OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

RECOMMENDED IMPROVEMENTS TO THE CORPORATION'S INTERNAL CONTROLS FISCAL YEAR 2002 – MANAGEMENT LETTER

Audit Report Number 03-02
January 24, 2003

Prepared by:

KPMG LLP
2001 M Street, NW.
Washington, D.C. 20036

For the Corporation for National and Community Service

This report was issued to Corporation management on May 7, 2003. 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 November 7, 2003, and complete its corrective actions by May 7, 2004. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

CORPORATION
FOR NATIONAL
SERVICE

Office of Inspector General
Corporation for National and Community Service

Recommended Improvements to the Corporation's Internal Controls
Fiscal Year 2002 – Management Letter
Audit Report 03-02

Introduction

In accordance with the Government Corporation Control Act (31 U.S.C. §§ 9101-10), the Office of Inspector General engaged KPMG LLP to audit the Corporation for National and Community Service's fiscal year 2002 financial statements. Their audit, conducted in accordance with government auditing standards, resulted in an unqualified opinion on the Corporation's financial statements. Audit Report 03-01, *Audit of the Corporation for National and Community Service's Fiscal Year 2002 Financial Statements*, describes the basis for the opinion as well as the reportable internal control conditions, and the weaknesses noted in the approval of AmeriCorps national service positions.

The auditors also noted certain matters involving the control of financial reporting and other operational matters that were not considered material weaknesses or reportable conditions. Their report discusses these conditions and includes recommendations for corrective action. The Office of Inspector General has reviewed the report and work papers supporting the auditors' conclusions and recommendations presented.

We provided a draft of this report to the Corporation for review and comment. The response is included as Appendix B. In the response, the Corporation states that corrective action has been completed on many of the conditions. The Corporation also indicated that it did not concur with some of the conditions noted and presented additional work that has been conducted since the audit was completed. Follow-up action will be completed during the audit that is currently in progress for fiscal year 2003. It will determine the extent that corrective action has been implemented on all conditions reported.

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

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Management Letter

Fiscal Year 2002

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Recommended Improvements to the Corporation's Internal Controls

Fiscal Year 2002 – Management Letter

Table of Contents

		Page
Transmittal Letter		
Appendix A – Recommended Improvements to the Corporation's Internal Controls		
Grants Management		2
A.1	Oversight of OMB Circular A-133 reporting should be improved	
A.2	Site visit report monitoring should be improved	
A.3	Grant close out procedures should be improved	
A.4	Grant approval process should be improved	
National Service Trust		6
B.1	The process of reviewing WBRS Reconciliation Reports should be strengthened	
B.2	Member end-of-term forms are not always processed timely	
B.3	Certain members inappropriately received service awards	
B.4	Overpayment of education awards	
B.5	The Corporation's methodology for calculating the Service Award Liability estimate needs to be reviewed	
B.6	Improvements to Access Controls for the System for Programs, Agreements and National Service Participants (SPAN) need to be completed	
B.7	Database Integrity for SPAN periodically needs systematic review	
Accounts Receivable and Other Interest Revenue		9
C.1	The Corporation's methodology for aging receivables needs to be reviewed	
Budgetary Resources and Net Position		9
D.1	SF 133 Reporting should be improved	

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Recommended Improvements To The Corporation's Internal Controls

Fiscal Year 2002 – Management Letter

Table of Contents (continued)

		Page
Compliance with Laws and Regulations		10
E.1	Procedures should be established to monitor compliance with NCSA § 129 (b) (42 U.S.C. 12581 (b))	
Human Resources		
F.1	Reliance cannot be placed on automated controls for VISTA volunteer payments	10
General EDP Control Review		
G.1	Procedures should be established for the performance of Risk Assessments	11
G.2	The Business Continuity and Contingency Plan (BCCP) should be updated and tested	
G.3	Specific policies, procedures, and controls should be established for transactions that flow across multiple systems.	
Appendix B – Corporation Response		
Appendix C – Status of Prior Year Management Letter Comments		

2001 M Street NW
Washington, DC 20036

Inspector General and
Board of Directors
Corporation for National and Community Service:

We have audited the fiscal year 2002 financial statements of the Corporation for National and Community Service, and have issued our report thereon, dated January 24, 2003.

In planning and performing our audit, we considered the Corporation's internal control over financial reporting by obtaining an understanding of internal controls. We determined whether 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 separate 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 a matter we considered to be a reportable condition.

During our audit, we also noted other 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 may exist. We have not considered internal control since the date of our report.

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 Board of Directors and management of 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

January 24, 2003

KPMG LLP KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Recommended Improvements to the Corporation's Internal Controls

Fiscal Year 2002 – Management Letter

Grants Management

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

The Corporation for National and Community Service (Corporation) has developed an audit tracking system to assist in monitoring receipt of grantees' OMB Circular A-133 audit reports, and take appropriate action where required to ensure resolution of noted instances of internal control weaknesses and noncompliance.

The Corporation reviews the Federal Audit Clearinghouse (FAC) database during the award approval process to confirm whether the grantee submitted a single audit report to the FAC and whether there were any findings related to the Corporation. During our audit, we noted that for one of ten organizations selected for reviews for which the Corporation has oversight responsibilities, the Corporation awarded a grant for the budget period from September 30, 2002 to August 31, 2003 to the grantee without reviewing the A-133 audit report for the years ended March 31, 2000 and 2001. Additionally, for four of six grantees for which the Corporation conducted monitoring visits, the Executive Summary Reports prepared by the persons conducting the site visits did not include any reference to findings, although the audit reports on the FAC database were issued with a qualified opinion and contained findings related to Federal programs.

