Office of the Inspector General
Corporation for National and Community Service

Semiannual Report to the Congress
for the period
October 1, 1998 — March 31, 1999

Fiscal Year 1999
Semiannual Report No. 1

As required by the Inspector General Act of 1978, as amended, this report describes our activities and accomplishments for the first half of fiscal year 1999. Section 5 of the Act requires that the Corporation's Chief Executive Officer submit this report to the Congress and the Corporation's Board of Directors.

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EXECUTIVE SUMMARY

AUDITS & REVIEWS

During this semiannual reporting period, we issued eight audit reports, including reports on the Corporation's financial statements and internal controls, and its Action Plan for financial management improvement mandated by Congress. Summaries of all audit reports issued during this period are on pages 1 through 11. We are also reporting on the results of our audit of the Corporation's fiscal year 1998 financial statements, issued on April 9, 1999.

Financial Management

Our audit of the Corporation's fiscal year 1998 financial statements resulted in an unqualified opinion on the Corporation's Statement of Financial Position at September 30, 1998; however, the auditors were unable to render an opinion on the Statement of Operations and Changes in Net Position, and the Statement of Cash Flows for the fiscal year.

While the Corporation has made some progress toward producing auditable financial reports, eight areas of the Corporation's financial operations were cited as materially weak: financial management and reporting, the Corporation's general control environment, grant management, financial systems, the National Service Trust, fund balance with Treasury, net position reporting, and the recording and reporting of revenue from reimbursable agreements (page 1).

Corporation Action Plans

As requested by Congress, OIG reviewed the Corporation's "Action Plan" for improving its financial management operations (page 3).

Procurement Management

Our audit of the Corporation's contract with Advanced Systems Technology Corporation resulted in questioned costs in excess of $700 thousand (page 5).

Grant Management and Oversight

Our audits of the Corporation's grant with the Congressional Hunger Center concluded that the Corporation did not adequately monitor and oversee the grant. We questioned more than $200 thousand of Congressional Hunger Center's incurred costs (page 6).

Our review of the Corporation's liability for post-service benefits related to former Commission grants identified over $142 thousand drawn down by grantees in excess of their needs (page 8).

Audit Resolution

The Corporation's Action Plan indicates that it plans to revise its audit resolution process by the end of April. OIG provided comments on a draft in November 1998. In April 1999, we received a revision of the draft (page 11).

INVESTIGATIONS

During this semiannual reporting period we received and processed 22 Hotline calls, opened 22 investigative actions, and completed 20 investigative actions. We referred three matters to the Department of Justice for a prosecutive determination and two matters for Affirmative Civil Enforcement (page 16).

We referred three reports to Corporation management documenting various conditions we found that were conducive to fraud, waste, or abuse. The reports were provided in an effort to assist management in increasing Government integrity and improving program operations and effectiveness. The referrals to management related to allegations of improprieties involving appointment to the permanent cadre of the National Civilian Community Corps (page 13), allegations of worker's compensation fraud (page 13), and potential ethics violations (page 14).

REVIEW OF LEGISLATION & REGULATIONS

We reviewed legislation and proposed legislation including a proposal to reauthorize the Corporation, the Kennedy Reauthorization Bill (page 17). We reviewed the Corporation's compliance with the Federal Vacancies Reform Act (page 18), and the Government in the Sunshine Act (page 19). We also reviewed the Corporation's annual appropriations acts to determine restrictions and reporting requirements (page 19). Finally, we reviewed and provided comments to the Corporation on three proposed regulations, the National Service Trust regulation, the Privacy Act and system of records regulation, and the debt collection regulation (page 19).

TESTIMONY

The Inspector General testified on the Corporation's control weaknesses and other related matters before the Veterans Affairs, HUD, and Independent Agencies Subcommittee of the Senate Committee on Appropriations on March 11, 1999.

The Assistant Inspector General for Audit testified on the Corporation's efforts to make its computer systems Year 2000 compliant before the Subcommittee on Oversight and Investigations of the House Committee on Education and the Workforce on October 8, 1998.

OUTREACH EFFORTS

The Inspector General spoke at a Corporation AmeriCorps Grants Conference on the role of the OIG with regard to Corporation grantees, and the grant oversight and management deficiencies that have been repeatedly found in our grant audits and investigations.

As a part of our ongoing fraud prevention efforts, the Assistant Inspector General for Investigations provided a Fraud Awareness presentation for the Directors of the Corporation's Southern Cluster State Program Offices. The presentation included discussing our more prevalent findings and recommendations for the managers to enable them to detect and report fraud in its early stages.

