OFFICE OF THE INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE

RECOMMENDED IMPROVEMENTS TO THE CORPORATION'S INTERNAL CONTROLS FISCAL YEAR 2001 – MANAGEMENT LETTER

OIG Audit Report Number 02-02
July 1, 2002

Prepared by:

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This report was issued to Corporation management on July 1, 2002. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than January 2, 2003, and complete its corrective actions by July 1, 2003. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

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

CORPORATION
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Office of the Inspector General
Corporation for National and Community Service

Recommended Improvements to the Corporation's Internal Controls
Fiscal Year 2001 – Management Letter
OIG Report 02-02

The Office of the Inspector General, Corporation for National Service, engaged KPMG LLP to audit the Corporation's fiscal year 2001 financial statements. Their audit, conducted in accordance with government auditing standards, resulted in an unqualified opinion on the Corporation's financial statements. OIG Audit Report 02-01, *Audit of the Corporation for National and Community Service's Fiscal Year 2001 Financial Statements*, describes the basis for the opinion as well as one reportable internal control condition.

During the engagement, the auditors also noted certain matters involving the control over financial reporting and other operational matters that were not considered material weaknesses or reportable conditions. This report, *the management letter*, discusses these conditions and includes recommendations for corrective action. OIG has reviewed the report and work papers supporting its conclusions and agrees with the findings and recommendations presented.

We provided a draft to the Corporation for review and comment. The responses are included as Appendix B. In their response, the Corporation states that corrective action has been completed on many of the conditions. Follow-up has not been completed to determine the extent of corrective action.

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Management Letter

Fiscal Year 2001

OFFICE OF THE INSPECTOR GENERAL

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Recommended Improvements to the Corporation's Internal Controls

Management Letter

Fiscal Year 2001

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Office of the Inspector General
Corporation for National and Community Service:

We have audited the fiscal year 2001 financial statements of the Corporation for National and Community Service, and have issued our report thereon, dated March 8, 2002.

In planning and performing our audit, we considered the Corporation's internal control over financial reporting by obtaining an understanding of the internal controls. We determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, not to provide assurance on internal control over financial reporting.

As a part of obtaining reasonable assurance about whether the Corporation's financial statements were free of material misstatement, we performed tests of the Corporation's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations. Our report on internal control over financial reporting and on compliance with laws and regulations based on an audit of the financial statements, performed in accordance with *Government Auditing Standards*, identified those matters we considered to be reportable conditions.

During our audit, we also noted certain matters involving internal control over financial reporting and other operational matters that are not considered reportable conditions. These comments and recommendations are presented in Appendix A to this letter for the Corporation's consideration, and are intended to improve internal control over financial reporting or result in other operating efficiencies. To the extent prior year comments have continuing relevance, we have incorporated these comments into those presented in Appendix A. Our audit procedures were designed primarily to enable us to form an opinion on the Corporation's financial statements, and therefore may not bring to light all weaknesses in policies or procedures that exist.

The Corporation's response to our comments and recommendations are presented in Appendix B. Appendix C presents the status of prior year management letter comments.

This report is intended solely for information and use of the United States Congress, the President, the Director of the Office of Management and Budget, the Comptroller General of the United States, and the Corporation for National and Community Service and its Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 8, 2002

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OFFICE OF THE INSPECTOR GENERAL

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Recommended Improvement to the Corporation's Internal Controls – Management Letter

Fiscal Year 2001

(A) Grants Management

A.1 Oversight of OMB Circular A-133 Reporting should be improved

The Corporation policies and procedures require the review of the Federal Audit Clearinghouse (FAC) Database during the award approval process to determine if the grantee submitted a Single Audit report and whether there were any findings related to the Corporation. The results of this process are documented on the Grant Officer Certification. During our audit, we reviewed 37 grant files and noted that the grant award was approved for two grantees that did not have a current Single Audit report in the FAC Database. Additionally, the Grant Officer Certification indicated that there were no findings for one of 11 grantees over which the Corporation had oversight responsibilities, although the audit report in the FAC Database contained findings related to the Corporation.

The grantee submits the A-133 report and data collection form to the FAC within the earlier of 30 days after receipt of the auditors' reports, or nine months after the end of the audit period. The audit report is forwarded to the Corporation if there are findings related to it or if the Corporation is designated as the cognizant federal agency. In order to resolve the audit findings related to its programs, the Corporation is required to issue a management decision within six months of the receipt of the report, and must complete final action within 12 months thereafter. For two of 37 grantees selected, we noted that the Corporation did not issue a management decision to address the Single Audit report findings.

