CORPORATION

FOR NATIONAL

SERVICE

OFFICE OF THE INSPECTOR GENERAL

Semiannual Report to the Congress

April 1, 1996 - September 30, 1996

Fiscal Year 1996
Report No. 2

OFFICE OF THE INSPECTOR GENERAL

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CORPORATION FOR NATIONAL SERVICE

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INTRODUCTION

The Corporation for National and Community Service (CNS) was created under the National and Community Service Trust Act of 1993. Through several programs, the Corporation offers Americans of all ages and backgrounds the opportunity to participate in community-based service programs. These programs include AmeriCorps State and National Direct grants, VISTA, the National Civilian Community Corps, Learn and Serve America, and the Senior Volunteer Program.

AUDITS AND REVIEWS OF AMERICORPS GRANTEES

During this reporting period, our audit resources focused on audits and reviews of AmeriCorps grantee organizations. Audits and reviews are performed by both Office of the Inspector General (OIG) staff and public accounting firms under contract to the OIG. We issued 19 reports on grantees during this period. Another 11 audits and reviews were underway or had been contracted for at fiscal year end. As illustrated in the table below, the audits and reviews have revealed issues in several areas. We have recommended corrective actions and brought the issues to the Corporation's attention for resolution. A brief discussion on the results of our work at each grantee follows the table.

Grantee	Grant Amount	Systems & Controls	Compliance	Documentation	Unallowable Costs	Match Not Met	Monitoring	Administrative Costs	Staff Time Charges	Indirect Cost Rate	ACM Time Charges	Inappropriate Service
Audits												
Northwest Service Academy (OIG 96-12)	$2,404,676	√	√	√	√			√	√		√	
Greater Miami Service Corps (OIG 96-16)	$625,000	√	√	√	√				√		√	√
East Bay Conservation Corps (OIG 96-33)	$1,096,439	√	√									
Georgia Department of Community Affairs (OIG 96-34)	$4,824,949		√	√				√				
Los Angeles Conservation Corps (OIG 96-39)	$1,000,000	√	√		√	√						
Bowie State University (OIG 96-51)	$283,445	√	√		√	√	√	√				

Grantee	Grant Amount	Systems & Controls	Compliance	Documentation	Unallowable Costs	Match Not Met	Monitoring	Administrative Costs	Staff Time Charges	Indirect Cost Rate	ACM Time Charges	Inappropriate Service
Reviews[1]												
National Center for Family Literacy (OIG 96-06)	$585,393	√		√			√	√	√		√	√
The Arc of the United States (OIG 96-07)	$769,426	√		√			√	√	√		√	
National Association of Community Health Centers (OIG 96-08)	$1,443,061			√						√	√	
Home Instruction Program for Preschool Youngsters (OIG 96-11)	$361,947						√	√	√			
The Blackfeet Nation (OIG 96-17)	$568,744	√	√		√	√						
Fort Belknap Community Council (OIG 96-19)	$350,000	√	√									
Summerbridge National (OIG 96-24)	$500,000	√	√				√		√			
New York University (OIG 96-25)	$795,523	No Findings										
National Council on Educational Opportunity Associations (OIG 96-29)	$1,000,299			√	√			√	√			
Montana Conservation Corps (OIG 96-35)	$975,715	No Findings										
I Have A Dream Foundation (OIG 96-37)	$710,000	√	√				√		√			
Oneida Indian Nation of New York (OIG 96-41)	$557,098		√		√	√						
Mid-Atlantic Network of Youth and Family Services (OIG 96-43)	$459,705	√	√				√		√			

[1] A review concentrates on specific areas of risk or grantee activities. Therefore, its procedures are less comprehensive than an audit and would not necessarily disclose all issues or reportable conditions.

AUDITS

Northwest Service Academy (OIG 96-12)

We performed an audit of costs incurred under grant agreement 93NMSTOR0007 to support the Northwest Service Academy (NWSA). The former Commission on National and Community Service awarded the grant under the National and Community Service Act of 1990. We found that the majority of the $2.5 million of costs charged to the grant during the 30 month period were allowable, allocable and in compliance with the grant award. However, we also found that NWSA

- made unallowable charges of $19,389 to the grant related to fund raising expenses;
- paid costs for members' room and board at its Mt. Adams residential site with grant funds rather than with program income as required (as a result, we questioned $23,358 in related costs);
- exceeded the five percent limitation on administrative costs that can be charged to the grant (we questioned $43,955 in related costs); and
- allowed prohibited lobbying material in one issue of its newsletter.

We also noted weaknesses in NWSA's management controls over financial reporting and tracking of service hours for post-service education benefits.

Greater Miami Service Corps (OIG 96-16)

Tichenor & Associates, under contract to the OIG, performed an audit of costs incurred under grant 92COLOFL0032, awarded to the Greater Miami Service Corps (GMSC). The former Commission on National and Community Service awarded the grant under the National and Community Service Act of 1990.

The auditors found that GMSC did not comply with the award in the performance of the program, and that GMSC's system of internal controls did not ensure compliance with Federal regulations or ensure the safeguarding of Federal funds. As a result, we questioned all costs claimed for this grant, $625,000. The audit also disclosed that GMSC

- misreported program results, including the overall success of the program. Of 168 participants paid under the grant, only 18 completed the program using GMSC criteria (i.e., 12 months in the program constitutes a successful term of service) and only 22 completed the program utilizing the criteria accepted by the Commission of 9 months constituting an acceptable program duration. GMSC had reported that the program was extremely

successful and that 62 percent of its participants completed its programs during the first grant year;

- placed participants in internship programs where they worked as full-time lifeguards, cafeteria workers, school maintenance and janitorial workers, and Dade County trade workers. The activities performed by the interns were not allowable activities for this grant because the services provided by the interns were for county positions in on-going operations such as schools and swimming pools, and not in response to, or related to recovery from the disaster. These placements violated Disaster Grant General Provision 2, Section 10 (c), *Nondisplacement,* which, in part, prohibits the use of Federal grant funds for service activities that would supplant potential full or part-time employees;

- did not have support for matching costs;

- enrolled and paid stipends to participants who did not meet the citizenship or residency requirements under the grant; and

- GMSC charged to the grant amounts for post-service benefits paid to individuals who were not enrolled in the grant funded program, and paid post-service benefits for purposes that violated Public Law 101-610.

