CORPORATION
FOR NATIONAL
SERVICE

December 2, 1999

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

The Honorable Dennis Hastert
Speaker of the House of Representatives
The Capitol
Washington, DC 20515

Dear Mr. Vice President and Mr. Speaker,

Enclosed is the Inspector General's Semi-Annual Report to the Congress along with the Corporation's Report of Final Action, as required under Section 5 of the Inspector General Act.

These reports cover the six-month period from April 1, 1999 to September 30, 1999. During this period, the Corporation made management decisions on three audits and completed final action on or closed 16 audits. Subsequent to this period, the Corporation made management decisions on two additional audits.

During the past year, the Corporation has made good progress in its financial management and technology initiatives as reported in the Corporation's Action Plan. Specific information on these initiatives and additional information on matters raised by the Inspector General are discussed below.

Financial Management. In September, 1999, the Corporation implemented a new core financial management system, Momentum. This was one of the most difficult tasks undertaken by the Corporation in a limited time period. Our old system was not Year 2000 compliant and was not adequate for managing Corporation finances. The new system is modernizing our accounting operations, improving funds control, and providing real-time, on-line access to data. Momentum, a software package developed by a leading software manufacturer, American Management Systems, is Year 2000 compliant. In fiscal year 2000, the Corporation continues to devote significant resources to financial system initiatives, including enhancements to existing processes, data clean-up, training, and other software and hardware issues.

Financial Reporting. The Corporation received an unqualified opinion on its FY 1998 Statement of Financial Position, and disclaimers on the Statement of Operations and Changes in Net Position and the Statement of Cash Flows. Although less than what we wanted, the fiscal year 1998 financial statement audit results were a step in the right direction; in the prior year, the Corporation had issued only a partial financial statement and had received a qualified opinion on it. The Corporation is committed to achieving its goal of a clean opinion on a full set of statements. The implementation of the new financial system is a critical part of this effort.

National Service Trust. Two important initiatives are underway to better manage the Trust paperwork. After pilot-testing in FY 1999, the Corporation is moving to full-scale implementation of a web-based reporting system (WBRS) to transmit AmeriCorps data to the Trust. Almost all State Commissions have been trained, and as of November 16, 1999, 47 State Commissions and 25 National Direct grantees have started electronically transmitting their member enrollment data to the Trust. With respect to historical data, the project to image the backfile of Trust forms is complete and the on-line imaging system is operational. All enrollment, end of term, and other forms are now being digitally imaged and retrieved electronically at the point of receipt.

Cost Accounting. The Inspector General recommended that the Corporation implement and integrate a cost allocation methodology with the new financial management system. The Corporation agrees that cost information may be useful, but does not plan to implement the recommendation in FY 2000. We do have systems in place to report the costs of each of our programs, but we do not have a system yet to allocate general administrative costs to programs. Developing such information is less critical to the Corporation than is preparing principal financial statements that can be audited. Resources are not available to do both at the same time. The development of logical relationships and allocation rules for distribution of overhead, and general and administrative costs among programs is particularly costly. Therefore, we are applying our resources to our top priority first -- implementing the new financial management system and preparing our principal financial statements from the new system.

Procurement Management. The Inspector General raised concerns about the Corporation's procurement processes and the core competencies of procurement office staff. The Inspector General made several recommendations to improve procurement, which the Corporation is implementing. In September, 1999, the Corporation issued a procurement policy manual; procurement staff received training this past summer and more training is planned for FY 2000; Corporation Contracting Officers Technical Representatives attended a two-day training course in August, 1999; and we are recruiting additional staff with experience in cost and price analysis for the Procurement Office. Corporation senior management is attentive to the issues raised in this area.