We recommend that the Corporation:

- Strengthen controls over the A-133 review process to ensure that these procedures are being performed and properly documented on the Grant Officer Certification. In cases where the Single Audit report was not submitted to the FAC Database, the Corporation should receive it directly from the grantee. If the grantee has not completed its Single Audit and the Corporation decides to issue the grant award, the award document should include a special condition to inform the grantee that the report must be submitted within a specified time, otherwise the funding will be placed in a "HOLD" status;
- Ensure that proper documentation for all management decisions and final resolutions issued on the A-133 audit report is properly maintained for future reference and audit purposes.
- Provide training to grant management staff, state commissions, and national direct grantees on how to properly perform and document the A-133 audit review. Training should include (i) an overview of the OMB Circular A-133 requirements; (ii) detailed instructions on how to access and navigate the FAC Database; and (iii) an overview on how to perform and document a complete review.

(Continued)

OFFICE OF THE INSPECTOR GENERAL

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Recommended Improvement to the Corporation's Internal Controls – Management Letter

Fiscal Year 2001

A.2 Oversight of grantee financial activity should be improved

Grantees are required to expend funds for allowable costs and provide SF-269, Financial Status Report (FSR), to the Corporation to demonstrate compliance with the grant terms and provisions. Grantees are also required to provide cash draw down information, which is necessary for estimating outstanding grant advances and payables at year-end.

During our audit, we noted the following exceptions:

NCSA Grants:

- 13 of 39 grant files reviewed did not have the current FSR on file;
- Two of 39 grant files reviewed contained current FSRs that were submitted late

DVSA Grants:

- For five of 21 grant advance balances reviewed, at least one FSR was submitted late;
- For 16 of 32 grant payable balances reviewed, at least one FSR was submitted late.

Failure to receive the FSRs within the established timeframe does not allow the Corporation to record grant expenses, advances, and payables in a timely manner. Additionally, missing FSRs makes it difficult to review matters concerning grantees should questions arise in the course of the year or during the grant close out process.

We recommend that the Corporation implement review, follow-up, and punitive procedures, if appropriate, to ensure that grantees submit the FSRs in a timely manner.

A.3 Grantee site visits should be improved

Internal control weaknesses identified during site visits are not always communicated to grantees on a timely basis. Additionally, corrective actions on the noted deficiencies are not always communicated to the Corporation on a timely basis.

During our audit, we noted the following exceptions:

NSSC Monitoring Visits

- For one of 20 monitoring visits, the Corporation could not provide evidence that the report was issued;
- 10 of 20 monitoring reports were not issued within a timely manner (i.e., within 20 days);

(Continued)

- For eight of 20 monitoring reports reviewed, the Corporation did not receive corrective action plans or follow-up letters that addressed the deficiencies that were identified during the monitoring visit;
- Six of nine corrective action plans or follow-up letters were not received in a timely manner (i.e., 20 days)

State Administrative Standards Visits

- Three of five state administrative standards visit reports reviewed were not issued to the grantee in a timely manner (i.e. within six weeks);
- For all five state administrative standards visits reports reviewed, the Corporation did not receive corrective action plans from the grantees that addressed the deficiencies that were identified during the monitoring visit.

Grant Management Staff Monitoring

- Two of five monitoring visit reports reviewed were not submitted to the grantee in a timely manner (i.e., within 15 working days);
- Three of five corrective action plans were not received in a timely manner (i.e., within 30 days).

The Corporation may not take appropriate and timely action, if internal control weaknesses are not followed up to ensure timely resolution.

We recommend that the Corporation reemphasize the importance of issuing monitoring reports and obtaining corrective action plans from the grantees within the timeframe established by the Corporation. Also, the Corporation should notify the grantees of the appropriate actions that will be taken to penalize those grantees that consistently miss reporting deadlines.

A.4 The Corporation is not properly maintaining and utilizing the NSSC Compliance Monitoring database

The Corporation maintains a NSSC Compliance Monitoring Database to track NSSC monitoring visits that are performed by the State Offices. During our audit, we noted the following exceptions:

- 13 of 30 grantees selected for testing did not have a site visit conducted;
- Two of 30 grantees selected did not have a site visit conducted within the last three years;
- None of the five monitoring compliance site visit reports reviewed agreed to the documentation in the NSSC Compliance Monitoring Database.