East Bay Conservation Corps (OIG-96-33)

Leonard G. Birnbaum & Company, under contract to the OIG, performed an audit of costs incurred under grant 93SSSPCA0003, awarded to the East Bay Conservation Corps (EBCC). The former Commission on National and Community Service awarded the grant under the National and Community Service Act of 1990.

The audit did not disclose any questioned costs; the auditors did note the following instances of non-compliance

- EBCC did not submit to CNS the final report summarizing usage of benefits, number of participants and type of usage, which was required to be submitted on February 28, 1995; and

- EBCC did not adequately record matching funds.

Georgia Department of Community Affairs (OIG 96-34)

Leonard G. Birnbaum & Company, under contract to the OIG, performed an audit of costs incurred under grant 92NMSTGA0002, awarded to the Georgia Department of Community Affairs

(GDCA). The former Commission on National and Community Service awarded the grant under the National and Community Service Act of 1990. Based on the results of the audit, we questioned costs totaling $47,789, primarily for administrative costs claimed by GDCA in excess of the grant terms and conditions. The audit also disclosed that GDCA had not submitted final technical and financial reports as required by the grant conditions.

Los Angeles Conservation Corps (OIG 96-39)

Leonard G. Birnbaum & Company, under contract to the OIG, performed an audit of costs incurred under grant 92COLOCA0009, awarded to the Los Angeles Conservation Corps (LACC). The former Commission on National and Community Service awarded the grant under the National and Community Service Act of 1990.

Based on the results of the audit, we questioned costs totaling $58,772 because LACC claimed costs in excess of the share ratio stipulated in the grant ($26,966) and claimed costs as part of the matching requirement that were not considered allowable for matching purposes ($31,276). The audit also disclosed that LACC did not

- submit a financial report with accurate data nor did the grantee include all required information in the financial report;
- retain progress reports for the time specified by OMB Circular A-110; and
- maintain procedural guidance or documentation evidencing compliance nor facilitating a compliance determination with certain special and general provisions of the grant.

Bowie State University (OIG 96-51)

Leonard G. Birnbaum & Company, under contract to the OIG, performed an audit of the funds awarded by CNS under grant 94ASCMD02105 to Bowie State University (BSU) through the Maryland Commission on Service. The funds were awarded to support the Maryland Students Taking Academic Responsibility for Tomorrow (MSTART) program operated by Bowie State University, Anne Arundel Community College (AACC), and University of Maryland at College Park (UMCP). BSU was considered the prime recipient of the grant. The audit efforts focused primarily on the programs administered by BSU and AACC.

Based on the results of the audit, we questioned costs totaling $6,110, primarily for claimed costs in excess of the maximum share ratio for administrative costs ($1,461) and because cost matching requirements were not met ($4,572). The audit also disclosed that BSU lacked adequate controls for monitoring subrecipients; an adequate system to monitor participant hours spent in training and education activities; and an adequate system to track cost sharing contributions.

REVIEWS

National Center for Family Literacy (OIG 96-06)

We performed a limited review of the National Center for Family Literacy's (Family Literacy Corps) accounting and financial reporting systems and management controls to assess their ability to comply with Federal fiscal accounting and Corporation for National and Community Service (CNS) grant requirements.

We found that the Family Literacy Corps' accounting system and system of management controls did not report grant expenditures in accordance with grant requirements or safeguard Federal funds. Our conclusion was based on the following conditions

- inadequate monitoring of work sites;
- overstated AmeriCorps member service hours;
- inappropriate AmeriCorps member service activities at Family Literacy Corps' Atlanta Site; and
- inadequate accounting policies and procedures.

Based on the results of our work we questioned $514,006 of costs charged to the grant ($227,147 in Federal funds and $286,859 in non-Federal funds).

The Arc of the United States (OIG 96-07)

We performed a limited review of The Arc of the United States' (The Arc) financial reporting and accounting systems and management controls to assess their ability to comply with Federal fiscal accounting and Corporation for National Service (CNS) grant requirements.

We found that The Arc's accounting systems and system of internal controls were not adequate to report grant expenditures in accordance with grant requirements and to safeguard Federal funds. The conditions leading to this conclusion included inadequate

- monitoring of subgrantees;
- accounting policies and procedures;
- tracking of labor hours and AmeriCorps Member service hours; and
- support for in-kind costs.

We questioned $11,571 in costs charged to the grant and recommended a reduction of matching costs of $16,569.

National Association of Community Health Centers, Inc. (OIG 96-08)

We performed a limited review of the National Association of Community Health Centers, Inc. (NACHC) financial reporting and accounting systems and management controls to assess their ability to comply with Federal fiscal accounting and CNS grant requirements.

Based on our review we concluded that NACHC's accounting systems and system of internal controls are generally adequate to report grant expenditures in accordance with grant requirements and to safeguard Federal funds. However, our review identified several conditions which warrant correction including inadequate accounting for service hours by NACHC headquarters, an outdated indirect cost rate at the Providence, Rhode Island operating site, and a lack of separation of duties at the Denver, Colorado operating site. We questioned $18,759 of the Providence site's administrative match as of January 31, 1996 related to the outdated indirect cost rate.

Home Instruction Program for Preschool Youngsters, USA (OIG 96-11)

We performed a limited review of the Home Instruction Program for Preschool Youngsters, USA (HIPPY) financial reporting and accounting systems and management controls to assess the organization's ability to comply with Federal fiscal accounting and CNS requirements.

We found that personnel charges for certain staff were charged entirely to program costs even though some of their duties involved administrative tasks. In our view, these staff costs should be allocated between administrative and program activities. However, HIPPY staff does not distinguish between administrative and program activities when completing time sheets, therefore, we were unable to determine the percent of actual time spent performing program activities. If these costs are classified as administrative, HIPPY is at risk of exceeding the five percent administrative limit established in the National and Community Service Act of 1990, as amended, on administrative costs that can be paid with CNS funds. In addition, we found that HIPPY did not adequately monitor living allowances paid to AmeriCorps Members.