The grantee submits the reports 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. If there are findings related to the Corporation, or if the Corporation is designated as the oversight Federal agency, the FAC will forward the report to the Corporation to resolve audit findings related to its programs. The Corporation is required to issue its Management Decision within six months of receipt of the report, and must complete final actions within 12 months of receipt. During our audit, we noted for five of ten organizations for which CNCS has oversight, management decisions and final action related to the A-133 audit reports were not issued in a timely manner (i.e., six and twelve months, respectively).

In order to ensure instances of grantee internal control weaknesses and noncompliance are timely identified and properly resolved, we recommend the Corporation:

- Strengthen controls over the A-133 review process to ensure that this procedure is being performed and properly documented in the Executive Summary Reports. Receipt of the Single Audit report for the prior year should be a condition precedent to the granting or consummating of any new awards. 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 A-133 audit reports is maintained in the grant file for future reference.

(Continued)

- Provide training to Grant Management staff, commissions and National Direct grantees on how to properly review and document the A-133 audit review. The training should include (i) an overview of A-133 requirements; (ii) how to use the FAC; and (iii) how to perform and document a complete review.

- Implement procedures to ensure that the grantees for which the Corporation has oversight responsibilities are submitting A-133 audit reports to the FAC in a timely manner.

A.2 Site visit report monitoring should be improved

Internal control weaknesses identified during site visits are not always communicated to grantees on a timely basis. Additionally, corrective actions taken on the noted deficiencies are not always communicated to the Corporation on a timely basis. During our audit, we noted the following exceptions:

State Administrative Standards visits:

- All six of the State Administrative Standards visit reports reviewed were not issued to the grantee in a timely manner (i.e., within six weeks).

- For two of three State Administrative Standards visit reports reviewed, the Corporation did not receive corrective action plans from the grantees that addressed the deficiencies that were identified during the monitoring visits.

- For six of the eight State Administrative Standards visits conducted during the period July 1, 2002 through September 30, 2002, a site visit report had not been issued at the time of our review, although the submission date to the respective commission had passed.

Grants Management staff monitoring:

- Two of five monitoring visit reports reviewed were not issued to the grantee in a timely manner (i.e., within 15 working days).

- For one of five monitoring visit reports reviewed, the corrective action plan was not received in a timely manner (i.e., within 30 days).

- For one of the five monitoring visit files reviewed, the monitoring visit report was not included in the file.

National Senior Service Corps (NSSC) monitoring visits:

- Six of 12 NSSC monitoring visits reports were not issued within a timely manner (i.e., within 20 days).

- For two of 12 NSSC 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.

(Continued)

- One of ten corrective action plans or follow-up letters were not received in a timely manner (i.e., within 20 days).

In order to ensure appropriate and timely action is taken to resolve internal control weaknesses noted during monitoring visits, we recommend the Corporation:

- Continue to emphasize the importance of issuing monitoring reports and following up with grantees to obtain corrective action plans within the timeframe established by the Corporation; and

- Notify the grantees of the appropriate actions the Corporation intends to take to penalize those grantees that do not submit corrective action plans within the prescribed timelines.

A.3 Grant closeout procedures should be improved

National Community Service Act (NCSA) Grants

Although the Corporation has contracted with an independent contractor to assist in the closeout of grants that expired in prior years, no procedure has been established to enforce timely closeout of current grants expiring for NCSA. During our review of NCSA expired grants, we noted that none of the 31 grants initially selected were closed out within 180 days.

We also noted that there is a lack of effective communication between the Accounting and Financial Management Services (AFMS) and the Grants Management Office (GMO) who are responsible for performing the closeout procedures. The GMO is responsible for ensuring that the grant is properly reconciled and submitting the closeout memo to AFMS to close the grant in Momentum and the Department of Health and Human Services Payment Management System (HHS/PMS). AFMS is responsible for closing the grant and submitting a signed copy of the memo confirming that the grant was closed in Momentum and HHS/PMS, or if not closed, identifying the reasons. The feedback that we received during our interviews with the GMO and AFMS staff was that no follow up or discussion is held between these two departments to resolve issues reported by AFMS. We reviewed 39 grant files and noted the following exceptions:

- For one NCSA grant, an additional obligation of $25,000 was recorded in Momentum in an attempt to reconcile the grant to HHS/PMS.

- For another NCSA grant, the amount reported in HHS/PMS did not agree with the amounts reported in Momentum. The grant award amount of $56,000 was never accepted by the grantee; however, the award amount was not deobligated in Momentum.

- For a third grant, the grant was closed with a payable balance of $24,750 in error. The grantee received an overpayment of $24,750, which was refunded during the closing of the grant. However, the refund was recorded as a payable in error, rather than being recorded as a decrease in grant expenses.

Domestic Volunteer Service Act (DVSA) Grants

We also noted that the service centers are not closing out DVSA grants in a timely manner as follows:

- Five of 39 grants were not closed within 180 days.
- Four of 39 grants were not yet closed, although they have exceeded 180 days.
- For one of the four grants that were not closed, there was no evidence that the Certification for Program Requirements was received or requested.
- For three of the four grant files reviewed, there was no evidence that a reconciliation of advances to expenses was performed.