IG ACT REPORTING REQUIREMENTS

This table cross-references the reporting requirements prescribed by the Inspector General Act of 1978, as amended, to the specific pages in the report where they are addressed.

Requirement		Page
Section 4 (a)(2)	Review of legislation and regulations.	17
Section 5 (a)(1)	Significant problems, abuses, and deficiencies related to the administration of Corporation programs and operations.	*Throughout*
Section 5 (a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies found in the administration of Corporation programs and operations.	*Throughout*
Section 5 (a)(3)	Prior significant recommendations on which corrective action has not been completed.	23
Section 5 (a)(4)	Matters referred to prosecutive authorities.	12
Section 5 (a)(5)	Summary of instances where information was refused.	*None this period*
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.	11
Section 5 (a)(7)	Summary of each particularly significant report.	*Throughout*
Section 5 (a)(8)	Statistical table showing number of reports and dollar value of questioned costs.	20
Section 5 (a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	21
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.	22
Section 5 (a)(11)	Significant revised management decisions.	*None this period*
Section 5 (a)(12)	Significant management decisions with which the Inspector General disagrees.	*None this period*

AUDIT SECTION

The Office of the Inspector General Audit Section is responsible for reviewing financial, administrative, and program aspects of Corporation operations. It carries out these responsibilities by conducting the audit of the Corporation's annual financial statements, evaluating the Corporation's management controls, auditing Corporation operations, and auditing individual grants, contracts, and cooperative agreements funded by the Corporation. All OIG audit reports are referred to Corporation management for action or information. Additionally, the Audit Section advises and assists the Corporation in resolving audit recommendations. During this reporting period, most of the Audit Section's work was related to our audit of the Corporation's fiscal year 1999 financial statements. We issued our report on the results of the audit on April 9, 1999. A list of the reports issued by the Audit Section during this period can be found on page 10.

FINANCIAL MANAGEMENT

Audit of the Corporation for National and Community Service's Fiscal Year 1998 Financial Statements (Audit Report 99-12)

The Government Corporation Control Act (31 U.S.C. 9101 *et seq.*), requires OIG to annually audit the financial statements of the Corporation. To fulfill this requirement, OIG engaged KPMG to audit the Corporation's fiscal year 1998 financial statements. The audit, conducted in accordance with government auditing standards, included extensive audit procedures to overcome known material weaknesses and other pervasive systems deficiencies. As a result, KPMG was able to issue an unqualified opinion on the Corporation's Statement of Financial Position at September 30, 1998; however, due to deficiencies in the Corporation's financial systems and management's inability to explain certain adjustments made to the accounting records, KPMG was unable to render an opinion on the Statement of Operations and Changes in Net Position, and the Statement of Cash Flows for the fiscal year.

The report also notes that, while the Corporation has made some progress toward producing auditable financial reports, serious financial management issues remain. The report discusses eight areas of the Corporation's financial operations that are materially weak: financial management and reporting, the Corporation's general control environment,[1] grants management, financial systems, the National Service Trust, fund balance with Treasury, net position reporting,[2] and the recording and reporting of revenue from reimbursable agreements. Systems,

[1] Control environment factors include commitment to competence, management philosophy and operating style, organizational structure, and assignment of authority and responsibility. The control environment sets the tone of an organization, influences the level of control consciousness, and provides the discipline and structure of an organization.

[2] The report cites the Corporation's failure to properly adjust obligations for expired grants and other expired obligations as well as errors in reporting results of operations. Material adjustments were required to correct the financial statements for both of these conditions.

internal controls, record keeping and accounting procedures in these areas were first reported to the Corporation as material weaknesses in 1996.

In the area of financial management and reporting, the report cites the need to record material adjustments, ranging from $1.4 million to $106 million, to the financial statements, as a result of the financial management weaknesses. Certain of the adjustments also impact the Corporation's budgetary accounts and reports. For example, an adjustment to reduce the service award liability by $106 million in the National Service Trust was necessary to fairly state the liability at September 30, 1998. The Corporation's initial calculation of the service award liability was made on a very conservative basis, assuming that all members enrolled as of September 30, 1998, had earned awards, and that all awards earned would ultimately be used. Historical experience now indicates that not all member slots result in earned awards, and that only about 80 percent of earned awards will be used. Calculation of the service award liability on a more realistic basis will provide the Corporation with a better indication of the available Trust Fund surplus, which should be considered in the annual budget process. The report also repeats two areas of non-compliance with laws and regulations: the Corporation's failure to establish an effective system to assess and report on its internal controls as required by the Government Corporation Control Act and the Corporation's substantial non-compliance with Federal financial systems requirements.