The Blackfeet Nation (OIG 96-17)

M.D. Oppenheim & Company, under contract to the Office of Inspector General, performed a limited review of the Blackfeet Nation's financial reporting and accounting systems to assess their ability to comply with Federal fiscal accounting and reporting requirements applicable to its AmeriCorps grant, as well as its ability to safeguard related funds.

Based on their review, we concluded that the Blackfeet Nation's accounting systems and system of internal controls were not adequate to report grant expenditures in accordance with grant requirements and to safeguard Federal funds. The auditors found that the Blackfeet Nation's

- accounting system does not track its grant costs or matching share on the same basis as the budget and that the total match provided included some unallowable costs and was insufficient to meet either the individual line-item matching requirements or the total matching share required under the grant;

- made several purchases that were unauthorized and not within Federal guidelines which were charged both to CNS funds or as a matching share (we questioned $10,291);

- Financial Status Report, at June 30, 1995, contained several mathematical and other errors resulting in an overstatement of $18,000 of the unobligated balance;

- AmeriCorps members were not advised of CNS' and other Federal policies regarding prohibited lobbying activities; and

- final Single Audit Act report (OMB Circular A-128), for the fiscal year ended September 30, 1994, had not been issued on a timely basis. The report delivered by the Blackfeet Nation's independent auditors as a draft report was incomplete. It was missing the Independent Auditor's Report and all of the financial statements.

Fort Belknap Community Council (OIG 96-19)

M.D. Oppenheim & Company, under contract to the Office of Inspector General, performed a limited review of the Fort Belknap Community Council's (FBCC) financial reporting and accounting systems to assess their ability to comply with Federal fiscal accounting and reporting requirements applicable to its AmeriCorps grant, as well as its ability to safeguard related funds.

Based on their review, we concluded that FBCC's accounting systems and system of internal controls were not adequate to report grant expenditures in accordance with grant requirements and to safeguard Federal funds. M.D. Oppenheim & Company noted the following deficiencies

- FBCC's accounting system does not track its matching share on the same basis as the budget. Consequently, it is not possible to determine whether the grantee had met its matching share requirements, on a major budget line-item basis;

- bank reconciliations were not performed on a timely basis; and

- the Federal Cash Transaction report was not reconciled to the general ledger.

Summerbridge National (OIG 96-24)

M.D. Oppenheim & Company, under contract to the Office of Inspector General, performed a limited review of Summerbridge National's financial reporting and accounting systems to assess their ability to comply with Federal fiscal accounting and reporting requirements applicable to its AmeriCorps grant, as well as its ability to safeguard related funds. We have reviewed the report and workpapers supporting its conclusions and agree with the findings and recommendations presented.

Based on their review, we concluded Summerbridge National's accounting systems and system of internal controls were not adequate to report grant expenditures in accordance with grant requirements and to safeguard Federal funds. M.D. Oppenheim & Company found that Summerbridge National's

- accounting system did not record its matching share costs in compliance with the budget line-items;
- did not maintain written contract agreements between the AmeriCorps program and its subrecipients; and
- staff time records were not signed by the employee nor approved by their supervisor.

New York University (OIG 96-25)

Tichenor & Associates, under contract to the OIG, performed a limited review of New York University (NYU) financial reporting and accounting systems and management controls to assess the organization's ability to comply with Federal fiscal accounting and CNS requirements.

Based on Tichenor & Associates' review we concluded that NYU's accounting systems and system of internal controls were generally adequate to report grant expenditures in accordance with grant requirements and to safeguard Federal funds. There were no findings or recommendations.

National Council of Educational Opportunity Associations (OIG 96-29)

We performed a limited review of the National Council of Educational Opportunity Associations' (NCEOA) financial reporting and accounting systems and management controls to assess their ability to comply with Federal fiscal accounting and CNS grant requirements.

With certain exceptions, we found that NCEOA's accounting and reporting systems and management controls appear adequate to safeguard Federal funds and to report grant expenditures in accordance with Federal requirements. However, we also found that NCEOA

- did not document administrative costs as required by CNS' regulations;

- lacked adequate documentation to support third-party in kind contributions;

- allocated salary and benefit costs for two NCEOA headquarters staff performing administrative duties to the grant as direct program support;

- allocated development staff salaries to the grant; and

- inappropriately charged $748 in salary and benefit costs to the grant.

Based on the results of our review, we questioned a total of $35,979 in costs charged to the grant, primarily for undocumented administrative costs.

Montana Conservation Corps (OIG 96-35)

Leonard G. Birnbaum and Company, under contract to the OIG, applied certain agreed-upon procedures, as discussed below, to amounts claimed by the Montana Conservation Corps, Inc. (MCC) under grant 92COSTMT0016. The former Commission on National and Community Service awarded the grant under the National and Community Service Act of 1990. The procedures performed included

- reviewing certified financial statements for the three fiscal years in which the grant was performed and determining that the independent auditor's reports and the financial statements conformed to applicable generally accepted auditing standards, *Government Auditing Standards* and Office of Management and Budget Circular A-133;

- reviewing the audit programs, prepared by MCC's independent auditor, related to the financial statements, internal controls, and compliance with laws and regulations for each of the three years and determining that they were appropriate to the circumstances;

- sampling individual audit steps and determining that the audit programs had been executed as planned;

- determining that MCC's chart of accounts and resulting trial balances adequately segregated and accumulated the costs applicable to the grant;

- determining that the findings cited by the independent auditor did not result in a material misstatement of the amounts claimed; and

- determining that no Federal cash remained in the hands of MCC upon completion of grant performance.

Based on the results of applying the above procedures, Leonard G. Birnbaum and Company concluded that the costs incurred, as reflected on the certified financial statements were accurate and in conformance with the terms and conditions of the grant and could be considered as forming the basis for grant close-out.

I Have A Dream Foundation (OIG 96-37)

Tichenor & Associates, under contract to the OIG, performed a limited review of the I Have A Dream Foundation's (IHAD) financial reporting and accounting systems and management controls to assess the organization's ability to comply with Federal fiscal accounting and CNS requirements.

Based on their review, we concluded that IHAD's accounting systems and system of internal controls were not adequate to report grant expenditures in accordance with grant requirements and to safeguard Federal funds. The auditors noted that IHAD did not

- adequately monitor subgrantee financial data;
- ensure labor hours charged to the CNS grant are allowable and allocable;
- track matching costs in their grant accounting system; and
- have written agreements with its subgrantees.