By not consistently performing closeout procedures, the Corporation risks not identifying excess amounts advanced to grantees that should be returned to the Corporation and not making adjustments to the financial statements, if any are required, in the proper period.

We recommend the Corporation:

- Develop a consistent method of identifying expired NCSA grants and enforce timely administrative closeout of these grants.
- Implement procedures to closeout most recently expired grants to avoid adding to the backlog from previous years.
- Develop timelines for the service center staff to request documentation required prior to the expiration date to ensure that grants are closed in a timely manner.
- Implement procedures to ensure that the issues identified by AFMS are logged and reviewed by a GMO senior official to ensure prompt resolution and timely closure. In addition, a copy of the approved closeout memo should be maintained in the grant closeout file.

A.4 Grant approval process should be improved

On June 13, 2001, the Corporation issued a new policy to permit programs to request approval for additional members for program years 2001 and 2002, not to exceed 20 percent of the original awarded national service positions, or ten members, to allow for an expected attrition rate. The policy was implemented with the understanding that if programs underestimated the attrition rate, which resulted in more members being enrolled than the approved budget allowed for, the program would be responsible for the living allowance costs in excess of the approved award. However, if the program underestimated the attrition rate, the corporation could still be responsible for the education award.

Continuation of this new policy could result in the Corporation approving national service positions in any fiscal year in excess of the number of such positions for which there are sufficient funds in the National Service Trust for that same year.

We recommend that the Corporation consider whether this policy should be continued in light of the difficulty in determining whether sufficient funds are available in the Trust to meet estimated costs, particularly on an ad hoc basis throughout the year as requests for approval of additional members are received.

National Service Trust

B.1 The process of reviewing Web-Based Reporting System (WBRS) Reconciliation Reports should be strengthened

We noted that Trust Fund operation specialists had not reviewed WBRS Reconciliation Reports during fiscal year 2002 for three programs selected. As a result, we noted discrepancies identified for three members that were not adjusted in the SPAN database at the time of our review.

Inaccurate information in SPAN could result in errors when future educational award payments are requested and in the computation of the Service Award 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 Trust Fund operation specialists document their review as evidence that the review was properly performed and to facilitate the discharge of their job responsibilities.

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

We noted that Program Directors processed eight of 30 non-VISTA members, and two of 30 VISTA members' end-of term information more than 30 days after the member's effective termination date. The processing delays for two of the eight non-VISTA members exceeded 45 days.

Delays in processing members' exit information could impact the calculation of the Service Award Liability and related expenses.

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

B.3 Certain members inappropriately received service awards

Our test of the SPAN database included computer assisted audit techniques for the 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:

- Four members who completed service in less than 235 days earned a full-time award in fiscal year 2002.
- Fourteen members who completed service in more than 400 days earned a full-time education award in fiscal year 2002.
- One member who received a full-time award in fiscal year 2002 had not completed 15 percent of the minimum required service period.

Additionally, we noted that for 38 members, the requested payment dates entered in SPAN, ranging from 2005 to 2043, were incorrect. These dates were not corrected in SPAN as of the completion of our audit test work.

We recommend the Corporation periodically review the SPAN database to ensure that awards entered into the database are earned and requested within the appropriate time. Any exceptions to the time requirements should be followed up and resolved with the programs. Additionally, approval for extensions should be adequately documented and filed.

B.4 Overpayment of Education Awards

During our computer assisted audit techniques, we noted that 46 members received overpayments totaling approximately $77,000.

Additionally, we noted that interest forbearance amounting to approximately $14,000 was paid on behalf of one full-time member who had performed service for only 12 months. We found no evidence of approval by the Director of the National Service Trust.

In order to ensure Trust funds are being disbursed appropriately and facilitate the Corporation's ability to obtain refunds if overpayments are made, we recommend that an independent review of payments be made to ensure the correct amounts are paid. Additionally, controls for overpayments should be improved to ensure refunds are pursued and recovered within a reasonable time.

B.5 The Corporation's methodology for calculating the Service Award Liability estimate needs to be reviewed

Although the Corporation made certain modifications to the National Service Award Liability model during fiscal year 2002, based on our audit recommendation in the previous year, we noted that some of the assumptions used in the model continue to require review 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 incorrectly calculates the weighted average distribution rate of award and interest forbearance outlays for age 0 and 1 of a program, because the embedded formula includes the artificially inflated usage rate related to the base year.

Additionally, we noted that the Corporation had revised select automated outputs and manually adjusted the model for the following:

- The weighted average distribution rate of award outlays for age 8 of a program calculated by the model based on historical data and, utilized an anticipated budgeted rate which appeared understated based on the available program experience.

- Exclusion of the still active members who have not completed service or have not been removed from the National Service Trust database for program years 1994 through 1999 from the liability calculation.

Failure to properly accrue for service awards and interest forbearance at year-end could result in the liabilities and related expenses to be understated. Additionally, the National Service Trust funding needs may be underestimated in the budget submission to Congress.

We recommend the Corporation review the above assumptions in its National Service Award Liability model and use historical data, where available, to ensure that more reasonable estimates of the Service Award Liability and annual budget needs are calculated.

