Response to the Semiannual Report to Congress

CORPORATION

FOR NATIONAL

SERVICE

October 1, 1996 - March 31, 1997

CNS Semiannual Report Number 7

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RESPONSE TO OIG'S SEMIANNUAL REPORT TO CONGRESS

Introduction

This Response is to the Office of the Inspector General's (OIG) Semiannual Report to the Congress for the period ending March 31, 1997. It discusses management decisions made and final actions taken in response to audits issued by the Office of the Inspector General, and it provides additional information related to certain concerns expressed in the OIG Report. This Response is submitted in conformity with the requirements in the Inspector General Act of 1978, as amended.

Authorized under the National and Community Services Trust Act of 1993, the Corporation engages Americans of all ages and backgrounds in community-based service to help meet the Nation's educational, environmental, public safety, and other human needs. The Corporation is working to harness the talent, energy, and commitment of America's citizens through three major programs: AmeriCorps, Learn and Serve America, and the National Senior Service Corps.

During the reporting period:

> Management decisions were made for three audits and final actions were taken on three audits, which resulted in a recovery of $9,000.
>
> Three audit reports with disallowed costs continued to be open more than a year after a management decision was made. One report was with the Department of Justice for action; the other two reports have been referred to collection agencies.
>
> During February and March of 1997 the Corporation completed and submitted Proposed Management Decisions for 24 of the 31 audit reports that were required to have been submitted to the Office of the Inspector General prior to March 31, 1997. These Proposed Management Decisions involved audit reports dating back to early 1996 and included required submissions through the current reporting period. The seven audit reports still outstanding are currently being processed and submission of proposed management decisions on these items is expected early in the next reporting period. We have established procedures to enable us to respond to audits within the appropriate timeframe, and we are monitoring the process. Our goal and commitment is to be current during the next reporting period.

None of the audit reports issued during the period involved a recommendation that funds be put to better use. The single unresolved audit report involving funds to be put to a better use was resolved during the prior reporting period.

As noted by the OIG, the Corporation is mindful of its responsibilities to prepare annual financial reports as required by the Government Corporation Control Act and to prepare assessments of its overall management controls structure. The Corporation could not meet the stated deadlines because it was essential to complete account reconciliations before reasonable account balances could be produced. Currently, the Corporation plans to complete its 1995 financial statements by June 15, 1997, and to complete its 1996 financial statements by September 1, 1997. The Corporation is aware of the requirement to complete assessments of internal accounting and administrative control systems and will comply with it.

As part of its Report , the OIG provided additional commentary on the operations of the Corporation. These observations and recommendations covered issues involving Auditing Activities, a Congressional Request, Financial Management Issues Related to CNS Grantees, Investigations, Other Significant Matters, and Review of Legislation and Regulations. Our comments on those sections of the Report follow. In each case we have referred these matters to the responsible departments within the Corporation for consideration, action or resolution as appropriate.

AUDITING ACTIVITIES

The Corporation continued its efforts to resolve management control issues which were identified in the Auditability Survey (OIG 96-38) which was conducted under the direction of the OIG in a prior reporting period. A partial assessment of the effectiveness of the Corporation's actions to resolve these control issues was completed during this reporting period. The results of this survey disclosed that a number of improvements had been made in correcting these deficiencies. A significant effort still remains before all of the necessary management control corrections are complete and the Corporation is able to submit audited financial statements as required. Those efforts at improvement are continuing at this time. A follow-up survey that is scheduled to be completed during the next reporting period will reflect significant improvements in this area. However, because the deficiencies existed throughout the 1996 fiscal year, the Chief Financial Officer (CFO) of the Corporation agrees with the Inspector General's (IG) judgment that it would serve no useful purpose to seek an audit of 1996; instead, a plan has been implemented to do significant work on achieving solid ending balances on the Corporation's books at the end of 1996 so that the Corporation can seek an audit of the 1997 financial statements.

In January 1997, the OIG issued its final audit report on the financial statements of the National Service Trust Fund for fiscal years 1995 and 1994. The report identified a number of problems within the financial operations of the Trust Fund including difficulties in reconciling data within the Trust Fund System database and inadequate system controls over data entry, as well as an inability of the Corporation to appropriately support its determination of the Trust Fund's service award liability and expense. These are the same types of problems, and are for the same audit period, which resulted in the Corporation's not obtaining audits of its regular financial statements. At the present time, the Corporation is actively working to correct these deficiencies. Specifically, the Corporation has:

- Drafted a statement of work to create computer images all of the paper associated with the Trust to address the need for better filing, and is seeking technical advice on this system.

