December 11, 1997

CORPORATION
FOR NATIONAL
SERVICE

The Honorable Albert Gore, Jr.
President of the Senate
Washington, D.C. 20510

The Honorable Newt Gingrich
Speaker of the House of Representatives
The Capitol
Washington, DC 20515

Dear Mr. Vice President and Mr. Speaker,

I am pleased to transmit the Semi-Annual Report to Congress prepared by the Office of the Inspector General (OIG) of the Corporation for National Service (the "Corporation") and the Corporation's report of final action, as required under Section 5 of the Inspector General's Act. The Act requires that I provide Congress with information regarding actions taken by management of the Corporation related to the OIG's activities and recommendations

These reports cover the six-month period from April 1, 1997 to September 30, 1997. During this period, the Corporation made management decisions on 15 audits and took final action on five others. The information required by the Act regarding these audits and the status of final actions by management on audits is presented in the enclosed Tables I, II and III. Final action is still pending on 52 audits. The Corporation is committed to eliminating the backlog of overdue final actions and has instituted processes to accomplish that goal as expeditiously as possible.

Three of the reports issued by the OIG in this reporting period-- related to Financial Auditability, the Corporation's Trust Fund and the Corporation's Gift Fund-- have provided valuable feedback on the Corporation's financial management and operations and its efforts to have auditable financial statements in 1998. Corporation actions related to these reports are described below.

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Report on the Follow-up Study to the Auditability Survey

The Corporation has set a goal to achieve an auditable balance sheet for the year ending September 30, 1997 and auditable financial statements for FY 1998. Achieving these goals requires that the Corporation address most of the 99 findings that rendered the Corporation's past financial statements unauditable. The OIG's July 1997 *Follow-up Report Study on the Auditability Survey* indicated that 72 of the original 99 findings had been corrected or appropriately addressed. Of the 27 remaining findings, 21 were material weaknesses or reportable conditions; since the report was issued in July, the Corporation has substantially resolved 12 of those conditions. For example, the Corporation has:

- implemented a system to properly value Accounts Receivable balances;
- implemented a disaster recovery plan;
- improved procedures for issuing reports on receipts of goods and services;
- segregated duties related to Trust Fund payments and administration; and
- improved systems for proper accrual of expenditures for goods and services received.

The Corporation has made significant progress on the remaining nine items, but is not yet satisfied that the items are fully resolved. For example, major improvements have been made on performing cash reconciliations for the Corporation as a whole, but the Corporation is still not satisfied with our process for reconciling cash for individual appropriations made to the Corporation.

The remaining weaknesses will be significantly aided by the implementation of a new financial management system. The need for a new system is itself one of the original recommendations. Actions taken in response to other recommendations, such as strengthening control over commitments, will be enhanced by the new system. In late 1995, the Corporation worked with Price Waterhouse, LLP to develop options and requirements for a new financial management system. The Corporation then submitted a request for reprogramming of funds to implement a new system. Just prior to the close of FY 1997, the Corporation secured the reprogramming of $3 million to support the development of this long sought improvement. While the Corporation hopes to have this system in place by FY 1999, the development process for such a system may take longer than a year. We will continue to improve the management control environment through other means while we develop the new system.

Beyond the specific issues raised in the auditability survey and its two follow-up reviews, the Corporation is committed to addressing larger management concerns that affect the management control structure. The Corporation is making systemic changes to improve its financial controls and strengthen its management culture. The 1998 Annual Plan approved by the Corporation Board of Directors includes key objectives for the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer to create such an environment, including:

- implementing management controls for all *Auditability Survey* issues;
- establishing a process for self-assessment of risk and the adequacy of the control environment;
- establishing periodic testing of the Corporation's operations in order to ensure compliance with control procedures;
- implementing accountability and performance measures for all units within the Corporation; and
- improving Corporation-wide policies and procedures.

Reporting Requirements

The Corporation is mindful of its responsibility to prepare annual financial reports as required by the Government Corporation Control Act (GCCA) and to prepare assessments of its overall management controls structure. As the OIG report notes, the Corporation has not met these requirements.

The 1995 financial statements and the associated management control report required by GCCA have been completed and are being circulated for final comment. They will be issued by December 15, 1997. This package also includes the reports needed to satisfy separate reporting requirements for activities of the Trust Fund and the Gift Fund. The 1996 statements and reports will be issued by January 31, 1998. At that point, the Corporation will be current with its reporting requirements. The 1997 management control report will be prepared and issued by the required date of March 31, 1998. Further, the Corporation will have its FY 1997 financial statements available for the audit by January 31, 1998.

The Corporation agrees with the need to establish a comprehensive risk-based management control assessment process in order to ensure compliance with control procedures and to help prioritize the areas that require further attention. As stated earlier, the development and implementation of such a risk-based control assessment process is a major objective of the Corporation's current year management plan.

Gift Fund Audit

The legislation creating the Corporation as a public-private partnership authorizes it to accept gifts in support of national service activities. Private contributions to the Corporation come through a Gift Fund. However, the systems and controls in the ACTION gift fund were not adequate for the increased level of activity that began when the Corporation was formed and the ACTION agency became part of it.

The OIG Semiannual Report to Congress identifies several significant control issues raised by the audit of Gift Fund activity for Fiscal Years 1994, 1995 and 1996. The Corporation has made all adjustments and reclassifications recommended in the Gift Fund audit report by the OIG. These included removing questioned expenditures from the Gift Fund and charging those activities to the appropriate appropriation accounts and transferring questioned revenue of $30,000 to the General Fund at Treasury. Policies and accounting procedures for the Gift Fund have been prepared and will be ready for review by senior management and OIG in December, 1997. Staff will be trained on the new Gift Fund policy and accounting procedures in the second quarter of FY 1998.