B.6 Improvements to Access Controls for the System for Programs, Agreements, and National Service Participants (SPAN) need to be completed

The Corporation is converting SPAN security to Oracle software version 9i as well as the workstation operating system software to Microsoft Windows 2000. These changes provide a means to enable automatic workstation timeout mechanisms, and also provide the means to enforce mandatory password requirements. However, these software changes have been delayed by other priority work and were not yet accomplished for all workstations and users by the close of fiscal year 2002. For workstations and users who have not received the software upgrades, there is no automatic timeout or logoff mechanism of users in SPAN after a period of inactivity. Also, SPAN does not automatically force the initial password configuration for a new user to meet the password requirements of the Corporation Network and Computer Security Policy.

It is recommended that that this work be given sufficient priority to be completed during fiscal year 2003.

B.7 Database Integrity for SPAN periodically needs systematic review

The specific data errors noted during the computer assisted audit techniques that were done during fiscal year 2001 appear to have been corrected; however, new examples of data errors were observed during the current year's testing. These errors were provided to Corporation personnel for further analysis. Inaccurate information in SPAN could result in errors when future educational

award payments are requested and in the computation of the National Service Award Liability for financial statement purposes.

It is recommended that automated techniques be periodically used to systematically review the database. It is also recommended that an analysis of data errors that were uncovered be done to ascertain if new software edits or other types of software controls are warranted.

Accounts Receivable and Other Interest Revenue

C.1 The Corporation's methodology for aging receivables needs to be reviewed

The Corporation's methodology for aging receivables should be reviewed to ensure that delinquent debts are identified and closely monitored to ensure compliance with the Debt Collections Improvement Act of 1996.

As noted in prior years, although the Corporation bills cost share agreements to sponsors on a quarterly basis, the Corporation does not communicate with the sponsors regarding any delinquencies until after the end of the agreement period. Such receivables are not considered delinquent until two demand letters have been sent. Thus, no interest and penalties are assessed on delinquent cost share agreements until 90 days after the date of the final invoice, when interest is retroactively calculated as of the 60th day after final invoicing. For instance, 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 the purpose 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.

Budgetary Resources and Net Position

D.1 SF 133 Reporting should be improved

During our audit, we noted that the information reported by the Corporation on the final fiscal year 2002 SF 133 submitted to the Office of Management and Budget (OMB) did not agree with the audited financial statements as follows:

- There was a difference of $47 million between the amounts reported on line 14 C "Undelivered Orders" on the final SF 133 and those reported in the Corporation's general ledger. The grant accrual entry for $47 million was not posted until after the general ledger was closed, hence this was not reported on the final SF 133 submitted to OMB.

- $379 million that was included in general ledger account No. 4972 "Downward Adjustment from Prior-Year" was reported on line 15A "Disbursements" instead of line 15B "Collections" on the SF 133.

Additionally, we noted that the final SF 133 was submitted to OMB after approval by the staff accountant, and contained no evidence of review and approval by the budget officer or the Director of Accounting.

We recommend that the Corporation develop a process to estimate the grant accrual on a timely basis to ensure that adjusted balances are reported in the SF 133. Additionally, a more thorough review by the Director of Accounting of the SF 133 is required to ensure that balances are reported in accordance with Treasury's crosswalk. The SF 133 should be signed as evidence of the review.

Compliance with Laws and Regulations

E.1 Procedures should be established to monitor compliance with NCSA Subsection 129 (b) (42 U.S.C. 12581 (b))

NCSA Subsection 129 (b) (42 U.S.C. 12581 (b)) stipulates that AmeriCorps*Vista and AmeriCorps*NCCC members should receive priority funding for their post-service education benefits. During our audit, we noted that no procedures have been established by the Corporation to ensure that funds are set-aside for AmeriCorps*Vista and AmeriCorps*NCCC members. Additionally, during fiscal year 2002, we noted that the Corporation did not perform the "reservation" of approved positions procedure required under Subsection 129 (b).

We recommend that the Corporation implement procedures to ensure that the AmeriCorps*Vista and AmeriCorps*NCCC members receive priority funding.

Human Resources

F.1 Reliance cannot be placed on automated controls for VISTA volunteer payments

Requests that are sent to Treasury to disburse payments to VISTA volunteers are not handled in the same way as other Corporation disbursement requests. The Momentum system is not used to generate the payment requests. Momentum is only used to record corresponding summary level accounting information. VISTA payment request data destined for Treasury is extracted from the SPAN system into Microsoft Word files on a workstation, reviewed, edited and then copied manually to a Corporation fileserver located at the Department of the Interior National Business Center (NBC) located in Reston, VA. After operators at NBC are notified via e-mail that the payment request file has been placed on the server, they initiate an automated process that forwards the data to Treasury for the actual disbursement. Subsequent to sending the payment request to Treasury, Corporation staff make the corresponding summary level accounting entries into Momentum. The typical delay between the time the payment request is sent to Treasury and the time the accounting entries are made is two days.

Because there is manual access to the payment request data after it leaves the SPAN system and before it is transmitted to Treasury, automated system controls cannot be relied upon to ensure the integrity of the data. The manual process for making the accounting entries and the asynchronous timing of the entries present opportunities for error. Although we did not identify any specific problems in the Corporation's manual compensating controls (i.e., the reconciliation process), the manual and summary nature of the reconciliation process with Treasury leaves opportunity for possible errors to go undetected.

We recommend that the compensatory manual controls over this process be periodically reviewed by management, and that the payment process be automated end-to-end with appropriate controls as soon as practicable.