- For five of 20 monitoring visits, the Corporation could not locate the Monitoring Compliance document that was used during the visit.

The foregoing exceptions indicate that the Corporation is not properly maintaining its NSSC Compliance Monitoring Database. Inaccurate updating of the database does not allow the Corporation to ensure that NSSC grantees have site visits performed every three years in accordance with Corporation policies. Also, the Corporation may not take appropriate and timely action, if they are not aware of problems that may require specific attention.

We recommend that the Corporation reemphasize the importance of updating the NSSC Compliance Monitoring Database with accurate information and in a timely manner. The senior program staff should review the Database to ensure that site visit information is adequately uploaded based on reports received from state offices. Semi-annual reviews of the database should also be established in order to ensure that all NSSC grantees have been monitored within the last three years.

(B) National Service Trust

B.1 The process of reviewing WBRS Reconciliation Reports should be strengthened

During our test work over the National Service Trust, we noted that cluster representatives had not reviewed four of the 30 WBRS Reconciliation Reports selected. As a result, discrepancies identified for four members were not adjusted in the VMS/SPAN database as follows:

- Two members should have been terminated on 11/9/00 and 12/20/00;
- One member should have been enrolled on 7/6/01;
- One member (a pending member) should have been enrolled and terminated by 8/7/01.

Although the effect of the exceptions noted was not considered material, inaccurate information in VMS/SPAN could result in errors when future educational award payments are requested and in the computation of the National Service Trust Liability for financial statement purposes.

We recommend that the Corporation emphasize the importance of the WBRS reconciliation process as a key control over the accuracy of the SPAN Database. Further, we recommend that cluster representatives document their review in order to facilitate the discharge of their job responsibilities.

B.2 Member end-of-term forms are not always approved timely

For six of the 20 non-VISTA members selected, we noted that the time lag between the service completion date and the date the certifying official approved the end of term form in WBRS was over one month. The processing delay for two of the six members amounted to over 110 days.

Delays in processing members' exit could impact the calculation of the service award liability and related expenses.

OFFICE OF THE INSPECTOR GENERAL

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Recommended Improvement to the Corporation's Internal Controls – Management Letter

Fiscal Year 2001

We recommend that the Corporation reemphasize the importance of timely processing members' exits within a 30-day period following member sign off and service completion date to all programs.

B.3 The Corporation's methodology for calculating the Service Award Liability estimate needs to be reviewed

During our review of the Corporation's methodology for calculating the service award liability, we noted that some of the assumptions used in the model should be reviewed as follows:

- The model does not use historical data in determining the liability for the still active members expected to earn an award.
- The model does not account for the interest forbearance liability related to the awards expected to be earned by the still active members.
- The model incorrectly excludes actual outlay distributions made during the base year for program ages two through seven in the projection of the usage rates for the educational awards and interest forbearance.

We recommend that the Corporation review the above assumptions in its service award liability model and use historical data available to ensure that more reasonable estimates of the service award liability are calculated.

B.4 Certain Members inappropriately received service awards

Our test of the SPAN Database included a computer assisted audit technique for a comparison of the enrollment date to the completion date for all members who earned service awards. As a result of these procedures, we noted that:

- 478 members who completed service in less than 235 days for program years 1994 through 2000 earned a full-time award;
- 1,139 members who completed service in more than 400 days for program years 1994 through 2000 earned a full-time education award.

Applicable laws and regulations require full-time members to complete service during a "period of not less than 9 months and not more than 1 year".

- 17 members who completed service in more than 1095 days earned a part-time education award. Applicable laws and regulations require part-time members to complete service during a period of "not more than 3 years".

We recommend that the Corporation periodically review the SPAN database to ensure that the awards are earned within the time period required. Any exceptions to the time requirements should be followed up and resolved with the program sponsors.

(Continued)

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Recommended Improvement to the Corporation's Internal Controls – Management Letter

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(C) Human Resources

C.1 Controls over payment of subsistence to VISTA members should be improved

During our test work over 66 VISTA members during fiscal year 2001, we noted the following payroll processing exceptions:

- Two members received a prorated education award, although their service was terminated without compelling reasons;
- Two members were issued up to three subsistence payments after their effective termination date due to the delayed notification of their termination or the delayed processing of their end of term forms.
  - One individual (MD) was issued overpayments in the amount of $1,251.38 (four paychecks), but these paychecks were returned by the project director and cancelled by Treasury;
  - One individual (TX) was paid for a full pay period as opposed to only five days. The overpayment amount of $222.48 was brought to the attention of the Corporation upon our finding;
  - One individual (VA) was issued overpayments in the amount of $1,000.12 (three paychecks plus one extra day) in December 2000. We noted that the Corporation canceled four checks in November 2001, instead of three. As a result, the Corporation owed $895.01 to the individual for 13 days.