As a result of the findings we questioned $3,630.78 in costs charged to the grant.

Oneida Indian Nation of New York (OIG 96-41)

Tichenor & Associates, under contract to the OIG, performed a limited review of the Oneida Indian Nation of New York's (the Nation) financial reporting and accounting systems and management controls to assess the organization's ability to comply with Federal fiscal accounting and CNS requirements.

During their review, Tichenor and Associates found that the Nation claimed costs in excess of the share ratio stipulated in the grant. As a result, we questioned costs charged to the grant totaling $11,946.

Mid-Atlantic Network of Youth and Family Services (OIG 96-43)

Tichenor & Associates, under contract to the OIG, performed a limited review of the Mid-Atlantic Network of Youth and Family Services' (MANY) financial reporting and accounting systems and

management controls to assess the organization's ability to comply with Federal fiscal accounting and CNS requirements.

Based on their review, we concluded that MANY's accounting systems and system of internal controls were not adequate to report grant expenditures in accordance with grant requirements and to safeguard Federal funds. The auditors noted that MANY

- did not have written agreements with its subgrantees;
- needs to improve its monitoring of subgrantees' financial data;
- did not adequately track labor hours to ensure that lobbying and fundraising activities were not charged to the grant which resulted in questioned costs of $5,261; and
- submitted inaccurate FSRs.

OTHER MATTERS

City Year Audit Follow-up

OIG continued to monitor City Year of Boston's actions to correct accounting, management controls and compliance deficiencies found in audits by OIG and KPMG Peat Marwick LLP, City Year's independent auditor. In September we met with KPMG and City Year officials to assess City Year's progress and reviewed City Year's FY 1995 audit reports and KPMG's underlying work.

Our follow-up assessment indicates that over the past two years, City Year had corrected most of the conditions reported by OIG and KPMG. On June 18, 1996, KPMG reported that during its audit of City Year's fiscal year 1995 financial statements, it found no material weaknesses in internal controls and no material instances of noncompliance with applicable Federal requirements. It is clear that City Year and its advisors devoted serious efforts to a methodical and appropriate corrective action plan. As a result, City Year has made remarkable progress.

In August the Boston Globe published an article discussing, among other matters, City Year's previous audits. The Globe also published an editorial on City Year's experience. The editorial discusses the need for an appropriate balance between program mission and program administration. We requested and received permission to reprint the editorial because our work has revealed that there is much that can be learned by CNS and its grantees from City Year's experience.

City Year's learning experience

City Year, a national example of youth activism and civic responsibility, has not been an exemplary model of fiscal management for nonprofit organizations. A report Sunday by Globe staffers Kate Zernike and Adrian Walker revealed that federal auditors had cited the youth service organization for failure to document adequately almost $2 million in salaries and expenses several years ago. Auditors also questioned why only $218,355 of an $821,250 government grant was used for its intended purpose – postservice scholarships for corps members. City Year was required to repay $250,000 of that sum.

There are no allegations of improper use of funds. The fiscal year 1993 audit focused on a period characterized by confusing regulatory and reporting changes for federal grants. But there is strong evidence that City Year, through arrogance or inexperience, dismissed the importance of record-keeping and basic accounting practices during the early 1990s.

The immediacy of a social cause – be it saving cities, advocating for political prisoners or serving the indigent – can create self-importance in nonprofit agencies that get carried away with their own hype. Where such attitudes exist, the everyday basic tools of the well-run office, such as time sheets, authorization systems and purchasing orders, are in danger of becoming mere distractions. Personnel qualified to set up and maintain fiscal accountability, if they are present at all, are rarely brought into the top management circles, which are reserved for so-called visionaries, program directors and image makers.

City Year appears to have learned these lessons before the damage was irreversible. According to its president, Michael Brown, the agency has undertaken a methodical review of its fiscal and personnel systems. An audit by the firm Peat Marwick for fiscal year 1995, according to Brown, shows "no material weaknesses or reportable conditions."

When it was founded in 1987, City Year provided an extraordinary opportunity for turning youthful idealism into community activism through a highly motivated corps of young people who tackled tough urban assignments, from redeeming trash-strewn lots to tutoring children from disadvantaged homes. Both the Bush and Clinton administrations recognized its potential as a model for community and national service and rewarded the organization, which originally raised all its funds privately, with generous federal grants.

Such growth spurts gave City Year strong financial capacity and the ability to expand to other cities. But it also taxed the capacity of the founders to remain true to their original mission of providing both reliable service and accountability within the corps. In a few of the Boston schools served by City Year, for example, principals found that some corps members lacked the skills and maturity to help their students. City Year managers have the unenviable task of satisfying their service constituents while helping corps members who lack strong educational backgrounds. The ability to do both consistently will be the touchstone for national-service programs.

Other nonprofit groups watch sympathetically. They are also under much pressure to expand their good works. Like City Year, they may be too distracted to adopt reliable accounting and training models. They ignore the mundane, however, at much risk. Good management and great causes are not mutually exclusive.

Private foundations should apply pressure and help where needed. Methods could range from earmarking portions of their gifts for information and accounting systems to shifting some resources away from the sexier organizations to smaller, hungrier ones.

But by no means should City Year's past problems be used as an excuse by congressional Republicans or anyone else to diminish AmeriCorps, the domestic Peace Corps that supports 430 grantees, including City Year. AmeriCorps's chairman, Harris Wofford, expresses confidence in City Year and is examining its past problems to ensure adequate evaluation systems and accepted accounting practices for all AmeriCorps grantees.

City Year and similar national-service programs are greatly needed to offer strength to neighborhoods in decline. Public officials, residents and institutional leaders in those neighborhoods often haven't had a detailed plan or quality management. That's the road to gradual failure for neighborhoods and organizations alike.

Reprinted courtesy of the Boston Globe Company: "*City Year's learning experience*," a Boston Globe editorial which was published on page A14 on August 22, 1996.