General EDP Controls Review

G.1 Procedures should be established for the Performance of Risk Assessments

The Corporation conducts periodic risk assessments in conjunction with re-accreditation of its information systems. However, it does not have documented procedures for how the risk assessments are to be performed. The Corporation has relied on the professional judgment of the contractor performing the risk analysis as to the scope of the risk analysis and what steps the risk analysis will entail. The risk assessments that the Corporation has had performed omit a business impact analysis, and have also only focused on information technology issues related to an individual system. They do not consider entire business transaction processes and the risks inherent in transferring data between systems using a variety of manual and semi-automated techniques. Because several of the Corporation's systems lack electronic system-to-system interfaces, and the risk assessments have only gone as far as the system boundaries, the information that Corporation management has received concerning business risks is artificially circumscribed by the technology employed.

We recommend that the Corporation establish specific procedures and criteria for the performance of risk assessments. Additionally, the risk assessments should take a multi-system approach whenever the business transaction processes involve more than one system, including the systems of service providers and business partners.

G.2 The Business Continuity and Contingency Plan (BCCP) should be updated and tested

The Corporation's Business Continuity and Contingency Plan (BCCP) has not been updated or tested since 1999 when it was prepared for Y2K. Significant changes have occurred for all of the Corporation's information systems since the Business Continuity and Contingency Plan was developed.

We recommend that the Business Continuity and Contingency Plan be updated to reflect changes that have occurred in procedures and responsibilities.

G.3 Specific policies, procedures and controls should be established for transactions that flow across multiple systems

The Corporation's information technology (IT) policies and procedures related to application systems, tend to be vertically oriented, and do not systematically cover situations in which data transactions flow across multiple systems and organizations, especially when they involve external service providers.

We recommend that the Corporation establish explicit IT policies and procedures for access control and maintenance and verification of data integrity for significant classes of transactions that flow across multiple systems and organizations, especially when they involve external service providers. These would be particularly important in cases where the data from one system is manually rekeyed into another system. (See example at F.1. above.)

Corporation for
NATIONAL &
COMMUNITY
SERVICE

APPENDIX B

MEMORANDUM

DATE: April 3, 2003

TO: Daniel Lybert, Assistant Inspector General for Audit

FROM: Jerry Yetter, Director of Accounting

SUBJECT: Comments on Draft Fiscal 2002 Management Letter (OIG Report 03-02)

The Corporation has reviewed the draft management letter containing suggestions for improving its internal controls and is pleased to note that the report shows continued improvement in this area. The Corporation's response to each of the issues discussed in the management letter is provided below. In addition, the Corporation has completed action on 16 of the 18 issues included in the report; therefore, this response serves as notice of final action for those items.

Grants Management

A.1 Oversight of OMB Circular A-133 Reporting

The Corporation tracks management decisions and final resolutions on A-133 audits in an Access database. This database will be replaced by eGrants, which is currently being implemented for all Corporation grant programs. eGrants will be the system of record for all application, review, monitoring and closeout processes related to grants. Once eGrants is fully implemented, paper files will be discontinued. Grant applications will be received and reviewed, awarded, monitored and closed out in the new system. Grants officers will also use the system to record their annual review of an organization's A-133 audit as they prepare to make grant awards. In addition, if a grantee has findings related to the A-133 audit, Corporation staff will indicate that in the eGrants system by placing a "red flag" in the database that is then associated with all grants to the organization. This alerts other staff that may be considering a new or continuing award to the organization to check with the appropriate grants officer before making any decisions on the award. The Corporation trained grants and service center staff on the new systems last summer and fall and conducted a comprehensive A-133 audit resolution training in December 2002. We also plan to provide guidance to Commission and National Direct staff on A-133 processes at the next grantee technical assistance meeting. **[Corrective Action Completed]**

In conjunction with the implementation of the new systems, the Corporation is revising its grants management policies and procedures. The new policies will include procedures to track whether grantees for which the Corporation has oversight responsibilities are submitting A-133 audit reports to the Federal Audit Clearinghouse in a timely manner. The revised policy will maintain our current policy regarding the circumstances under which the Corporation may add a condition

to a grant if an A-133 audit is not on file at the Federal Audit Clearinghouse. For example, most of the Corporation's AmeriCorps funds are awarded to state commissions. State commissions are usually audited as part of one audit of all federal funds received by the state. The commission is not responsible for completing and submitting the audit. As a result, the Corporation does not penalize the commissions if the state does not submit its audit in a timely manner. In other circumstances, particularly when the Corporation is the oversight agency, we will add a condition to the award and will place funds on hold if the audit is not submitted within a specified amount of time.

The report also suggested that the Corporation follow-up on findings contained in an A-133 audit as part of the Commission Administrative Standards Review process and document the resolution in the Executive Summary Report prepared after the Standards Review. The Corporation does not agree. The Commission Administrative Standards Review is conducted by a team of outside consultants and program staff and is only conducted once every three years. The Corporation's established policies and procedures for A-133 review and follow-up require annual review and make it the responsibility of grants office and service center staff. Since Administrative Standards Reviews are only conducted every three years, they are not an appropriate vehicle for A-133 review and follow-up. **[Corrective Action Completed]**

A.2 Site Visit Report Monitoring

The auditor's findings involved the timeliness of providing site visit reports to grantees and receiving any necessary corrective action plans needed based on site visit findings from grantees. In almost all of the exceptions noted in the audit, while the 15 or 20-day targets were not met, the reports were sent to the grantees within 6 weeks. The Corporation agrees with the auditors that we need to re-emphasize the importance of issuing site visit reports to grants on time and make sure they prepare corrective action plans according to timelines. We have done so. We have established policies and procedures related to grant monitoring and site visits which include guidelines for timely reporting. Both the Grants Office and the Area Managers who oversee offices responsible for Senior Corps monitoring have re-emphasized the importance of timely reporting.