Proper internal controls require that an authorized person review payroll records for VISTA members for accuracy prior to disbursements.

We recommend that an independent review of VISTA payroll records be performed to identify and correct any noted errors prior to disbursements. Further, the monitoring of the sponsor verification process should be strengthened to ensure timely notification and processing of VISTA member terminations.

C.2 VISTA member files are incomplete

During our review of 66 VISTA member files for fiscal year 2001, we noted that files were incomplete as follows:

- Six application and sponsor evaluation forms were not signed by the State Program Director or Regional Program Director.
- 13 application and sponsor evaluation forms were not included in the member file.
- Two files did not have properly completed health questionnaire or health benefits forms.

(Continued)

- Seven files did not have a health questionnaire or health benefit form.
- Two files did not have completed Termination/Future Plans forms.
- 11 files did not have Sponsor Verification Letters for the pay periods selected.
- Three files did not have end-of-term forms.
- For three members who received an education award, the end-of-term forms reviewed were not signed and approved by a certifying official.

VISTA Member Guidelines require a complete application file that includes a completed health questionnaire or health benefit form, Termination/Future Plans form, application or sponsor evaluation form, and application form that includes the State Program Director signature.

We recommend that the Corporation reemphasize to all State Offices the importance of maintaining accurate and complete VISTA member files. Additionally, periodic spot checks of the completeness and accuracy of files should be made by the VISTA State Office Directors.

C.3 Inaccurate information is entered into VMS/SPAN for VISTA members

During our test work over 66 VISTA members, we noted that information was incorrectly entered in VMS/SPAN as follows:

- For one member reviewed, we noted that the name of the member was entered incorrectly in VMS/SPAN;
- For five members reviewed, the subsistence rate was incorrectly entered into VMS. As a result, 2 members were underpaid (total $573.50) and 3 members were overpaid (total $782).

Proper internal controls require that data entered into the VMS/SPAN system is complete, accurate and supported by source documentation.

We recommend that an independent review of information entered into VMS/SPAN be performed by a second individual and compared to source documentation to ensure its accuracy.

(D) Revenue from Reimbursable Agreements

D.1 Demand letters are not consistently sent on delinquent receivables

Five of 10 receivable accounts tested were delinquent (i.e., outstanding more than 30 days) as of September 30, 2001, however the demand letters were not consistently sent to the debtors during fiscal year 2001 as follows:

- For one exception, the Corporation was unable to produce documentation to support any collection efforts on a $95,000 account initially billed on September 30, 2000;

- For one exception, the file did not contain adequate documentation to support collection efforts. Additionally, we noted that this receivable is in the process of being written off as uncollectible;
- For the remaining three exceptions, the demand letters were sent seven, eight, and nine months late.

We continue to recommend that the Corporation run an exception report to determine which delinquent receivables have not been sent a demand letter on a monthly basis to ensure proper notification is provided to the debtors. In addition, we recommend that the director of accounting or another senior management review this report to determine which demand letters are not consistently sent on delinquent receivables.

D.2 The Corporation's methodology for aging receivables needs improvement

As noted in the prior year, although the Corporation bills cost share agreements quarterly, the Corporation does not send demand letters until after the end of the agreement period. Such receivables are not considered delinquent until two demand letters have been sent. Thus, no interest penalties are assessed on cost share receivables until 90 days after the date of the final invoice, when interest is retroactively calculated as of the 60th day after final invoicing. For example, the first quarter billings of a one-year cost share agreement would be twelve months old before being classified as delinquent.

The Corporation also does not commence the aging of receivables for cost share agreements until the final date of invoicing. Thus, the first quarter billings of a one year cost share agreement would be nine months old before the Corporation starts to count the number of days outstanding for purposes of calculating the allowance for doubtful accounts (i.e., the date of final invoicing is considered "day one" for aging purposes).

We continue to recommend that the Corporation review and revise its cost share accounting policies to use the due date specified on each invoice as the "begin date" for aging of receivables and assessing penalties and interest.