Audit of the Corporation for National and Community Service Statement of Financial Position, September 30, 1997 (Audit Report 99-01) and Recommended Improvements to the Corporation's Internal Controls (Audit Report 99-02)

At the beginning of this reporting period, we issued two reports related to our audit of the Corporation's fiscal year 1997 Statement of Financial Position (Audit Report 99-01, *Audit of the Corporation for National and Community Service Statement of Financial Position, September 30, 1997*; and Audit Report 99-02, *Recommended Improvements to the Corporation's Internal Controls*).

The audit of the Corporation's fiscal year 1997 statements was limited in scope to the Statement of Financial Position (balance sheet) because the Corporation determined that it had not made sufficient progress in correcting material internal control weaknesses previously identified by the OIG. The auditors' report on the September 30, 1998, balance sheet was qualified because of the Corporation's inability to provide sufficient evidence to support the reasonableness of the amounts recorded for grant advances, grants payable, and the component balances of net position at September 30, 1997. The report also cited six areas of material weaknesses. Audit Report 99-02, *Recommended Improvements to the Corporation's Internal Controls,* was issued as a management letter and included additional recommendations for improvements in internal control.

In its response to the reports, the Corporation generally agreed with the findings and described some of the actions it was taking to address the conditions identified. The Corporation's "Action Plan" (see below) also describes the Corporation's plans to address its control deficiencies.

Reviews of the Corporation for National and Community Service Action Plan (Audit Reports 99-17 and 99-23)

The House of Representatives Conference Committee Report accompanying HR 105-769 required that the Corporation submit to the House and Senate Committees on Appropriation a detailed Plan for the expenditure of certain funds for financial management reforms and provide Plan updates every 60 days on the use of the funds. The Conference Committee Report directs OIG to independently review and comment upon the Plan and each update within 30 days of their submission to the Congress. The Corporation submitted its "Action Plan," to Congress on December 21, 1998, and its first update on February 19, 1999. In response to the Conference Committee's requirement OIG issued its analysis of the December 21st Action Plan (Report Number 99-17) on January 13, 1999, and our analysis of the February 19 update (Report Number 99-23) on March 19, 1999.

The Corporation's Plan –

The Corporation's Action Plan represents the most comprehensive and ambitious effort to date by the Corporation to address weaknesses in its financial management. As revised in February 1999, it lists nine high level management goals and includes a schedule for completing 177 tasks related to 40 objectives, most of which are intended to remediate material weaknesses and other deficiencies previously reported in numerous OIG audits and reported by the National Academy of Public Administration.[3] However, because of weaknesses in the Corporation's accounting system and the nature of the Action Plan, two issues arise related to OIG's ability to report meaningful information to Congress on the expenditure of funds and the effectiveness of corrective actions as indicated in the Conference Report.

First, the Corporation lacks a reliable cost accounting system to track cost estimates related to the $3 million earmarked for financial management reforms.[4] The Corporation estimates that it will spend $1.6 million for staff (by reassigning current staff and hiring additional personnel), primarily to prepare the Corporation's financial statements, "clean up" accounting data, and implement a new financial management system. The Corporation also estimates that it will spend $1.4 million for contracts, primarily to develop a grants management system, train staff,

[3] *Corporation for National Service: Strengthening Organizational Effectiveness and Service Delivery*, a report from a Panel of the National Academy of Public Administration (undated).

[4] The Corporation's fiscal year 1999 appropriation provided $1.5 million in new funds and required the Corporation to redirect an additional $1.5 million to be spent on financial management reforms and other urgent program administrative needs.

and to expand a pilot project for an internet based system that allows grantees to report information on AmeriCorps Members to the Corporation electronically. Although the Corporation provided OIG with supporting documentation for some of these cost estimates, it has not provided information on actual amounts expended to date, and has not established an alternative means of systematically tracking these expenditures. OIG expects that after completion of the Plan, there will be evidence to support the $1.4 million in contracted services, and payroll data to support the portion of the $1.6 million in staff costs that are dedicated to Action Plan tasks. However, approximately $565 thousand (19 percent) of the $3 million estimate relates to staff who will spend an undocumented portion of their time on Action Plan tasks. The Corporation has stated that the staff will not maintain records to support time spent on these tasks. Therefore, for these charges, OIG and Congress will have to rely on management's assertions.