In addition, with the implementation of eGrants all site visits for all programs are tracked through one central system that allows us to monitor timeliness and provide notifications of due dates for reporting. This standard and centralized system will be used to log all compliance monitoring tracking information, including grantee, date completed, date planned, staff conducting. This centralized data collection tool will eliminate multiple data points, as well as the possibility of introducing new errors at each point. Also we are taking the following specific steps:

- Area Managers will schedule internal reviews to specifically verify that compliance site visit protocols and timelines are followed;
- Area Managers will adopt more rigorous processes to engage cluster staff in compliance monitoring visits and will verify the status on a regular basis.
- Service Centers will participate in compliance monitoring visits when needed to support Area Managers and program staff.

The Corporation's monitoring of State Commissions is accomplished through the State Commission Administrative Standards Reviews. Overall, the findings cited involved timeliness

of steps in the Standards Review process. All Standards Review Reports have now been completed. The standards themselves and the processes are being revised and refocused in the coming months. As part of that development, we will establish reasonable timelines for future processes and assure adherence to them through reports to senior management. **[Corrective Action Completed]**

A.3 Grant Closeout Procedures

The Corporation agrees that we must enforce timely close out of grants and will be able to do so more effectively once we get rid of the backlog of expired grants. Our policies and procedures provide specific timelines for closeout and, over the last year, we have made substantial progress in closing out grants. However, we are still catching up with the extensive backlog and expect the backlog to be closed by the end of the year. We have implemented new systems that will help avoid adding to the backlog. Over the next year, as all grants are converted to the eGrants system, the closeout process will be simplified. Currently, the Corporation must conduct a reconciliation between its grants database, the Corporation accounting system and the HHS Payment Management System during the close out process. Frequently the accounts do not reconcile or the Corporation must await HHS or grantees correction of a reconciling item. Once eGrants is in place that reconciliation will be fully automated and closeout will be greatly simplified. Through this system, the Service Center staff will also be able to set up automatic notifications when closeout documentation is due that provide alerts to state office staff to prepare and submit required documentation.

We have also established new procedures to ensure that we follow up with the accounting staff if outstanding balances remain when grants are closed. The senior staff responsible for closeout prepare memos to AFMS when a grant is closed and AFMS returns the memo noting the action it has taken. The senior staff now review each returned memo and alert staff to any outstanding issues they need to address. We have a staff person now identified in AFMS with whom we work directly to resolve the issues. **[Corrective Action Completed]**

A.4 Grant Approval Process

In June 2001, the Corporation implemented a policy to permit programs to enroll more members than were originally awarded to the program because, based on program experience, over-recruitment and enrollment were necessary for the program to achieve full (or near full) enrollment after member attrition occurred. Because of the need to improve management controls over the number of education awards committed to members, the Corporation rescinded this policy in January 2003. In addition, the Corporation has instituted a process to report enrollment data to the CEO and CFO on a bi-weekly basis. **[Corrective Action Completed]**

National Service Trust

B.1 Web-Based Reporting System (WBRS) Reconciliation Reports

We agree that the reconciliation report process is a key control over the accuracy of the database. In the summer of 2002 the Director of the Trust changed the requirement for the frequency of the review from annually to quarterly. Cluster representatives have been instructed to document these quarterly reviews. This documentation should include the corrective action needed/taken,

identification of discrepancies, date of the quarterly review and a print out of both WBRS and SPAN rosters. During the audit three exceptions were noted that were not resolved in a timely manner (out of a universe of 880 programs). The Director of the Trust has reemphasized with Trust staff the need to complete these reconciliations in a timely manner. In addition, the Corporation has established a procedure to reconcile WBRS enrollment data with SPAN on a monthly basis. The results of the reconciliation will be reported to the CFO. **[Corrective Action Completed]**

B.2 Member End-Of-Term Form Processing

We concur with this recommendation. The relevant Corporation program offices at Headquarters will reemphasize to the state offices, commissions and AmeriCorps programs the importance of timely processing of member exit information. Any extenuating circumstances which prevent the timely exit of members (within 30 days of the member's completion date), should be documented in WBRS by the program.

B.3 Member Service Award Payment Processing

We completed our own review of the exceptions that the auditors cited in this finding. The report states state that 14 members completed service in more than 400 days. We found that this number is incorrect due to the fact that the auditors did not take member suspensions and reinstatements into account. All of these members had service time that was 365 days or less. In addition, WBRS has a control that does not allow full time members to serve more than 365 days. All of these members were downloaded from WBRS.

We also found that the member listed in the exceptions as not having completed 15% of the minimum required service period, did complete the full service time. This VISTA member served from July 20, 2001 until July 19, 2002, which is 365 days.