(E) Information Technology

E.1 Recommendations for continued improvements in the electronic processing of financial transactions

The Corporation has made significant progress over the past several years in automation of its key business processes. It has implemented a financial management/general ledger system, has developed a system to manage participants, educational awards and the National Service Trust, and is in the process of deploying a new system that facilitates grants management. Looking ahead from this point, it is recommended that the Corporation analyze where its financial processes still have manual procedures interspersed with the automated systems. Manual processing procedures, in general, create opportunities for human error and variability that can have an affect on data integrity.

They also can cause gaps in the electronic audit trail for financial transactions. Even with good paper-based controls for manual procedures, overall financial transaction processing is inherently less repeatedly reliable with interspersed manual procedures than a process that is electronic end-to-end. (This recommendation is not meant to imply that there should be any less human oversight, approval or verification of the financial transactions.)

Increased reliance on automated processes can improve data integrity and the reliability of financial transaction processing, as discussed above. However, at the same time, automated processes require increased attention to specific controls for data validation and access to the application system. Without adequate controls, there is a potential for systematic repetition of errors, and therefore, a potentially greater impact from problems.

It is recommended that the Corporation review the processing of financial transactions for the System for Programs, Agreements and National Service participants, and consideration be given to automating those processes that will result in a saving of time and an increase in data accuracy.

E.2 Lack of proper access controls for WBRS

As noted in the prior year, the following access control deficiencies in violation of OMB Circular A-130 were found:

- WBRS password entry attempts are not limited to three attempts; an individual may reload the login window and try to gain access indefinitely. Multiple failed attempts do not trigger a freezing of the account to defend the system against unauthorized access.
- Even though the training and help materials suggest that users should use passwords that are at least six characters long, there is no enforcement. Users were found with passwords of five character lengths.
- WBRS does not automatically log off after a period of 30 minutes of inactivity
- .We were informed by the Corporation that:
- For financial reasons, it did not complete the work necessary to comply with these findings. Funds are being made available in fiscal year 2002 to bring the system in compliance.
- There are also additional recommendations that have been made which it is planning on incorporating in to a redesign of WBRS that will make the system a module of the eSPAN system. This work will begin in the third quarter of fiscal year 2002 and will be completed in time for the beginning of the next grant cycle (2nd quarter of fiscal year 2003).

We recommend the Corporation continue these plans to improve access controls over WBRS.

CORPORATION
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MEMORANDUM

DATE: June 21, 2002

TO: Daniel Lybert, Assistant Inspector General for Audit

FROM: Jerry Yetter, Director of Accounting

SUBJECT: Comments on OIG Draft Report 02-02, *Recommended Improvements to the Corporation's Internal Controls – FY 2001 Financial Statement Audit Management Letter*

The Corporation has reviewed the draft management letter containing suggestions for improving internal controls and is pleased to note that several areas for improvement that appeared in the fiscal 2000 management letter are no longer considered areas in which improvements are needed. The Corporation's response to each of the issues in the management letter is provided below. In addition, the Corporation has completed action on 12 of the 15 recommendations included in the report. Therefore, this response also serves as notice of final action for those items.

A. Grants Management

Summary of Finding

The management letter stated that the Corporation should improve its oversight of OMB Circular A-133 reporting and grantee financial activity; grantee site visits should be improved; and the Corporation is not properly maintaining and utilizing the NSSC Compliance Monitoring database.

Corporation Comments

Oversight of A-133 Reporting

The Corporation is pleased with the improvements that have been made in grants management during fiscal year 2001, and agrees with the auditors' recommendations for strengthening procedures. The report recommends that the Corporation train staff and grantees on how to perform and document the A-133 audit review. The Corporation postponed A-133 training for staff this year in order to complete higher priority activities; however it has been rescheduled for December 2002. The Corporation is also planning a financial management seminar for grantees in 2003 at which grantees will also be trained on A-133 tracking, review and resolution of their subgrantees.

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The auditors also suggested that grantees whose A-133 audits have not been filed with the Federal clearinghouse should be placed in a "hold" status if the A-133 audit report is not submitted within a specified time period. Many of the Corporation's grantees, the state commissions and state education agencies, are part of a statewide A-133 audit that covers many state agencies. Because of the size and scope of these audits, there can be delays that are beyond the control of the Corporation's grantees. Therefore, the Corporation does not place these grantees automatically in a "hold" status. Instead, we consider each situation on a case-by-case basis and place conditions on grant awards as needed. **[Corrective Action Completed]**

Oversight of Grantee Financial Activity

The report recommends that the Corporation implement review, follow-up, and institute punitive procedures, if appropriate, to ensure that grantees submit the Financial Status Reports (FSRs) in a timely manner.