Second, most, if not all, of the tasks necessary to achieve a given objective must be completed by the Corporation before OIG can assess their effectiveness. Given the nature of the Plan, intermediate or periodic review by OIG, before the completion of most of the tasks within an objective, cannot provide the Conferees with a great deal of useful information. Under the current schedule, most of the objectives will not be completed until the second half of fiscal year 1999 at the earliest.

The Corporation's Progress to Date

As of February 19, 1999, the Corporation reported that 69 tasks had been completed. However, 30 of these tasks were already completed when the Corporation sent the December 21, 1998 Action Plan to Congress. Moreover, the February revision of the Action Plan extended the milestones for 35 tasks. Although the Corporation provided explanations for some extensions, the February version is silent as to the reasoning behind others. Importantly, five of the extended completion dates are tasks needed to implement the Corporation's new financial management system (Goal five).

The Corporation is still very early in the process of this Plan, and numerous action items are not yet scheduled for completion. As expected, the tasks completed to date are not concentrated within any particular goal, and, with the exception of two objectives related to Year 2000 compliance, no individual objective under any goal is complete. Consequently, OIG cannot conclude as to the extent of improvements resulting from the Corporation's efforts to date.

Additional OIG Assessment Efforts

In addition to responding to each of the Corporation's submissions within the 30-day time frame established in the Conferees' report, OIG will expand its reporting to include a comprehensive study of the Corporation's progress to improve its financial management. The study will be performed during the final quarter of this fiscal year after the scheduled completion date of most of the Corporation's efforts under the Plan.

PROCUREMENT MANAGEMENT

During fiscal year 1998 OIG audited the Corporation's procurement operations (OIG Report 98-24, *Audit of the Corporation's Procurement and Contracting Processes and Procedures*). The audit revealed material weaknesses in the Corporation's award, monitoring, and oversight of its contracts and cooperative agreements and that the Corporation's procurement process is vulnerable to fraud, waste, and mismanagement. Because of the pervasive nature of these deficiencies, OIG scheduled a number of the Corporation's individual contracts and cooperative agreements for audit. These audits are intended to assess whether the costs are allowable, adequately supported, and charged in accordance with the terms of the contract or training and technical assistance agreement, and applicable laws and regulations. Results from the first of these audits follows.

Audit of Corporation for National and Community Service Contracts No. 96-743-1002 and No. 97-743-1005 With Advanced Systems Technology Corporation (Audit Report 99-11)

OIG engaged Cotton & Company to audit the amounts claimed by Advanced Systems Technology Corporation (ASTEC) under Contracts No. 96-743-1002 and No. 97-743-1005. ASTEC provided management consultants and other personnel to assist Corporation staff in carrying out Corporation operations and training and technical assistance under these time-and-materials contracts. The audit covered the costs claimed ($4,881,387) during the period from April 1, 1996 through September 30, 1998, and included tests to determine whether costs reported to the Corporation were documented and allowable in accordance with the terms and conditions of the contract.

The auditors found that ASTEC:

- Claimed costs for work performed by employees in labor categories and at labor rates not included in the contract or contract modifications;
- Claimed costs for employees who did not meet qualifications stated in the contract for that labor category;
- Claimed costs for insurance that should have been recovered through ASTEC's indirect costs rates used as the basis for the negotiated labor rates included in the contract;
- Claimed costs in excess of cost ceilings for certain work orders; and
- Claimed travel costs that were not supported by adequate source documentation or were not allocable under the Federal Travel Regulation as required under the contract.

As a result, we questioned $721,663 (15 percent) in costs claimed by ASTEC under the contract. In its response to the report, the Corporation stated that it had reviewed the draft but did not have specific comments at this time and plans to address the findings and recommendations as part of the audit resolution process. ASTEC generally agreed with the findings, but disagreed with the questioned costs, asserting that it was following the Corporation's guidance in carrying out the contract.

GRANT MANAGEMENT AND OVERSIGHT

The Corporation awards National and Community Service Act (NCSA) and Domestic Volunteer Service Act (DVSA) grants to state and local governments, institutions of higher education, and other not-for-profit organizations. Grantees are required, among other things, to expend funds only for allowable costs and provide periodic reports to the Corporation to demonstrate programmatic and financial compliance with the terms of the respective grant agreements. The Corporation is responsible for ensuring that grantees comply with applicable laws and regulations related to the administration of the respective grant awards, including those related to Federal cash management requirements.

