated that responses to requests for such information be handled by the Office of the General Counsel. The regulation failed to make exceptions for requests for information directed to the OIG. The regulation also failed to make exceptions for requests for information by the OIG. The Corporation has proposed language to amend the final regulation in a manner that will remedy the omission.

TABLE I
INSPECTOR GENERAL REPORTS WITH QUESTIONED COSTS

		Number	Federal Costs Questioned	Federal Costs Unsupported
			(Dollars in thousands)	
1.	For which no management decision had been made by the commencement of the reporting period	8	$1,373	$251
2.	Which were issued during the reporting period	7	756	75
3.	Subtotals (1 plus 2)	15	2,129	326
4.	For which a management decision was made during the reporting period	7	326	238
	(i) dollar value of disallowed costs		120	81
	(ii) dollar value of costs not disallowed	—	206	157
5.	For which no management decision had been made by the end of the reporting period (3 minus 4)	8	$1,803	$ 88
6.	Reports with questioned costs for which no management decision was made within six months of issuance	2	$1,049	

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

		Number	Dollar Value
			(Dollars in thousands)
A.	For which no management decision had been made by the commencement of the reporting period	0	0
B.	Which were issued during the reporting period	1	$1,609
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	0
	— based on proposed legislative action	0	0
	(ii) dollar value of recommendations that were not agreed to by management	0	0
D.	For which no management decision has been made by the end of the reporting period	1	$1,609
	Reports for which no management decision was made within six months of issuance	0	0

TABLE IV
REPORTS DESCRIBED IN PRIOR SEMIANNUAL REPORTS WITHOUT FINAL ACTION

Report Number	Title	Date Issued	Final Action Due*	Status Of Final Action
For which there is no management decision				
97-02	Audit of the Oregon Youth Conservation Corps	12/23/96	12/23/97	*Management Decision is overdue (due 6/22/97)*
For which final action has not been reported				
96-01	Review of the New Orleans Youth Action Corps	3/5/96	3/5/97	*Final Action has not been completed and/or reported to OIG*
96-04	Review of the Border Volunteer Corps	12/6/95	6/6/97	" "
96-16	Audit of the Greater Miami Service Corps	7/9/96	7/9/97	" "
96-21	Audit of ACORN Housing Corporation	3/29/96	3/29/97	" "
96-31	Pre-Audit Survey of CNS Grants Process	3/20/96	3/20/97	" "
96-32	Pre-Audit Survey of CNS Procurement Process	3/20/96	3/20/97	" "
96-36	Audit of CNS Fiscal Year 1994 Financial Statements	3/15/96	3/15/97	" "
96-38	Report on the Results of the Auditability Study	3/29/96	3/29/97	" "

TABLE III
SUMMARY OF AUDITS WITH OVERDUE MANAGEMENT DECISIONS

Report Number	Title	Federal Dollars Questioned	Mgmt Decision Due*	Status as of September 30, 1998
		(Dollars in thousands)		
97-02	Audit of the Oregon Youth Conservation Corps	$ 280	6/22/97	1
98-06	Audit of the West Virginia Conservation and Service Corps	769	7/27/98	2
98-22	Summary of the Results of Audits and Reviews of Grants Fiscal Years 1995 through 1997	0	9/14/98	1
	Total	$1,049		

* Under section 6009 of the Federal Acquisition Streamlining Act of 1994, as amended, a final management decision must be made within 6 months of the final report issuance.

Status

1 — Management Decision overdue.

2 — Under the Corporation's audit resolution policy, an Audit Resolution Committee proposes resolution of recommendations made in audit reports. For one report, the Audit Resolution Committee reached agreement on the issues; however, as of September 30, 1998, the decision had not been documented and approved.

TABLE IV
REPORTS DESCRIBED IN PRIOR SEMIANNUAL REPORTS WITHOUT FINAL ACTION

Report Number	Title	Date Issued	Final Action Due*	Status Of Final Action
For which there is no management decision				
97-02	Audit of the Oregon Youth Conservation Corps	12/23/96	12/23/97	*Management Decision is overdue (due 6/22/97)*
For which final action has not been reported				
96-01	Review of the New Orleans Youth Action Corps	3/5/96	3/5/97	*Final Action has not been completed and/or reported to OIG*
96-04	Review of the Border Volunteer Corps	12/6/95	6/6/97	" "
96-16	Audit of the Greater Miami Service Corps	7/9/96	7/9/97	" "
96-21	Audit of ACORN Housing Corporation	3/29/96	3/29/97	" "
96-31	Pre-Audit Survey of CNS Grants Process	3/20/96	3/20/97	" "
96-32	Pre-Audit Survey of CNS Procurement Process	3/20/96	3/20/97	" "
96-36	Audit of CNS Fiscal Year 1994 Financial Statements	3/15/96	3/15/97	" "
96-38	Report on the Results of the Auditability Study	3/29/96	3/29/97	" "