While the Corporation does take punitive measures against grantees who fail to submit timely FSRs when necessary, it is important to note that failure to receive FSRs for grants that are paid through the Health and Human Services Payment Management System (HHS PMS) has no relation to the recording of grant expenses, advances, and payables. Such transactions are recorded based on an automated interface between the Corporation's financial management system, *Momentum*, and HHS PMS. The Corporation correctly records what is actually drawn down on a daily basis and does not wait for FSRs to be submitted. Since all grants awarded by the Corporation after July 1, 2001, are paid through HHS PMS, the need to rely on FSRs to record grant expenses, advances, and payables is diminishing. In the future, FSRs will only be needed to certify grant activity at closeout. Thus, the Corporation believes that the transition of all new grants to HHS PMS and the recording of transactions based on real-time information in a paperless environment supercedes the need to implement new procedures related to paper FSRs. **[Corrective Action Completed]**

Grantee Site Visits and the NSSC Compliance Monitoring Database

The auditors recommended that the Corporation reemphasize the importance of issuing monitoring reports and obtaining corrective action plans from the grantees within the timeframe established by the Corporation. They also suggested that the Corporation reemphasize the importance of updating the NSSC Compliance Monitoring Database with accurate information and in a timely manner.

The Corporation is pleased that timeliness was the primary problem and that the auditors found that site visit and monitoring reports are issued and staff is following up on problems. The Corporation has reminded grant and program staffs of the importance of timely follow-up. In addition, the new eGrants database will assist Corporation staff in providing timely feedback and follow-up. Site visit reports will be entered on-line and provided to the grantees electronically. Staff will receive reminders of due dates for reports and also for dates when corrective action plans are due from grantees. The Senior Corps monitoring database is also incorporated into eGrants and will be updated regularly. **[Corrective Action Completed]**

B. National Service Trust

Summary of Finding

The management letter stated that the process of reviewing WBRS Reconciliation Reports should be strengthened, member end-of-term forms are not always approved timely, the Corporation's methodology for calculating the Service Award Liability needs to be reviewed, and certain members inappropriately received service awards.

Corporation Comments

WBRS Reconciliation Reports

The auditors recommended that the Corporation emphasize the importance of the WBRS reconciliation process as a key control over the accuracy of the SPAN database, and that cluster representatives document their reviews of the reports.

The Corporation agrees with this finding, and has instituted a written procedure for cluster representatives to follow in documenting their reviews. **[Corrective Action Completed]**

Member End-of Term Forms

The report recommends that the Corporation reemphasize the importance of promptly processing members' exits to all programs.

The Corporation recognizes that timely processing is important to all financial operations and reemphasized the need for programs to enter forms in a timely manner. **[Corrective Action Completed]**

Calculation of the Service Award Liability

The auditors suggested that three of the assumptions used in the model should be reviewed: (1) the model does not use historical data in determining the liability for the still active members expected to earn an award, (2) the model does not account for the interest forbearance liability related to the awards expected to be earned by the still active members, and (3) the model incorrectly excludes actual outlay distributions made during the base year for program ages two through seven in the projection of the usage rates for the educational awards and interest forbearance.

During fiscal 2001, the Service Award Liability model was reviewed and enhanced by an outside accounting firm, PricewaterhouseCoopers (PwC). PwC determined that the underlying methodology, including the estimate for still active members expected to earn an award, was reasonable. The Corporation has performed historical analyses of data and concluded that while there is a trend in earning and usage over time, there is no definitive trend in the earning of actives expected to earn. The determination of whether a volunteer will earn

or not is dependent upon numerous outside factors including the personality and goals of the volunteer as well as the disposition of paperwork. However, the Corporation has updated the model to incorporate KPMG's suggestions and will continue to review the model as deemed necessary. **[Corrective Action Completed]**

Member Service Awards

From their test of the SPAN database, the auditors noted that 478 members who completed service in less than 235 days for program years 1994-2000 earned a full time award, 1,139 members who completed service in more than 400 days for program years 1994-2000 earned a full time award, and 17 members who completed service in more than 1,095 days earned a part time education award. They suggested that the Corporation periodically review the SPAN database to ensure that the awards are earned within the time period required.