The finding states that there are 39 members from program year 1994 who received payments in 2002, after more than seven years from completion of their service. This is incorrect. Our research revealed that for thirty-six of the exceptions cited the Education Award payment had been schedule dates which were within seven years of the actual completion date. For the remaining three exceptions, the payments were to members who had requested and received an extension on the use of the Education Award prior to the expiration of seven years.

Four members were listed in the finding as having completed service in less than 235 days but earned a full award. Our review revealed that two of the four exceptions appropriately earned an award under the Corporation's personal compelling circumstance provisions (both members had served more than the 15% as required). The other two members completed the 1,700 hours of service to earn a full award, but did so in less than 235 days. In July 2002, a control was implemented in WBRS to ensure that full time members serve a minimum of 9 months before being eligible for a full award. These two members had completed service prior to the implementation of the control. **[Corrective Action Completed]**

B.4 Review of Education Award Payments

The finding asserts that one member was paid an interest amount of $13,866.23, and the payment was not adequately reviewed. Two Trust staff members independently reviewed this amount before the payment was made. There is not a dollar limitation on the amount of monies that the Trust can pay for interest forbearances. Appropriate controls are in place to ensure that funds are disbursed appropriately.

Due to inherent problems with the issuance of manual checks to thousand of institutions in the U.S. and internationally, circumstances occur where checks are lost in the mail, damaged, or improperly applied by the intended payee. Occasionally, these circumstances place our members in difficult positions and require the Trust to issue interim replacement or duplicate payments. On the surface, these payments can appear to be in excess of the member's award balance. However, SPAN also reflects the payment as a duplicate or replacement check. Moreover, if we determine that the original check is outstanding the Trust will request that the U.S. Treasury cancel the check and a credit is issued accordingly. However, if it is determined that both checks have been honored by Treasury and paid to an institution, the Trust seeks to recovery these funds. Controls and required authorizations are also in place to limit the number of replacement and duplicate checks. **[Corrective Action Completed]**

B.5 Service Award Liability Methodology

The Corporation utilizes a model developed by PriceWaterhouseCoopers and reviewed by KPMG to estimate anticipated education award, interest forbearance, and President's Freedom Scholarship payments from the National Service Trust Fund. The resulting liability estimate is used to prepare the Corporation's quarterly and annual financial statements and to project outlays and funding requirements of the Trust. The model calculates these estimates using historical trends in the AmeriCorps program including:

- enrollment level (number of members expected to be enrolled in a given program year);
- distribution of enrollment type (e.g. full time, part time, reduced part time);
- number of members who earn an education award;
- the average award amount earned by enrollment type;
- number of enrollees who drop out before earning an award (attrition rate);
- how much of the education award will be used (recognizes that not all education awards earned will be used);
- when a member will use an award (e.g. in first, second . . . or seventh year after earning the award);
- the distribution of Trust investments by type (percentage invested in Treasury bills and in Treasury notes or bonds); and
- projected interest earnings on the Trust balance.

Using these and other factors, the model estimates the Corporation's total liability at a specified point in time (either quarterly or annually) for all members enrolled and eligible to receive an award (those that have served at least 15% of a term of service). The model also allows for manual inputs to adjust those factors where there is insufficient historical data (e.g. there is only one "age 8" for the program, thus little data on which to determine a trend).

Each year the Corporation reviews and updates the model based on the best available current information, including suggestions resulting from its annual financial statement audit and will continue this practice in the future. **[Corrective Action Completed]**

B.6 System for Programs, Agreements, and National Service Participants (SPAN) Access Controls

The Corporation has made significant progress on the Windows 2000 rollout and expects to accomplish this by December 2003. To complete this process the Corporation will require one additional yearly computer purchase that will not occur until the end of the current fiscal year. The upgrade of eSPAN to version 9i of the Oracle software will be completed in the second half of fiscal year 2003.

B.7 SPAN Database Integrity

The Corporation reviewed the errors cited by the auditors and determined that all but two of the 137 items were not exceptions. In the case of the two exceptions found, an edit check was established in WBRS to prevent the entry of erroneous data. The Corporation will continue review the controls in WBRS and incorporate specific edits suggested during the annual financial statement audit. **[Corrective Action Completed]**

Accounts Receivable and Other Interest Revenue

C.1 Accounts Receivable Aging Methodology

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. However, for fiscal 2003 year-end financial statement preparation purposes, the Corporation will age all receivables according to the invoice date. **[Corrective Action Completed]**

Budgetary Resources and Net Position

D.1 SF133 Reporting

The Corporation disagrees with this finding. The SF 133s are compiled automatically by the US Department of Treasury FACTS system from data in the Corporation's general ledger *(Momentum)* in accordance with Treasury requirements. The differences cited in this finding are related to auditor and financial statement accrual entries and are not required on the FACTS submissions as they are not budgetary entries. Estimates for such entries made before the fact would be considered unnecessary and a duplication of effort. However, as the Corporation accelerates the preparation date for its financial statements, it will work with Treasury to determine if such accruals are appropriate to include in the future. In addition, the FACTS

submission cited in the finding was reviewed and certified by the Director of Accounting and is evidenced by an electronic signature. **[Corrective Action Completed]**

Compliance with Laws and Regulations

E.1 Monitoring Compliance with NCSA Subsection 129(b)(42 U.S.C. 12581(b))

Subsection 129(b) applies to approved national service positions, that is, positions for which an education award is one of the benefits for successful completion of a term of service. This provision requires that members enrolled in VISTA and NCCC approved national service positions receive priority for education awards over members enrolled in State/National approved national service positions. However, this provision does not direct any particular allocation of approved national service positions for the three AmeriCorps categories. In other words, this priority applies only after the Corporation has approved national service positions.