Although the Corporation does not agree that we were in violation of the Antideficiency Act, we do agree to the need to segregate restricted and unrestricted funds and have implemented such segregation in the Gift Fund.

National Service Trust Fund Audit

The Corporation has made significant efforts to respond to the recommendations identified in the audit of Trust Fund activities. Among the actions taken are the following:

- Incorporated an audit trail process into the system that allows Trust management to review actions taken by staff to determine if the actions are authorized and that those conducting actions are authorized to do so.

- Implemented significant changes to the Trust Fund information system, such as automating more of the processing rules, fixing data problems from control screens, and tightening controls on access to the information system.
- Implemented the auditor's recommendations for changes to the methodology used to record service award liability in the General Ledger.
- Initiated recording of detailed investment transactions in the General Ledger.
- Developed a plan to consolidate Trust operations under unified management in the Department of the Chief Financial Officer. Previously, parts of Trust operations had been under the management of program and evaluation offices. This reorganization will increase the efficiency of Trust operations.

One of the most significant issues facing the Trust concerns the documentation that supports the level of service award liability. During the final quarter of FY 1997, the Corporation conducted an in-depth internal review of record keeping in Trust operations and the relationship of supporting documentation to computer data bases of Trust enrollments and awards. The study further clarified the need to address documentation deficiencies for the initial years of the Trust.

As part of the effort to implement new financial management systems, the Corporation is procuring a system to image documentation related to enrollments and awards. Historical records will be imaged and sorted to verify the accuracy of that information in the data base. The Corporation believes that a significant portion of the evidential matter exists in the Trust files but is not currently accessible or is misfiled. Deficiencies that remain in the historical record after the imaging process is implemented will be resolved by seeking verifying documentation from projects and/or State Commissions. The current enrollment in the database of the Trust and its rapid growth make use of this technology essential. The imaging system will also make clean-up of remaining deficiencies more manageable.

Audit Resolution

The Inspector General's semiannual report for this period identified 25 audit reports for which management decisions had not been made within six months of the audit report being issued. By the end of the reporting period, the Corporation had developed Proposed Management Decisions (PMDs), citing corrective actions, on 19 of the 25 reports. The Corporation is developing PMDs with respect to the six remaining audit reports.

The Corporation is committed to resolving the backlog of outstanding audits and has set a goal to eliminate as much of the backlog as possible by the end of the second quarter of FY 1998. The CFO and OIG staffs are working together on a new audit resolution process. The new resolution process and a newly-implemented audit tracking system should prevent such a backlog, once eliminated, from recurring. However, it is too early yet to measure results under the new system.

In summary, the Corporation has made progress in developing the financial management systems, internal controls, and, most importantly, strong management practices it takes to reach auditability. The next six months will be critical to achieving these goals. We are committed to working cooperatively with our Inspector General, Congressional Authorization and Appropriations Committees, Oversight Subcommittees, and partners in national service toward that end.

We are sending copies of this report to other interested Congressional committees and the Office of Management and Budget. We will also make copies available to others on request.

Any questions concerning these reports may be directed to me or Luise Jordan, the Inspector General.

Sincerely,

Harris Wofford

Harris Wofford
Chief Executive Officer

Enclosures

Table I

Action Taken on Audit Reports

(for the April 1, 1997 - September 30, 1997)

	Number of Audit Reports	Disallowed Costs (000)
A. Audit reports with final action not taken by the commencement of the reporting period (April 1, 1997).	47	
B. Audit reports upon which management decisions were made during the six-month reporting period.	15	168
C. Audit Reports for which final action was taken during the reporting period		
1. Recoveries		
(a) Collections and offsets	1	27
(b) Property in lieu of cash	0	0
(c) Other (Reduction of questioned costs)	0	0
2. Write-offs	0	0
3. Audits with no disallowed costs	4	0
D. Audit reports for which no final action was taken by the end of the reporting period	52	0

Table II

Audits with Recommendations To Put Funds To Better Use

(for the period April 1, 1997 - September 30, 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

Table III

Audit Reports with Management Decisions That Had No Final Action Within One Year of the Issuance of the Report

(as of September 30, 1997)

Audit Number	Date Issued	Auditee	Disallowed Costs	Reason No Final Action Was Taken by September 30, 1997
96-01	03/05/96	Review of New Orleans Youth Action Corps	$ 31,300	PMD accepted 8/26/97, Corporation is pursuing collection of disallowed costs.
96-12	09/18/96	Audit of North West Service Academy	$ 13,146	PMD accepted 9/25/97, Corporation is pursuing collection of disallowed costs.
96-34	04/26/96	Audit of Georgia Department of Community Affairs	$ 47,187	Disallowed costs of $48k has been collected, Grant close-out is being performed per PMD.
96-35	05/08/96	Audit of Montana Conservation Corps	$ 0	PMD accepted 8/26/97, Corrective Action is complete, Notification of final action being prepared for submission.
96-37	05/13/96	Review of I Have a Dream	$ 3,630	PMD accepted 9/15/97, Corporation is pursuing collection of disallowed costs.
96-41	08/09/96	Review of the Oneida Indian Nation	$ 0	PMD accepted 8/26/97, Corrective action is complete, Notification of final action being reviewed.
96-43	08/09/96	Review of Mid-Atlantic Network of Youth & Family Services	$ 0	PMD accepted 5/21/97, Verifying corrective action.
96-51	09/30/96	Audit of Bowie State University	$ 3,072	PMD accepted 8/26/97, Corporation is pursuing collection of disallowed costs.