The Corporation also conducted a review of the SPAN database and agrees that a small percentage of the records maintained in the SPAN database had discrepancies (specifically 336 members who completed a full time term in less than 235 days, 1,115 members who completed service in more than 400 days and nine members who completed service in more than 1,095 days). All of the discrepancies noted by the auditors occurred in program years prior to 2001. The Corporation has implemented various controls to virtually eliminate discrepancies such as those that occurred prior to program year 2001. For those members who completed service in more than 400 or 1,095 days, the net effect upon the Trust would be virtually the same should they have completed service in 365 days or 1,095 days. The Corporation would still be liable for paying those members prorated awards. **[Corrective Action Completed]**

C. Human Resources

Summary of Finding

The management letter stated that discrepancies were noted between in VISTA subsistence payments; VISTA member files and data entered into SPAN on VISTA members.

Corporation Comments

VISTA Subsistence Payments

The auditors recommended that the Corporation conduct an independent review of VISTA payroll records and improve monitoring to ensure timely notification and process of VISTA member terminations.

The Corporation will continue to emphasize the importance of maintaining accurate VISTA payroll records. In addition, the Director of VISTA and the Director of Field Liaison will reissue a directive to all state office employees stressing the importance of a timely review and verification of the bi-weekly verification reports. The Corporation also installed a VISTA Payroll Help Desk this year (VISTAHD) to facilitate timely response and feedback for payroll

verification. One of the functions of this help desk is to immediately reissue missing verification reports. **[Corrective Action Completed]**

VISTA Member Files

The auditors recommended that the Corporation reemphasize to all State Offices the importance of maintaining accurate and complete VISTA member files and to perform periodic spot checks.

Earlier in fiscal 2002, the Director of VISTA and the Director of Field Liaison issued such a direction to state office employees. Another message will be sent in July. In addition, the Corporation conducted random spot checks of VISTA files for completeness during fiscal 2002. **[Corrective Action Completed]**

SPAN Data Entry for VISTA Members

The auditors recommended that the Corporation perform an independent review of data entered into SPAN.

The Corporation does not believe that implementing this recommendation is a cost-effective method to achieve the desired result—100% accuracy. However, an automated review of data is performed during the processing of each bi-weekly payroll cycle. Prior to issuing VISTA payroll, AFMS staff run a number of exception reports based on criteria developed to identify anomalies and/or erroneous payments. These reports are reviewed and needed adjustments are made in SPAN before the payroll is processed. The Corporation also now provides a series of monthly reports to state offices that identify missing or inaccurate SPAN data. **[Corrective Action Completed]**

D. Revenue from Reimbursable Agreements

Summary of Finding

The management letter stated that demand letters are not consistently sent on delinquent receivables, and the Corporation's methodology for aging receivables needs improvement.

Corporation Comments

Demand Letters

The auditors recommended that the Corporation run an exception report to determine which delinquent receivables have not been sent a demand letter on a monthly basis to ensure proper notification is provided to the debtors. In addition, they suggested that the Director of Accounting or another senior manager review this report to determine which demand letters are not consistently sent on delinquent receivables.

The AFMS Accounts Receivable team runs monthly reports of all accounts receivable and a staff member monitors the status of each receivable. Monthly monitoring of the accounts receivable reports includes verifying that an initial demand letter is sent timely, that a debtor file is forwarded to headquarters for further collection action, and that the debt is sent to Treasury according to Federal and Corporation Debt Collection regulations. Accounts receivable staff request and documents monthly updates from the originating office of each receivable. The Corporation considers its monitoring process to be appropriate given the immaterial nature of its receivables. The exceptions noted by the auditors primarily arise from time delays in sending demand letters due to the wide variety of transactions handled by a limited number of service center personnel. However, the Corporation has reemphasized the need to send demand letters out in a timely manner. **[Corrective Action Completed]**

Methodology for Aging Receivables

The auditors recommended that the Corporation review and revise its cost share accounting policies to use the due date specified on each invoice as the "begin date" for aging of receivables and assessing penalties and interest.

Corporation Policy Number 801, AmeriCorps*VISTA Cost Share Agreements, was issued by the AmeriCorps*VISTA office on March 22, 2001. The terms of the cost share agreements clearly state that payments shall not be considered delinquent until 90 days after the *end of the agreement period* and interest and penalties will be assessed only after the final invoice becomes delinquent. The Corporation enters into cost share agreements with many small sponsors that receive funding of an intermittent nature; this type of arrangement for annual payment is considered more appropriate for these sponsors than requiring quarterly payments. **[Corrective Action Completed]**

E. Information Technology

Summary of Finding

The management letter recommended that the Corporation continue its improvements in the electronic processing of financial transactions and remedy the lack of proper access controls for WBRS.