The Corporation established new procedures to ensure that AmeriCorps staff takes Trust funding needs into account and do not exceed the projected number of positions in making grants for AmeriCorps programs. These procedures include requirements for AmeriCorps to include an estimate of the number of positions that would result from a grant award and to track and report enrollment information to the Chief Executive Officer and Chief Financial Officer on a bi-weekly basis. These procedures have been provided to the Office of Inspector General.

The November 2002 enrollment pause obviated the need to apply the priority in subsection 129(b). These new procedures are designed to avoid having to take such a step in the future. Therefore we believe that the new procedures are sufficient to ensure that all approved national service positions in VISTA and NCCC are fully funded in the National Service Trust – which achieves the objective set forth in subsection 129(b). **[Corrective Action Completed]**

Human Resources

F.1 VISTA Volunteer Payments

The Corporation uses its SPAN subsidiary system, which has detailed information on individual members, to generate the Payment Files (Tcheck) for VISTA stipends on a bi-weekly basis. Summary data from the Tcheck file is used to update the general ledger (*Momentum*). These bi-weekly payment files are reconciled (which includes checking and reviewing data to ensure the proper payment to members) and transmitted to the NBC data processing center. Once the SPAN "Tcheck" process is run and the payment file generated no changes are made to the file. NBC transmits the file to Treasury for payment via ECS. The ECS payment process from the Corporation to NBC and then to Treasury is the same process as all payments from the Corporation. The subsequent posting of the SPAN summary to *Momentum* within two days is within current guidelines. The Corporation has concluded that the current process is accurate and secure, but will review the practicality of developing an automated interface for the transmission of data from SPAN to *Momentum.* **[Corrective Action Completed]**

General EDP Controls Review

G.1 Risk Assessments

The Corporation's Risk Assessments follow a proscribed methodology. This methodology is laid out in both OMB A-130 *Management of Federal Information Resources* and NIST SP 800-30 Risk *Management Guide for Information Technology Systems*. Within both of these documents the scope and steps of the risk analysis are defined and include business impact analysis and the interfaces of our systems. **[Corrective Action Completed]**

G.2 Business Continuity and Contingency Plan

The Business Continuity and Contingency Plan was updated as part of our most recent Accreditation project. The new plan has an issuance date of January 13, 2003 and is being incorporated into our Security Program where it will become an element our Disaster Recovery Plan and tested as part of our yearly disaster recovery testing. **[Corrective Action Completed]**

G.3 EDP System Interface Controls

In processes where its systems exchange data with other Federal agencies the Corporation uses established controls for transferring data between the systems. These controls dictate the procedures to be followed when transferring data and establish parameters for the actual data. These controls are detailed within the system specifications and are used as part of the data validation scheme. **[Corrective Action Completed]**

cc: Michelle Guillermin
Bill Anderson
Tom Hanley
Norm Franklin
Colleen Lanza
Jeff Page
Peg Rosenberry
Simon Woodard
Service Center Directors

APPENDIX C

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
STATUS OF PRIOR YEAR MANAGEMENT LETTER COMMENTS
Fiscal Year 2002 – Management Letter

Fiscal Year 2001 Management Letter Comment	Fiscal Year 2002 Status
Grants Management	
A.1 Oversight of OMB Circular A-133 Reporting should be improved.	Repeated. See fiscal year 2002 MLC A.1.
A.2 Oversight of grantee financial activity should be improved.	Closed
A.3 Grantee sight visits should be improved.	Repeated. See fiscal year 2002 MLC A.2.
A.4 The Corporation is not properly maintaining and utilizing the NSSC Compliance Monitoring database.	Included as a component of the fiscal year 2002 grants management reportable condition.
National Service Trust	
B.1 The process of reviewing WBRS Reconciliation Reports should be improved.	Repeated. See fiscal year 2002 MLC B.1.
B.2 Member end-of-term forms are not always approved timely	Repeated. See fiscal year 2002 MLC B.2.
B.3 The Corporation's Methodology for calculating the Service Award Liability needs to be reviewed.	Repeated. See fiscal year 2002 MLC B.5.
B.4 Certain members inappropriately received service awards.	Repeated. See fiscal year 2002 MLC B.3.
Human Resources	
C.1 Controls over payment of subsistence to VISTA members should be improved.	Closed
C.2 VISTA member files are incomplete.	Closed
C.3 Inaccurate information is entered into VMS/SPAN for VISTA members.	Closed

(Continued)

APPENDIX C

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
STATUS OF PRIOR YEAR MANAGEMENT LETTER COMMENTS
Fiscal Year 2002 – Management Letter

Fiscal Year 2001 Management Letter Comment	**Fiscal Year 2002 Status**
Revenue from Reimbursable Agreements	
D.1 Demand letters are not consistently sent on delinquent receivables.	Closed
D.2 The Corporation's methodology for aging receivables needs improvement.	Repeated. See fiscal year 2002 MLC C.1.
Information Technology	
E.1 Recommendations for continued improvements in the electronic processing of financial transactions.	Repeated. See fiscal year 2002 MLC B.6, B.7 and F.1
E.2 Lack of proper access controls for WBRS.	Closed