TABLE IV
REPORTS DESCRIBED IN PRIOR SEMIANNUAL REPORTS WITHOUT FINAL ACTION

Report Number	Title	Date Issued	Final Action Due*	Status Of Final Action
97-09	Follow-up Study to the Auditability Survey	12/9/96	12/9/97	*Final Action has not been completed and/or reported to OIG*
97-12	Review of the National Alliance for Veteran Family Service Organizations	4/11/97	4/1/98	" "
97-20	Audit of Greater Miami Service Corps	9/30/97	9/30/98	" "
97-27	Audit of the National Service Trust Fund Fiscal Year 1995 and 1994 Financial Statements	3/10/97	3/10/98	" "
97-29	Report on the Follow-up Study to the Auditability Survey	7/14/97	7/14/98	" "
97-30	Audit of the Corporation's Gift Fund	9/3/97	9/3/98	" "
97-31	Recommended Improvements to the National Service Trust Fund Operations	4/30/97	4/30/98	" "

*For reports issued before February 10, 1996 (Report Numbers 96-04), final action must be completed within 18 months of the issuance of the report, as established in the regulations of ACTION, the Corporation's predecessor agency. For reports issued after that date, final action must be completed within 12 months of the report's issuance, as established under section 6009 of the Federal Acquisition Streamlining Act, Public Law 103-355, as amended.

TABLE V
STATUS OF RECOMMENDATIONS ON CORPORATION MANAGEMENT ISSUES

	Number of Recommendations in Reports*	Corrective Action Completed**	Open Recommendations
Corporation Financial Management			
Auditability Survey & Follow-up Reports (OIG Audit Reports 96-38, 97-09, 97-29, and 98-23)	142	69	73
Audit of the Corporation's Procurement and Contracting Operations (OIG Audit Report 98-24, issued September 30, 1998)	26	0	26
Alleged Prohibited Political Activity (OIG Investigation 98-023, issued April 15, 1998)	1	1	0
Alleged Conflict of Interest and Unauthorized Drawdowns (OIG Investigation 97-021, issued March 9, 1998)	4	0	4
Alleged Travel Abuse (OIG Investigation 98-005, issued January 30, 1998)	4	0	4
Trust Fund Operations			
Audit of National Service Trust Fund Fiscal Year 1995 and 1994 Financial Statements (OIG Audit Report 97-27, issued March 10, 1997)	11	7	4
Recommended Improvements to National Service Trust Fund Operations (OIG Audit Report 97-31, issued April 30, 1997)	12	5	7

TABLE V
STATUS OF RECOMMENDATIONS ON CORPORATION MANAGEMENT ISSUES

	Number of Recommendations in Reports*	Corrective Action Completed**	Open Recommendations
EDP Systems			
Assessment of Computer Difficulties Associated With the Year 2000 (OIG Audit Report 98-20, issued July 7, 1998)	21	4	17
Grant Oversight and Monitoring			
Review of Training and Technical Assistance (OIG Audit Report 98-01, issued November 3, 1997)	4	2	2
Review of Corporation Pre-Award Financial Assessment of Grant Applicants (OIG Audit Report 98-02, issued April 27, 1998)	3	0	3
Assessment of AmeriCorps Service Hour Reporting (OIG Audit Report 98-19, issued August 27, 1998)	18	1	17
Audit Resolution			
OIG FY97 Semiannual Report 1 (issued April 30, 1997)	5	0	5
Total	251	89	162

* Under section 6009 of the Federal Acquisition Streamlining Act of 1994, as amended, a final management decision must be made within 6 months of the final report issuance and corrective actions completed within one year.

**The Corporation has not implemented an audit resolution system as required by OMB Circular A-50. Therefore the information on corrective actions completed is based on OIG records and the results of OIG follow-up audits when available.

FY98 PERFORMANCE MEASURES

AUDIT PERFORMANCE MEASURES

One of our strategic goals continues to be improving the quality and delivery of OIG services, reports and other work products. Although OIG has developed new measures to augment the originally established audit statistics, the Office continues to monitor the number of audit reports issued annually, and their cost and their timeliness, as the table below illustrates.

AUDIT PERFORMANCE STATISTICS

	Fiscal Year		
	1996	1997	1998
Number of Audit Reports [1]	33	26	22
Questioned Costs *(in thousands)*	$1,854	$2,024	$1,776
Recommendation That Funds Be Put To Better Use *(in thousands)*	$200	$0	$1,618
Costs per Audit Hour			
OIG Staff	—	$75	$70
Contracted Services [2]	—	$66	$66
Timeliness [3]	168 days	223 days	207 days

(1) Decrease in the number of audits reports issued results from the planned changed from grant cost audits to more complex performance and operational audits.