Corporation Comments

Electronic Processing of Financial Transactions

The auditors suggested that the Corporation review the processing of financial transactions for SPAN, and consider automating those processes that will result in a savings of time and an increase in data accuracy. They also said that the Corporation should continue its plans to improve access controls over WBRS.

The Corporation will review its manual processes. The Corporation, over the next year, will incorporate WBRS into its larger eSPAN system, thus reducing some manual processing of what is now data transferred in electronic files. However, there may be instances where the risks involved in manual processes are not great enough to justify the expenditures needed to automate them.

Lack of Proper Access Controls for WBRS

The Corporation is proceeding to implement the suggested improvements in WBRS security. Further, as noted above, the Corporation over the next year is incorporating the WBRS system into its eSPAN system and will be able to utilize the security features of that system.

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Status of Prior Year Management Letter Comments – Management Letter

Fiscal Year 2001

Fiscal Year 2000 Management Letter Comment	Fiscal Year 2001 Status
Grants Management	
A.1 An automated method of reconciling between PMS and Momentum currently does not exist.	Closed
A.2 Grant files continue to lack required documentation.	Substantially resolved, hence considered closed.
A.3 Procedures for Administrative Close-out of DVSA Grants are not consistently performed.	Included as a component of the fiscal year 2001 grants management reportable condition.
National Service Trust	
B.1 Trust voucher processing lacks a tracking system and established time frame for payment issuance.	Closed
B.2 Controls over educational award payments should be strengthened.	Closed
B.3 Controls over accuracy of information entered into SPAN should be improved.	Closed
B.4 Member enrollment and end-of-term forms on file are not always properly completed and approved timely.	Partially Resolved. See fiscal year 2001 MLC B.2.
B.5 Certain Members inappropriately received service awards.	Repeated. See fiscal year 2001 MLC B.4.
B.6 The Trust Award liability calculation incorrectly included certain pending Members.	Closed
B.7 The roster confirmation process was ineffective during FY2000.	Closed – Trust is no longer using the Roster confirmations process.
Content of Annual Financial Report	
C.1 Additional improvements in the content of the Corporation's Annual Financial Report should be made.	Closed
Revenue from Reimbursable Agreements	
D.1 Cash receipts are not consistently deposited and recorded in a timely manner.	Substantially resolved, hence considered closed.
D.2 Cost share agreements are not consistently established in Momentum in a timely manner.	Substantially resolved, hence considered closed.
D.3 Demand letters are not consistently sent on delinquent receivables.	Repeated. See fiscal year 2001 MLC D.1.
D.4 The Corporation's methodology for aging receivables needs improvement.	Repeated. See fiscal year 2001 MLC D.2.

(Continued)

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Status of Prior Year Management Letter Comments – Management Letter

Fiscal Year 2001

Fiscal Year 2000 Management Letter Comment	Fiscal Year 2001 Status
Information Technology	
E.1 Incomplete disaster recovery plan testing	Closed
E.2 Inadequate Internal Control Assessment for Momentum at the National Business Center.	Closed
E.3 Shared Momentum System Administration Account.	Closed
E.4 Lack of proper access controls for WBRS.	Repeated. See fiscal year 2001 MLC E.2
Procurement and General Expenses	
F.1 The Corporation's cut-off policy for recording liabilities for goods and services received, but not paid at year end, should be revised.	Closed
F.2 Duplicate vendor codes should be deleted from Momentum.	Closed
Human Resources	
G.1 Controls over processing of payroll and maintenance of supporting documentation should be improved.	Closed
G.2 National Civilian Community Corps member application files are incomplete.	NCCC files were not reviewed during fiscal year 2001 audit
G.3 Controls over National Civilian Community Corps payroll could be improved.	Closed
G.4 VISTA member files are incomplete.	Repeated. See fiscal year 2001 MLC C.2.
G.5 Inaccurate information is entered into VMS for VISTA members.	Repeated. See fiscal year 2001 MLC C.3.
G.6 Approval of Federal payroll reconciliation is not secured by a cryptography system.	Closed
Net Position	
H.1 Expired obligations are not consistently de-obligated.	Closed