- Identified changes needed in the Trust data system and completed about 75 percent of those changes. The remaining changes are scheduled to be completed in the next two months.

- Identified software, developed by the Overseas Private Investment Corporation, to track our investment portfolio and provide reports needed for the financial statements.

- Tightened access to the Trust system.

- Refined procedures for estimating the Trust Fund's liability and completed a new estimate of Trust liability using data as of February 26, 1997. That data have been frozen for later audit.

The Corporation's CFO has decided not to seek a separate audit of the Trust Fund in future years. The activities of the Trust Fund will be included with the audit of the 1997 financial statements. The reports required to be submitted to the Congress on Trust Fund receipts and expenditures for the preceding fiscal years are currently being prepared and will be submitted with the Corporation's Annual Reports.

CONGRESSIONAL REQUEST

The Corporation appreciates the information provided to it as a result of the OIG's review of the Presidio Leadership Center (PLC). We have enhanced controls over the review and acceptance of participants in the programs, and we are improving our ability to know and record the costs associated with PLC's operations and training activities.

FINANCIAL MANAGEMENT ISSUES RELATED TO CNS GRANTEES

The Corporation continues to review its grants processes with a view toward streamlining procedures and ensuring that appropriate controls remain in place. Currently, the National Academy of Public Administration (NAPA) has been engaged to review certain operations at the Corporation, and they have been asked to review the entire grants process and make recommendations for improvement. We are committed to implementing suggestions that will enhance and strengthen our grants process.

At present, it would be premature to comment on the specific resolutions of the various audit comments and recommendations until the respective auditees have had an opportunity to respond and a management decision has been made specifying the final, mutually agreeable determination of the required corrective actions.

We are currently implementing a computerized audit follow-up tracking system as suggested by the OIG. We are collecting relevant data and will systematize it over the next few months.

Under the Corporation's follow-up system, the recipient of an audit has an opportunity to provide management with comments or additional information on audit findings. Management reviews the comments and provides the OIG with a proposed management decision, which is an evaluation of the weaknesses and recommendations identified in the audit report, as well as proposed actions to correct the deficiencies. This part of the audit resolution process may take up to 100 days. The proposed management decision becomes a final management decision upon concurrence by the OIG, a process that is to be completed within six months of an audit report being issued. The audit report is resolved, or closed, when all corrective actions have been completed.

In the area of administrative costs, the CFO and the IG have been working together to resolve differences and to come to an agreed-upon definition of what should be included in this category. The Corporation is pleased that the OIG has brought in a consultant to assist in this process. Both the CFO and the IG agreed not to penalize the grantees for following previous procedures, and there is an on-going, joint project to revise the guidelines to clarify this issue. The Corporation is committed to resolving this matter.

INVESTIGATIONS

The Corporation is committed to taking appropriate actions upon the completion of investigations conducted by the OIG.

OTHER SIGNIFICANT MATTERS

On April 24, 1997, the Corporation responded to the OIG's requests for a management report regarding the grantee in Puerto Rico. It is our understanding that the OIG has now opened an investigation into this matter. The Corporation will continue to

research ways to ensure that our practices do not allow unauthorized advances of grant funds to be made and that we guard against potential conflict-of-interest situations.

REVIEW OF LEGISLATION AND REGULATIONS

The OIG has offered suggestions in a number of areas related to legislation and regulations. Below are comments on several of those areas.

Reauthorization. The OIG has chosen to comment on an early discussion paper on possible proposals for a reauthorization bill. The draft bill currently being considered with the Administration bears only a partial resemblance to the discussion draft. The Corporation does not wish to comment on any discussion draft and believes the issues raised by the OIG should be addressed when a draft bill is finished.

Learn and Serve America National Service Scholars. The OIG has offered the opinion that the President should not have included the proposal for the National Service Scholars program supported from the National Service Trust in the 1998 Budget because the auditors were not able to offer an opinion about the Corporation's 1994 and 1995 financial statements for the National Service Trust. The Corporation has changed its methodology for assessing the liability in the Trust and has a good understanding of this liability. The President's proposal can be supported with the amounts requested for the Trust. Congress appropriates funds for a number of organizations, including the Department of Defense, for which audited financial statements are not available.