Questioned Costs. The Inspector General also disagreed with the level of questioned costs the Corporation allowed on a recent contract audit. While the Corporation appreciates the Inspector General's concern, our decision to allow costs questioned by this audit was guided by federal procurement regulations, which require government agencies to reimburse contractors for goods and services provided that were accepted by the government and from which the government received a benefit. Most of the questioned costs resulted from the Corporation's failure to properly process or document requests for additional requirements under the contract or changes in rates to be paid for certain labor categories. The Corporation's management decision ratified these verbal requests since the contractor provided the requested services. As noted above, we have taken steps to strengthen procurement practices and to avoid the need for such ratifications in the future. Procurement staff has improved monitoring of invoices submitted for payment, and Corporation-designated Contracting Officer Technical Representatives were provided training designed to reiterate their responsibilities and the limits of their authority in the procurement process. In addition, we have reminded contractors of the

requirements to obtain written confirmation of any changes in the contract costs from the Contracting Officer only.

Suspension Actions. The Corporation does not agree with the Inspector General's characterization of a ten-day suspension imposed on two employees as "far too lenient." Statutes, regulations and policies governing employee discipline require us to consider several factors in setting a penalty for misconduct. In this case, the investigation and subsequent contacts did not reveal an intent to defraud the government. Further, both employees were model employees in terms of past performance, conduct and reputation. Given the facts and the records of the employees, Corporation management determined that a ten-day suspension, without pay, was appropriate. Further, the Corporation is pursuing recovery of funds from the contractor.

Regulations. Subsequent to the Inspector General report, the Corporation published final rules implementing the Government in Sunshine Act on November 26, 1999.

Policies and Procedures. As part of a comprehensive project to issue and update Corporation written polices and procedures, the Corporation issued eight policies in FY 1999, and two thus far in FY 2000. They are:

Procuring Supplies and Services
Internet and Email Access and Acceptable Use Policy
Network and Computer Security
Debt Collection
Property Management
Safeguarding Sensitive Information and Documents
Volunteer Service Years
Program Evaluation
Preparing Information Collection Requests
Financial Disclosure

Action Plan. Finally, the Corporation is making good progress in implementing the Action Plan that describes objectives and tasks needed to correct financial management weaknesses, strengthen Corporation management, increase the use of technology and improve stewardship over federal funds. As of November 22, 1999, we had completed 218 of 276 tasks. The plan is being revised to reflect FY 2000 goals and objectives and will continue to be used as a management tool for the Corporation.

Overall, the Corporation has shown, and continues to show, a strong commitment to improving management. Management controls are stronger, improvements have been and are being made in infrastructure, and major technology and systems work is underway. The Corporation has established its management priorities in the Action Plan and is aggressively working to implement those priorities within the resources available.

We are sending copies of this semi-annual report to interested Congressional committees, the Office of Management and Budget, and the Corporation's Board of Directors. We will also make copies available to others on request.

If you have any questions concerning these reports, please contact me or Luise Jordan, the Inspector General.

Sincerely,

Harris Wofford

Enclosures

TABLE I

ACTION TAKEN ON AUDIT REPORTS
(for the Period April 1, 1999 through September 30, 1999)

		Number of Reports	Disallowed Costs ($000)
A.	Audit reports with final action not taken by the commencement of the reporting period October 1, 1998.	26	
B.	Audit reports issued by the OIG during the period	14	
C.	Audit reports for which final action was taken during the reporting period[1]	16	
	1. Recoveries		
	(a) Collections and offsets	4	$115
	(b) Property in lieu of cash		
	(c) Other (reduction of questioned costs)		
	2. Write-offs	0	
	3. Audits with no disallowed costs	12	
D.	Audit reports for which final action was not taken by the end of the reporting period.[2]	24	
E.	Additional audit reports upon which management decisions were made during the six-month reporting period and for which final action is underway.[3]	3	N/A

[1] This includes six audits issued during the reporting period which did not contain specific recommendations that require management decisions.
[2] This includes 13 audits for which final action is not overdue.
[3] Management decisions on 18 of the remaining 21 audits were made in previous reporting periods or are not yet due.