AUDIT REPORTS ISSUED DURING THE PERIOD APRIL 1, 1996 THROUGH SEPTEMBER 30, 1996

Report Number	Start Date	Issue Date	Report Name	Federal Dollars Questioned	Federal Dollars Unsupported
				(Dollars in thousand)	
96-06	10/03/95	08/21/96	Review of the National Center for Family Literacy, Louisville, Kentucky	$227	$227
96-07	11/01/95	6/03/96	Review of The Arc of the United States, Arlington, Texas	12	11
96-08	11/13/95	6/14/96	Review of the National Association of Community Health Centers, Inc., Washington, DC	19	19
96-11	11/28/95	8/01/96	Review of the Home Instruction Program for Preschool Youngsters, USA, New York, New York	0	0
96-12	4/02/96	9/18/96	Audit of Commission Grant: NorthWest Service Academy Corvallis, Oregon	90	41
96-16	11/27/95	7/09/96	Audit of Commission Grant: Greater Miami Service Corps, Miami Florida	625	181
96-17	10/30/95	7/03/96	Review of the Blackfeet Nation, Browning, Montana	4	0
96-19	11/13/95	7/03/96	Review of the Fort Belknap Community Council, Harlem, Montana	0	0
96-24	12/04/95	7/03/96	Review of Summerbridge National, San Francisco, California	0	0
96-25	1/02/96	5/14/96	Review of New York University, New York, New York	0	0
96-29	4/26/96	9/27/96	Review of National Council on Educational Opportunity Associations, Washington, DC	36	23
96-33	2/24/96	5/16/96	Audit of the East Bay Conservation Corps, Oakland, California	0	0

AUDIT REPORTS ISSUED DURING THE PERIOD APRIL 1, 1996 THROUGH SEPTEMBER 30, 1996 CONTINUED

Report Number	Start Date	Issue Date	Report Name	Federal Dollars Questioned	Federal Dollars Unsupported
				(Dollars in thousand)	
96-34	1/10/96	4/26/96	Audit of the Georgia Department of Community Affairs, Atlanta, Georgia	48	1
96-35	3/16/96	5/11/96	Audit of Montana Conservation Corps, Inc., Bozeman, Montana	0	0
96-37	1/23/96	5/13/96	Review of the I Have A Dream Foundation, New York, New York	4	4
96-39	4/16/96	6/25/96	Audit of the Los Angeles Conservation Corps, Los Angeles, California	27	0
96-41	2/26/96	8/09/96	Review of the Oneida Indian Nation of New York, Oneida, New York	12	0
96-43	2/12/96	8/09/96	Review of the Mid-Atlantic Network of Youth and Family Services, Pittsburgh, Pennsylvania	5	0
96-51	5/21/96	9/30/96	Audit of Bowie State University, Bowie, Maryland	10	2
			TOTAL	$1,119	$509

INVESTIGATIONS

We began this reporting period with twenty-two previously-opened investigative actions. During the reporting period we opened twenty-two new investigative actions and closed eighteen. We had twenty-six investigative actions pending at the end of this reporting period.

The following highlight our investigative activity during this reporting period:

Alleged Unlawful Access to Electronic Mail - Prosecution Declined - Management Takes Administrative Action

We completed an investigation into an allegation that a Corporation employee unlawfully accessed the stored electronic mail (e-mail) of a Corporation official. Our investigation disclosed evidence to substantiate the allegation and we obtained a confession from the employee. The U.S. Attorney declined to prosecute in favor of administrative action and we referred the matter to the Corporation for action as they deemed appropriate. During this reporting period we were advised by management that, as a result of the misconduct, the employee had been suspended without pay for two days.

Alleged False Claim - Prosecution Declined - Management Takes Administrative Action

We completed an investigation into an allegation that a senior Corporation employee received and negotiated a U.S. Government travel reimbursement check, then reported that he had not received the check, resulting in his being issued a second travel reimbursement check which he also received and negotiated. Our investigation disclosed evidence that tended to substantiate the allegation, however the subject denied criminal intent, stating it was a mistake. The U.S. Attorney declined to prosecute in favor of administrative action and the matter was referred to the Corporation for action as they deemed appropriate. During this reporting period we were advised by management that they recovered the $610.24 travel reimbursement and dismissed the employee.

Alleged Theft - Prosecution Declined

We completed an investigation into allegations that a VISTA at the Helping Ourselves Means Education (HOME) project in Tacoma, WA, received a VISTA subsistence allowance for periods of time that the volunteer did not report to the project. Our investigation disclosed some evidence to support the allegation, however, prosecution was declined by the U.S. Attorney. The declination was based in part upon the amount of federal funds involved, the difficulty involved with proving intent, the possibility that the VISTA no longer lived within Washington, and the dissolution of HOME.

Alleged Violation of Grant Provisions - Management Decides Not to Renew Grant

We completed an investigation into allegations that some Green Corps AmeriCorps Members were involved in prohibited political advocacy. Our investigation disclosed evidence that staff members of the University of California - Santa Barbara (UCSB) chapter of the California Public Interest Research Group (CALPIRG), a Green Corps local partner responsible for providing oversight to AmeriCorps Members, directed, condoned and allowed the use of some AmeriCorps Members to recruit new CALPIRG members, thereby providing a direct benefit to CALPIRG. Further, evidence was found to indicate that CALPIRG directed, condoned and allowed AmeriCorps Members to train and guide CALPIRG members in their efforts to conduct CALPIRG-sponsored petitioning drives intended to influence legislation. Although outside the initial scope of the investigation, information was also developed that indicates some AmeriCorps Members at the UCSB CALPIRG site did not record or report service hours performed, or did so only at the end of the service year. In a letter dated August 9, 1996, Corporation management advised Green Corps that their grant renewal application was not selected for funding. As of September 30, 1996, Green Corps' request for reconsideration of Corporation management's decision was pending before the Chief Executive Officer (in accordance with the Corporation's established procedures).

Alleged Misconduct - Unsubstantiated

We completed a preliminary inquiry subsequent to receiving information that a Corporation employee was detailed to a Senate committee and also elected to a seat on the Democratic National Convention (DNC). Our inquiry found no evidence to indicate any impropriety surrounding the detail of the employee to the Senate committee or that the employee violated any provisions of the United States Code or the Code of Federal Regulations while seeking, or by being elected to, a state seat on the DNC.