Corporation's Status as a Government Corporation. The OIG has asserted that the Congress would be better able to establish specific performance goals and accountability reporting if the Corporation were to become an independent Federal Agency rather than a Federal Corporation. We continue to believe the government corporation status improves our ability to manage the authorized programs and better reflects the public-private partnership of much of what we do.

The policy-setting document reviews conducted by the OIG have been most helpful to the Corporation.

* * * * *

Management Decisions and Final Actions

During the reporting period, three management decisions were finalized, reflecting $10,291 in disallowed costs. Also, final actions were taken on three reports that were outstanding in the Audit Resolution Tracking System (Table 1).

Audits With Management Decisions and Recommendations to Put Funds to Better Use

There were no audit reports with recommendations to put funds to better use (Table 2).

Audits With Disallowed Costs That Had No Final Action Within a Year of a Management Decision

Table 3 shows the three audit reports with disallowed costs that had not received final action within a year of the management decision. All of these reports will receive final action within the subsequent reporting period.

Management Decisions not Made Within Six Months

The OIG's Semiannual Report for this period identified thirty-one audit reports for which management decisions had not been made within six months of the audit report being issued. As discussed previously, proposed management decisions for 24 of these reports were submitted to the OIG during the months of February and March 1997 and are presently awaiting final resolution. Four of the remaining reports are part of the ongoing auditability issues which are currently in resolution and the remaining three are under review at this time as to an appropriate resolution of these relatively old items. We expect to resolve these issues in the next reporting period.

AUDITS WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE

(for the period October 1, 1996 - March 31, 1997)

		Number of Audit Reports	Funds to be Put to Better Use ($000s)
A.	Audit reports with management decisions on which final action had not been taken at the beginning of the period.	0	0
B.	Audit reports on which management decisions were made during the period.	0	0
C.	Total audit reports pending final action during the period (Total of A and B)	0	0
D.	Audit reports on which final action was taken during the period.	0	0
	1. Value of recommendations that were completed.	0	0
	2. Value of recommendations that management concluded should not or could not be implemented or completed.	0	0
	3. Total of 1 and 2	0	0
E.	Audit reports needing final action at the end of the period (Subtract D3 from C)	0	0

Table 2.

FINAL ACTION TAKEN ON AUDIT REPORTS WITH DISALLOWED COSTS

(for the period October 1, 1996 - March 31, 1997)

		Number of Audit Reports	Disallowed Costs ($000)
A.	Audit reports with management decisions upon which final action had not been taken as of September 30, 1996.	13	259.6*
B.	Audit reports upon which management decisions were made during the six-month reporting period.	3	10.3
C.	Total audit reports with management decisions upon which final action was pending during the reporting period (total of A and B).	16	269.9
D.	Audit reports upon which final action was taken during the reporting period (total of D.1. through D.4.).	3	35.2
	1. Recoveries		
	(a) Collections and offsets	1	9.0
	(b) Property in lieu of cash	0	0
	(c) Other (Reduction of questioned costs)	0	26.2
	2. Write-offs	0	0
	3. Audits with no disallowed costs	2	0
	4. Adjustment to disallowed costs resulting from a new, close-out audit which superseded an earlier audit report	0	0
E.	Audit reports with management decisions upon which no final action had been taken as of March 31, 1997.	13	234.7**

* These disallowed costs are taken from the original management decisions and do not reflect revised figures resulting from appeals. Revised amounts will be noted in the reporting period in which the reports receive final action. This figure represents an adjustment of $14.8 from the previous report.

** Of this amount, $182.0 has been referred to the Department of Justice for collection.

Table 1.

Audits With Disallowed Costs That Had No Final Action Within One Year of a Management Decision

(as of March 31, 1997)

None of the audit reports in this table had a recommendation that funds be put to better use.

Audit Number	Auditee	Management Decision Date	Amount of Disallowed Costs	Reason No Final Action Was Taken by September 30, 1995
89-41	Labor Agency of Metropolitan Washington D.C.	3/23/90	$182,001	Debt was forwarded to the Department of Justice on January 16, 1992
90-R21-31	Seneca Center, Inc.	10/15/90	$ 9,230	Debt was placed with a private collection agency
96-09	Okiciyapi	3/12/96	$ 29,631	Debt was placed with a private collection agency

Two additional audits with no disallowed costs have not received final action within one year of a management decision. The corrective actions for these audits includes issuing new policies and procedures.

Table 3