OFFICE OF THE INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE

OIG Letter Report Regarding Corporation for National and Community Service Review of Procurement Activities at Service Centers

OIG Audit Report Number 01-32
August 8, 2001

Office of Inspector General
1201 New York Avenue, NW
Washington, DC 20525

CORPORATION
FOR NATIONAL
SERVICE

Letter Report Regarding Review of Procurement Activities at Service Centers
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The Corporation's headquarters procurement office has been the subject of two recent audits, both of which recommended numerous improvements in its operations. OIG determined that it might be beneficial to review other procurement activities of the Corporation. In addition to headquarters activities, the five regional service centers have authority to procure and enter into contracts.

OIG retained Cotton & Company, LLP, to perform preliminary survey work related to a review of the service centers. Cotton & Company determined that KPMG LLP, the CPA firm engaged to audit the Corporation's financial statements, had included testing of service center procurement activities as a part of their audit work. KPMG's testing, performed during fiscal year 2001, found a few minor problems that have been brought to management's attention. Moreover, Cotton & Company also learned that CNS is scheduled to implement its new procurement system at the service centers during FY 2001.

Therefore, Cotton & Company recommended that a detailed review of service center procurement activities be deferred. CNS OIG concurs with their recommendation. We have opted to terminate our FY 2001 assessment. Instead, CNS OIG will include a survey to assess controls over, and the effectiveness of, service center procurement activities in its FY 2003 Audit Plan.

COTTON & COMPANY LLP

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August 17, 2001

Inspector General
Corporation for National Service
Washington, DC 20525

Subject: Review of Procurement Activities at Regional Service Centers, Delivery Order No. S-OPRAQ-99-D-0021-CNS-11

The purpose of this letter is to provide our assessment of the desirability of undertaking a detailed review of procurement activities at the Corporation's Service Centers as envisioned in Delivery Order No. S-OPRAQ-99-D-0021-CNS-11.

Originally, we designed this assignment as a survey that would result in a detailed plan for a review of the procurement activities at the Corporation's Service Centers, if the survey indicated that such a review was warranted. Subsequently, at the request of the Office of the Inspector General, we restructured our plan for the assignment to review two of the Centers -- the Southern and the Southwest Service Centers. Depending on the results of these reviews, we anticipated that the work might be expanded to include the other three Service Centers and result in separate reports on any findings and potential recommendations at each Service Center and Headquarters, as warranted.

However, before we could initiate the survey, we learned that KPMG LLP, the Certified Public Accounting firm engaged to conduct the audit of the Corporation's financial statements, had covered Service Center procurement activities in their audit program.

To avoid potentially duplicating the other firm's work, we felt that it would be prudent to review the extent of work performed and determine whether it would have an impact on our planned review. We obtained copies of the audit program that dealt with work on procurement activities, and subsequently reviewed the working papers related to that portion of the audit.

According to the audit program, the objectives of this part of the audit were to determine whether:

- Recorded liabilities were for goods and services incurred as of September 30, 2000, and that recorded expense transactions occurred during the year.

- All amounts due for goods and services provided before the end of the fiscal year were properly recorded as liabilities at September 30, 2000, and if all fiscal year 2000 costs were properly recorded in the expense accounts.

- Non-payroll-related liabilities were computed in accordance with contracts and relevant laws and regulations and if amounts properly represented funds owed to vendors for expenses in excess of amounts paid.

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- Transactions that create and discharge liabilities were properly recorded.
- Liabilities and expenses were presented properly in the financial statements

The auditors sampled procurement transactions at the five Service Centers and Corporation headquarters. In order to determine if controls over purchases/cash disbursements functioned effectively during fiscal year 2000, the auditors identified all non-trust, non-grant, and non-payroll disbursements for fiscal year 2000. They stratified these disbursements into travel voucher and non-travel voucher disbursements and selected a sample of 78 items – 8 travel voucher and 70 non-travel voucher disbursements. Thirty of the disbursements were service center transactions and all five service centers were included in the sample.

They found a few minor problems at one of the Service Centers, which were brought to Corporation management's attention.

In the prior year's audit, the financial statement auditors had found that the Southern Service Center (one of the centers that had been selected for our review) was unable to provide sufficient documentation to fully support any of the cash disbursement items requested. The auditors could not, therefore, determine whether proper authorizing procedures for purchases and travel were in place or whether proper review for funds availability was conducted prior to purchases or travel. The auditors recommended that Corporation management ensure that Service Center staff complied with internal control policies, which require that documentation be maintained in support of all financial transactions. During the 2000 audit, the auditors followed up on this finding and found that Corporation headquarters had taken action to encourage this Service Center to comply with existing policies.

In recent years, Cotton & Company prepared two major reports for the Office of the Inspector General on the Corporation's headquarters' procurement activities that pointed out numerous areas for improvement. (*Audit of the Corporation's Procurement and Contracting Processes and Procedures*, OIG Audit Report Number 98-24, September 30, 1998, and *Follow-up Audit of the Corporation's Procurement Operations*, OIG Audit Report Number 00-42, September 25, 2000.) These reports focused on headquarters activities, but also included some procurement activities associated with the Service Centers because the Centers' procurement authority is limited to transactions of $50,000 or less.

While the financial statement auditors' work at the Service Centers was not extensive, we think that only marginal benefits would result from conducting a more detailed review of the Centers' procurement activities at this time. The auditors' work did not disclose any significant problems at the Service Centers, and, consequently, we are optimistic that some of the improvements implemented by the Corporation as a result of the previous OIG reports may be having a positive effect on its procurement operations. Even though the Corporation consistently has contended that its procurement problems are minor, it does appear to be making efforts to resolve the problems. The Corporation implemented a new procurement system at headquarters in fiscal year 2000, and was scheduled to implement the system at the Service Centers in fiscal year 2001.

We think that it would be reasonable to allow the Corporation some additional time to gain experience under their new system before undertaking another review of the procurement operations. In addition to allowing the Corporation to gain some experience under the new system, delaying the review hopefully would reduce the possibility that procurement actions selected for review had been conducted

under the old system. It also would forestall any concerns that the Corporation had not had time to work the "bugs" out of the new system. Additionally, delaying the audit would reduce the likelihood of complaints from Service Center personnel that another group of auditors had just examined their activities. Accordingly, we believe that an audit of the Service Center procurement activities should not be done at this time and we recommend that the audit be deferred for two years.

Please call Jim Benone or me at (703) 836-6701, if you wish to discuss any aspect of this report.

Very truly yours,

COTTON & COMPANY LLP

By: _____
David L. Cotton, CPA, CFE, CGFM