STATISTICAL SUMMARY OF INVESTIGATIONS

Opened and Closed

Number of Cases Open at Beginning of Reporting Period	22
Number of New Cases Opened During This Reporting Period	22
Number of Cases Closed During This Period With Significant Findings	3
Number of Cases Closed During This Period With No Significant Findings	15
Total Cases Closed This Reporting Period	18
Number of Cases Open at End of Reporting Period	26

Referred

Number of Cases Referred for Prosecution During This Reporting Period	6
Number of Cases Accepted for Prosecution During This Reporting Period	1
Number of Cases Declined for Prosecution During This Reporting Period	3
Number of Cases Pending Prosecutive Review	2

REVIEW OF LEGISLATION AND REGULATIONS

Section 4(a)(2) of the Inspector General Act directs the Office of the Inspector General to review and make recommendations about existing or proposed legislation and regulations relating to the Corporation's programs and operations. The OIG recommendations, which are to be included in its Semiannual Reports, are to specifically address the impact of the legislation and regulations on the economy and efficiency of the administration of CNS' programs and operations. The OIG is also to make recommendations in its Semiannual Reports concerning the impact of the legislation and regulations on prevention and detection of fraud and abuse in programs and operations administered or financed by the Corporation.

Under the National and Community Service Act of 1990, as amended, Congress must reauthorize the Corporation's programs before the end of Fiscal Year 1997.[2] To date, there has been no specific legislation proposed to reauthorize Corporation programs under the Act. As proposed legislation to reauthorize the Corporation is introduced, OIG will fulfill its responsibility under section 4(a)(2) of the IG Act to review the legislation and make recommendations concerning the impact of the proposed reauthorization on CNS's programs and operations. In addition, to ensure that our planned work will meet the needs of the Corporation's Congressional authorizing Committees, we have and will continue to solicit the views and concerns of the Committee Chairs and Ranking Minority Members.

Section 4(a)(2) of the Inspector General Act only requires OIG to review the Corporation's existing and proposed regulations. However, CNS has adopted the practice of using less formal means than regulations to impose requirements, issue instructions, and provide guidance to its grantees. These more informal means (including Notices of Funds Availability, Policy Statements, Program Guidelines, Grant Application Instructions, Grant Provisions, Updates, Memoranda and other documents) often affect CNS programs and grantee operations as significantly as CNS's regulations included in the Code of Federal Regulations. Accordingly, OIG has asked CNS management to give OIG the opportunity to review and comment on all documents intended to set or reiterate policies regarding CNS programs and operations.

Based on our review of several Corporation's informal policy-setting documents and the results of our work, we have some suggestions to improve the economy and efficiency of the Corporations programs; specifically,

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[2]The National and Community Service Trust Act amended the National and Community Service Act of 1990 and authorized appropriations for the covered CNS programs through Fiscal Year 1996. In addition, the National and Community Service Act, 42 U.S.C. 12641, makes the provisions of 20 U.S.C. 1226a applicable to CNS's authorizing statute. Section 1226a provides for an automatic one-year extension of authorization of any covered program, unless the Congress enacts a law reauthorizing or repealing the prior authorization.

- In our audits, reviews and investigations, we have noted that some AmeriCorps programs have had problems documenting the service activity of their AmeriCorps Members. We suggest that the Corporation specifically require that all applications for new grant awards and renewals describe how the applicant will document that AmeriCorps Members are preforming sufficient hours of allowable service to successfully complete their service requirements and qualify for an education award from the National Service Trust Fund.

- In our audits and reviews, we have noted that the Corporation's grantees and subrecipients sometimes do not have the financial systems needed to meet Federal accounting and reporting requirements and safeguard grant funds. We suggest that the Corporation specifically require that all applications for new grant awards and renewals describe the applicant's financial management systems. The description should include statements on whether the applicant has received Federal funds in the past, whether the applicant has been audited, and whether the applicant has been audited subject to Federal requirements. In addition, applicants should be required to provide us any audit reports they have received in the past five years.

- So far, our audit work and investigations have revealed only a few instances where we found evidence to conclude that AmeriCorps programs violated the prohibitions on advocacy, religious and other improper service activity. However, even isolated instances of these prohibited activities can significantly affect the overall integrity of the AmeriCorps National Service Network. Accordingly, we suggest that the Corporation specifically require all applications for new grant awards and renewals to describe how the applicant will ensure that its AmeriCorps Members will comply with the prohibitions on advocacy and other prohibited service activity.

We also suggest that the Corporation adopt a specific policy requiring its grantees and subrecipients to notify the Office of the Inspector General when they suffer certain losses. Currently, there is no specific means for OIG to collect information about losses of Federal funds or Corporation-financed goods and services within the Corporation's grantees and subrecipients. Without this information, OIG may not learn of incidents that should be investigated, and cannot discern whether Corporation-funded programs should be adopting specific loss prevention techniques. Specifically, CNS should require grantees and subrecipients to promptly (within 10 days) contact the Office of the Inspector General whenever they discover information that indicates that there has been a loss of funds, benefits, services or property acquired or financed (in whole or in part) by the Corporation. The program should contact the OIG whether the loss is by misappropriation, theft, embezzlement or the like, whether the loss occurred at the program or at a subrecipient, and regardless of whether the loss has been recovered.

Finally, during this reporting period, we participated in reviews of proposed legislation and regulations that were coordinated by the President's Council on Integrity and Efficiency. These reviews focused on proposed laws and regulations that would generally affect the operations of Federal agencies.