TABLE II
AUDITS WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE
(for the period April 1, 1999 through September 30, 1999)

	Number of Audit Reports	Dollar value ($000s)
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period.	1	$ 1,609
B. Audits which were issued during the period	1	$106,000
C. Total audit reports on which management decisions were made during the period.	2	$107,609
D. Audit reports pending action during the period	2	$107,609
E. Audit reports for which final action was taken during the period	2	-
1. Value of recommendations that were completed	2	$107,609
2. Value of recommendations that management concluded should not or could not be implemented or completed	0	0
3. Total of 1 and 2	2	$107,609
F. Audit reports for which no management decisions were made during the reporting period	0	0

TABLE III

STATUS OF AUDIT REPORTS WITH MANAGEMENT DECISIONS THAT HAD NO FINAL ACTION WITHIN ONE YEAR OF THE ISSUANCE OF THE REPORT
(As of September 30, 1999)

Audit Number	Date Issued	Title	Disallowed Costs	Status of Action/Reason No Final Action Was Taken
97-02	12/23/96	Audit of the Oregon Youth Conservation Corps	$161,960	In appeal
97-12	4/11/98	Review of the National Alliance of Veteran Family Services Organizations	$2,958	The Corporation completed final action on this audit subsequent to September 30, 1999.
98-02	4/27/98	Review of Pre-award Financial Assessment of Grant Applications	N/A	The Corporation made its final management decision on 9/15/99. Final action will be completed by late Spring 2000 when revised grants policies and procedures will be issued.
98-06	1/27/98	Audit of the West Virginia Conservation and Service Corps	$71,362	The Corporation collected disallowed costs and completed final action subsequent to September 30, 1999.
98-12	4/6/98	Review of Corporation Budgetary Controls	N/A	One issue, related to implementing a cost accounting system, remained open as of March 30, 1999. On September 15, 1999, the Corporation notified the OIG that final action had been completed because Corporation management decided not to implement a cost accounting system in FY 2000.
98-15	6/29/98	Audit of the Navajo Nation	$3,093	The Corporation collected disallowed costs. Final action is awaiting confirmation that internal control issues have been addressed.
98-16	6/29/98	Audit of the Youth Volunteer Corps of America	$2,430	The Corporation collected disallowed costs. Final action is awaiting confirmation that internal control issues have been addressed.
98-19	8/27/98	Assessment of AmeriCorps Service Hour Reporting	N/A	As of 10/30/99, the Corporation had completed final action on 13 of the 18 recommendations. The remaining five will be completed during FY2000 when programs are enrolling and maintaining records on member service hours through the Web-based Reporting System.

98-20	7/7/98	Assessment of Computer Difficulties Associated with the Year 2000	N/A	An independent validation and verification report submitted to the Corporation on 9/27/99 confirmed Y2K compliance on all mission critical systems with the exception of the financial system. The Corporation has since implemented a new, fully Y2K compliant financial management system as well.
98-23	7/8/98	Auditability Assessment of the Corporation's FY97 Statement of Financial Position	0	All remaining open recommendations in this audit report are included in the comprehensive Action Plan the Corporation is implementing to address items related to auditability. The Corporation submitted the plan to Congress on 12/21/98 and provides regular updates on progress. As of 11/22/99, 218 of 276 tasks had been completed.
98-24	9/30/98	Audit of the Corporation's Procurement and Contracting Processes and Procedures	$8,000[1]	The Corporation will complete corrective action on this audit, when it implements new procurement directives. The directives are being developed from the updated procurement policies and procedures that were issued on September 30, 1999.

[1] In OIG Audit Report 98-24, *Audit of the Corporation's Procurement and Contracting Operations*, the OIG questioned $547,000 in costs claimed under Corporation contracts. However, as requested by OIG, the Corporation's Management Decision on this audit did not address $539,000 of the questioned costs due to a pending civil recovery action under the False Claims Act by the cognizant U.S. Attorney's Office.