(2) OIG cost per hour estimate is based on the total salary and benefit costs for audit staff divided by the direct hours charged to audit assignments.

(3) From inception of an audit/review through report issuance of the final report, which includes a 30 day response period.

As shown above, two audit performance measures — the cost per audit hour for OIG staff and the timeliness of audit reports issued — improved during fiscal year 1998. Both of these statistics had shown a marked decrease in performance during fiscal year 1997.

The fiscal year 1997 increase in the cost per hour for OIG audit staff was due in large part to turnover in audit staff, which lowered the utilization rate (the amount of time spent on audit assignments versus other activities, including training, annual leave, holidays, etc.). In fiscal year 1997, the average utilization rate was about 50 percent for audit staff. While still experiencing significant turnover in fiscal year 1998, we were able to improve the average utilization rate to about 68 percent and reduce the average cost for OIG staff to $70 per hour.

The time it took OIG to issue an audit report also improved significantly during fiscal year 1998, decreasing by an average of 16 days from its peak in fiscal year 1997. The factors contributing to the delays in reports during fiscal year 1997 included the lack of timely performance by several independent public accounting firms under contract and the increased complexity of assignments undertaken by OIG. OIG no longer utilizes the services of the firms that contributed to delays in the past. Nonetheless, we anticipate that the audit assignments performed by OIG will continue to increase in their complexity, which will have a continuing impact on the length of time as well as the number of audits we will be able to perform.

INVESTIGATIONS PERFORMANCE MEASURES

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

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

All matters involving evidence of Federal criminal violations are referred to the Department of Justice for a prosecutive decision. This does not mean that all allegations of Federal criminal violations are referred; only those with evidence of a Federal criminal violation are referred, with some exceptions. For example, all allegations of significant fraud and all allegations against certain senior government officials are referred to the Department of Justice without regard to the amount of evidence available at the time the allegations are received. The majority of the ciminal matters we investigate involving Corporation programs and operations are declined for prosecution by the Department of Justice because of the low dollar amounts involved. We have

had no declinations of a criminal matter because of our inability to sufficiently develop evidence of criminal misconduct.

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

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

INVESTIGATIONS PERFORMANCE STATISTICS

	Fiscal Year			
	1995	1996	1997	1998
Investigative Actions Opened	23	39	31	41
Investigative Actions Resolved and Closed	14	29	46	30
Average Monthly Caseload	Unknown	23	19	17
Investigative Matters Resolved Without Opening a Separate Investigative Action	Unknown	48	69	37
Referrals for Prosecution	1	7	4	8
Administrative or Management Action Taken	2	4	3	6

The total number of investigative matters reported (the sum of Investigative Actions Opened and Investigative Matters Resolved Without Opening a Separate Investigative Action) decreased from 100 in fiscal year 1997 to 78 in fiscal year 1998. We see no particular significance in this decrease.

The total number of Investigative Actions Opened increased from 31 in fiscal year 1997 to 41 in fiscal year 1998. The reason for part of this increase is apparent when viewed alongside the decrease in fiscal year 1998 of Investigative Matters Resolved Without Opening a Separate Investigative Action. We simply had a few more significant matters that required initiating a separate, more visible, investigative file in order to resolve the matters.

The total number of Investigative Actions Resolved and Closed decreased from 46 in fiscal year 1997 to 30 in fiscal year 1998. It appears that the primary reason for this decrease is our success at holding down the caseload by closing cases as soon as possible, thereby lowering the average monthly caseload and not allowing a backlog of cases to develop.

Two of our more significant criminal investigations are currently in the hands of the U.S. Attorney; one pending presentation to the Federal grand jury, and the other pending sentencing following a guilty plea. An additional matter involving an alleged contract fraud amounting to about a half million dollars has been accepted by the U.S. Attorney's Office for recovery under the False Claims Act. In another criminal matter that was handled administratively after the U.S. Attorney declined to prosecute, the Corporation corrected National Service Trust Fund Records of four AmeriCorps Members, reducing their eligibility status for an education award from "full-time" to "part-time." This resulted in savings of $9,450. Other investigative matters have resulted in recommendations to Corporation management that corrective actions be taken to correct cited deficiencies or crime conducive conditions.

We closed one investigative matter within the files of our office after Corporation management did not respond to our findings or to our requests for the status of corrective measures that they may have been contemplating. While Corporation management has historically been slow to respond to investigative findings, their failure to respond to these findings was particularly noteworthy for two reasons. First, after not reporting this matter to OIG for approximately six months, members of Corporation management requested the status of the investigation on several different occasions, giving the impression they were interested in resolving the matter. And second, we identified for Corporation management what we felt was a major, but easy to correct, oversight in their control of Federal grant funds. Management's non-response to these findings, and to our requests for the status of corrective measures, left us perplexed as to Corporation management's thoughts regarding good stewardship of Federal funds. (Investigative Report 97-021)