TABLE I
INSPECTOR GENERAL REPORTS WITH QUESTIONED COSTS

		Number	Federal Costs Questioned	Federal Costs Unsupported
			(Dollars in thousands)	
1.	For which no management decision has been made by the commencement of the reporting period	14	$ 775	$ 464
2.	Which were issued during the reporting period	13	1,119	509
3.	Subtotals (1 plus 2)	27	1,894	973
4.	For which a management decision was made during the reporting period	5	65	0
	(i) dollar value of disallowed costs		52	0
	(ii) dollar value of costs not disallowed	—	13	0
5.	For which no management decision has been made by the end of the reporting period (3 minus 4)	22	$1,829	$ 973
6.	Reports with questioned costs for which no management decision was made within six months of issuance	6	$575	

TABLE II
INSPECTOR GENERAL REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

		Number	Dollar Value
A.	For which no management decision has been made by the commencement of the reporting period	1	$200,000
B.	Which were issued during the reporting period	0	0
C.	For which a management decision was made during the reporting period	1	$200,000
	(i) dollar value of recommendations that were agreed to by management		
	-- based on proposed management action		$200,000
	-- based on proposed legislative action		0
	(ii) dollar value of recommendations that were not agreed to by management		0
D.	For which no management decision has been made by the end of the reporting period	0	0
	Reports for which no management decision was made during six months of issuance	0	0

TABLE III
SUMMARY OF AUDITS WITH OVERDUE MANAGEMENT DECISIONS

Report Number	Name of Grantee	Federal Dollars Questioned	Mgmt Decision Due	Status as of September 30, 1996
		(Dollars in thousands)		
95-27	Commonwealth of Kentucky	*	3/25/96	Management decision not received
96-02	Woodrow Wilson National Fellowship Foundation	$ 229	5/15/96	" "
96-04	Arizona-Mexico Commission/Border Volunteer Corps	189	3/15/96	" "
96-08	National Association of Community Health Centers, Inc.	19	9/22/96	" "
96-10	CNS Grants Management	0	6/13/96	" "
96-21	ACORN Housing	61	7/07/96	" "
96-28	Local Initiatives Support Corporation	76	4/26/96	" "
96-34	Georgia Department of Community Affairs	48	8/04/96	" "

* Amount questioned less than $1,000.

TABLE IV
SIGNIFICANT REPORTS DESCRIBED IN PRIOR SEMIANNUAL REPORTS WITHOUT FINAL ACTION

Report Number	Title	Date Issued	Mgmt. Decision Due	Final Action
For which no management decision has been received				
96-02	Woodrow Wilson National Fellowship Foundation	2/05/96	5/15/96	*
96-04	Arizona-Mexico Commission/Border Volunteer Corps	12/04/95	3/15/96	*
96-10	CNS Grants Management	3/05/96	6/13/96	*
96-21	ACORN Housing	3/29/96	7/07/96	*
96-28	Local Initiatives Support Corporation	1/17/96	4/26/96	*
For which final action has not been reported				
94-HQ-54	Portland Youth Service Corps	7/27/94	Received 4/29/96	**
95-01	National Association of Child Care Resource Referral Agencies	5/8/95	Received 3/29/96	**
95-03	Arkansas Division of Volunteerism, Delta Service Corps	8/17/94	Received 4/30/96	**
95-04	American Institute of Public Service	4/24/95	Received 3/29/96	**

* Management decision is overdue.

** Final action has not been reported.

INDEX TO REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL

IG Act Reference*	Reporting Requirement	Page
Section 4 (a)(2)	Review of Legislation and Regulations.	19
Section 5 (a)(1)	Significant problems, abuses, and deficiencies.	N/A
Section 5 (a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	N/A
Section 5 (a)(3)	Prior significant recommendations on which corrective action has not been completed.	24
Section 5 (a)(4)	Matters referred to prosecutive authorities.	18
Section 5 (a)(5)	Summary of instances where information was refused.	N/A
Section 5 (a)(6)	List of audit reports by subject matter showing dollar value of questioned costs and recommendations that funds be put to better use.	14
Section 5 (a)(7)	Summary of each particularly significant report.	3
Section 5 (a)(8)	Statistical table showing number of reports and dollar value of questioned costs.	21
Section 5 (a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better us.	22
Section 5 (a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by end of reporting period.	23
Section 5 (a)(11)	Significant revised management decisions.	N/A
Section 5 (a)(12)	Significant management decisions with which the Inspector General disagrees.	N/A

*Refers to sections in the Inspector General Act of 1978, as amended.

SUMMARY REPORT OF ACCOMPLISHMENTS FOR FISCAL YEAR 1996

CNS OIG Performance Measures

Investigations	FY 1995	FY 1996	Increase
Caseload	23	39	16
Referrals	1	7	6
Audit			
Number of Reports	18	33	15
Questioned Costs	$ 234,000	$ 1,854,000	$ 1,620,000
Costs per audit hour			
OIG staff	--	$57*	
Contracted Services	--	$60 -$63	
Timeliness	--	168 days**	--

** OIG cost per hour estimate is based on the total salary and benefits costs for audit staff divided by direct hours charged to audit assignments.*

*** from inception of a grant audit/review through issuance of the final report and thus including a 30 day response period. In FY 1996 this statistic was impacted somewhat by the government shutdowns.*

Resources Provided:

Our FY 1996 appropriation was $2 million. The Summary of Obligations and Expenditures ***(page 32)*** reports how we spent our appropriated funds.

What we accomplished *vis a vis* what we proposed to do:

In requesting its fiscal year 1996 budget, the OIG indicated that it would use its appropriation for activities in several areas. The table below presents our accomplishments in those areas.

	Proposed in FY 1996 Budget Request	Accomplished	Questioned Costs *(In thousands)*
1	Perform audits of CNS' financial reports	We continued this process through a survey of CNS financial systems to recommend corrective actions CNS should take in order to produce auditable financial statements. The survey, performed by Williams Adley & Company LLP and Arthur Andersen LLP, resulted in 99 findings and recommendations. We testified on the results of the survey and our plans to review CNS planned corrective actions on March 19, 1996 and May 21, 1996. Congress in H. Rept. 104-537, the Conference Report on the Omnibus Consolidated Recessions and Appropriations Act of 1966), request the OIG follow-up on CNS' corrective actions. OIG contracted for a two-part follow-up study by Arthur Andersen. The work began in August. The results of the first assessment will be released during the first quarter of FY 1997; the results of the second are presently scheduled to be reported during the third quarter of FY 1997.	
2	Audit CNS' new programs and systems	We contracted for an audit of the CNS Education Benefits Trust Fund by KPMG Peat Marwick LLP. Although the new systems designed to support the Trust Fund were reviewed as part of the auditability survey, the Trust Fund's activities have increased significantly and the Fund's day to day transactions have had little scrutiny. During the final quarter of FY 1996, CNS prepared financial statements covering the Trust Fund's activities from inception through FY 1995 and presented them to our office for audit in September 1996. The audit has begun and we expect to release our final report during the third quarter of FY 1997.	
3	Review grantees and subrecipients receiving large Corporation grants or those determined to be of high risk to determine the adequacy of their accounting controls; e.g. their ability to	Believing that it can be more effective to assess the vulnerability of grantee systems and prevent the loss of Federal funds, rather than trying to recover misspent funds after the fact, we reviewed grantee accounting and Federal reporting systems for a number of recently awarded CNS grants. Most of the reviews have revealed financial issues that should be resolved to improve grantee financial management and reporting. Most of the issues that we have found are similar to those found in other Federal grant programs; for example, failure to comply with grant provisions, inadequate management control systems and inappropriate or undocumented	

Proposed in FY 1996 Budget Request	Accomplished	Questioned Costs *(In thousands)*
comply with CNS and Federal reporting and other requirements	costs for grantee personnel charges. Nonetheless, we are beginning to see trends that require addition monitoring by CNS management and OIG; at this time, we are pursuing matters related to grantees' charging expenditures for administrative staff to budgeted program costs (rather than as administrative) and AmeriCorps Members' time records.	
	Final reports were issued for:	
	New Orleans Youth Action Corps (96-01)	$ 46
	Woodrow Wilson National Fellowship Foundation; (96-02)	229
	Youth Build USA, Inc. (96-03)	0
	Arizona-Mexico Commission/Border Volunteer Corps (96-04)	189
	National AIDS Fund (96-05)	0
	National Center for Family Literacy (96-06)	227
	The Arc of the United States (96-07)	12
	National Association of Community Health Centers, Inc. (96-08)	19
	Home Instruction Program for Preschool Youngsters, USA (96-11)	0
	Council of Great City Schools (96-14)	0
	Blackfeet Nation (96-17)	4
	Fort Belknap Community Council (96-19)	0
	Summerbridge National (96-24)	0
	New York University (96-25)	0
	Local Initiatives Support Corporation (96-28)	76
	National Council on Educational Opportunities (96-29)	36
	I Have A Dream Foundation (96-37)	4
	Oneida Indian Nation of New York (96-41)	12
	Mid-Atlantic Network of Youth and Family Services (96-43)	5
	Questioned Costs - Reviews	$ 859
	Work in progress includes:	
	YMCA of USA	
	Kansas City Consensus	
	YouthNet of Greater Kansas City	
	Legal Services Corporation	
	National Council of Churches of Christ in the USA	
	National Organization for Victim Assistance	
	National Alliance for Veteran Family Assistance	

Proposed in FY 1996 Budget Request		Accomplished	Questioned Costs *(In thousands)*
4	Perform audits of grants or contracts including those where noncompliance is suspected	***Final reports have been issued for:***	
		NorthWest Service Academy (96-12)	$ 90
		Greater Miami Service Corps (96-16)	625
		Public Allies (96-20)	105
		ACORN Housing Corporation (96-21)	61
		East Bay Conservation Corps (96-33)	0
		Georgia Department of Community Affairs (96-34)	48
		Montana Conservation Corps, Inc. (96-35)	0
		Los Angeles Conservation Corps (96-39)	27
		Bowie State University (96-51)	10
		Questioned Costs - Audits	$ 966
		Work in progress includes:	
		Oregon Youth Conservation Corps Children's Health Fund Pennsylvania Association of Colleges and Universities Greater Miami Service Corps (DCAP grant)	
5	Conduct investigations as needed and operate the Hotline.	We began FY 96 with 16 previously-opened investigative actions. During FY 96 we opened 39 investigative actions and closed 29, leaving 26 actions pending at the end of the fiscal year. Six criminal investigations were referred for Federal prosecution during the year; one was accepted for prosecution, three were declined, and two are pending prosecution review. We received 64 Hotline calls during FY 96, resolving the majority upon receipt or shortly thereafter. During FY 96 we opened approximately 40% more investigative actions than we opened in FY 95. We closed more than twice as many investigative actions in FY 96 than we closed in FY 95. During FY 96 we also referred three times as many criminal investigations for prosecution than we did in FY 95. Three of our more significant criminal investigations currently involve the Department of Justice; one matter has been accepted for prosecution and two remain under review. In two additional criminal investigations Corporation management took administrative action against employees after the U.S. Attorney declined to prosecute. One employee was dismissed and the other suspended without pay for two days.	

Proposed in FY 1996 Budget Request		Accomplished	Questioned Costs *(In thousands)*
		Our most significant non-criminal investigation involved allegations that AmeriCorps Members were directed and allowed, by a grantee partner, to participate in prohibited activities. The Corporation decided not to renew the grant.	
6	Review Single Audit Act reports for CNS grantees	We processed 293 reports during fiscal year 1996. Of these, nineteen contained findings relevant to CNS grantees. Our cost to perform these reviews exceeded $50 thousand. Therefore, we enthusiastically support OMB's revisions to the Single Audit Act and related initiatives to have Single Audit Act reports reviewed by Clearing House personnel. We plan to discontinue reviewing these reports during FY 1997 and rely on the clearing house. To that end we are participating on the OMB task force to implement these changes. Questioned Costs - A-133 Reports	$ 29
7	Review of Proposed Management Decisions	We reviewed 25 proposed management decisions (PMDs) during the fiscal year and were in the process of reviewing seven PMDs received in the last week of the fiscal year. Most were late. As of September 30, 1996 there were seven audits or reviews with overdue PMDs. We have begun an initiative to revise CNS' audit resolution process to eliminate current problems in this area.	
8	Develop a strategic plan for OIG based on CNS' risks and vulnerability assessment	We have continued to revise and build on the strategic plan established in FY 1995. That plan was designed to provide coverage to CNS' operations over a four year period in the recognition that an office comprised of less than a dozen auditors and investigators could not cover every aspect of CNS' operation in any one year. We have managed to cover most of the areas scheduled for audit during FY 1995 and FY 1996. It was necessary only to postpone work in two areas; and the postponements resulted from Congressional committee requests to perform audits in other areas. We have distributed our strategic plan matrix and our annual plans to CNS management on a regular basis to solicit their input. CNS has requested additional coverage when certain situations requiring OIG assistance arose. We have distributed the plan to CNS Board of Directors on an annual basis and received their approval. We annually submit the plan to Congressional Committees having	