The OIG Audit Section performs both audits of the Corporation's oversight of grantees and audits of specific grants to assess whether reported costs were allowable under Federal regulations and whether grantees complied with the terms and conditions of the award. Each of our reports on Corporation grants contains recommendations for correcting the deficiencies identified in the reports. Typically, the recommendations related to specific grants are for the grantee to reimburse questioned costs and to establish and implement policies and procedures to prevent future instances of non-compliance and improve internal controls. During this reporting period, we issued two reports related to the Corporation's grant to the Congressional Hunger Center.

Audit of Congressional Hunger Center Cooperative Agreement No. 96ADNDC099 (Audit Report 99-04)

We engaged Leonard G. Birnbaum and Company to perform an audit of the amounts claimed by Congressional Hunger Center under Cooperative Agreement No. 96ADNDC099. The audit covered the costs ($1,978,804) claimed during the grant period from October 1, 1996 through March 31, 1998, and included tests to determine whether financial reports prepared by Congressional Hunger Center presented fairly the financial condition of the award, and whether the award costs reported to the Corporation were documented and allowable in accordance with the terms and conditions of the award.

The auditors found numerous compliance and internal weakness including that Congressional Hunger Center:

- Claimed costs that did not benefit the program or were unnecessary;
- Claimed costs which were not supported by adequate source documentation;
- Did not meet the minimum matching requirements for the 96/97 program year;
- Claimed living allowances and benefits, including health care, for participants of another program; and
- Drew down funds from the Corporation in excess of its immediate cash needs.

As a result, we questioned $239,940 (12 percent) in costs claimed under the award.

In its response to the report, the Corporation stated that it had not performed a comprehensive analysis of the findings and could not provide detailed comments or specifically concur with the recommendations at this time. Congressional Hunger Center generally concurred with the findings.

Evaluation of the Corporation's Monitoring and Oversight of Cooperative Agreement No. 96ADNDC099 Awarded to Congressional Hunger Center (Audit Report 99-05)

We also engaged Leonard G. Birnbaum and Company to evaluate the Corporation's monitoring and oversight of the award to the Congressional Hunger Center. The auditors concluded that the Corporation did not adequately monitor and oversee the award to Congressional Hunger Center. Specifically, the auditors found that:

- Monitoring and oversight visits made to Congressional Hunger Center and its subrecipient sites focused primarily on programmatic issues rather than financial management. As a result, substandard financial management by Congressional Hunger Center was not detected on a timely basis.
- The Corporation did not monitor the cash advanced to, or the Federal Cash Transactions Reports submitted by, Congressional Hunger Center. As a result, drawdowns of cash in excess of requirements were not detected on a timely basis.
- The Corporation did not ensure that Congressional Hunger Center evaluated its program for the 96/97 program year. As a result, the Corporation lacks the information necessary to assess the quality of the program.

- The Corporation's procedures to ensure that Congressional Hunger Center completed and submitted the Annual Accomplishment Report to the Corporation's evaluation contractor were inadequate. As a result, the Corporation was not aware of the fact that Congressional Hunger Center had failed to submit the report for the 96/97 program year.

In responding to this report the Corporation stated that, while it disagreed with the firm's conclusion that the Corporation did not adequately monitor and oversee the award to Congressional Hunger Center, it would review and revise its monitoring and oversight procedures.

Review of Corporation for National and Community Service Liability for Post-service Benefits Related to the Former Commission on National and Community Service Grants (Audit Report 99-06)

OIG engaged Leonard G. Birnbaum and Company to review of the Corporation's liability for post-service benefits related to the former Commission on National and Community Service grants.[5] The review was performed to identify those Commission grants which still provided for post-service benefits and the amounts of Federal funds budgeted for those benefits; to determine, for the grantees identified, those which drew down the entire amount of Federal funds awarded; and to provide estimates of the contingent liability for post-service benefits related to the former Commission grants recorded in the Corporation's Statement of Financial Position at September 30, 1997, and September 30, 1998.

Based on their review, the auditors estimated that the Corporation's post-service liability related to former Commission grants was $2.0 million and $1.9 million at September 30, 1997, and September 30, 1998, respectively. The auditors also found that out of 45 grantees identified, three grantees had drawn down funds in excess of their needs, totaling $142,035, and 15 had drawn down all Federal funds awarded by the former Commission.

Based on information from this and other reports,[6] OIG recommended that the Corporation:

- Clearly establish who in the organization will be responsible for monitoring and closing out the former Commission grants;

[5] As a result of the National and Community Service Act of 1993, the Commission on National and Community Service merged into the Corporation for National and Community Service, which assumed responsibility for grants awarded by the Commission. The Act also established audit responsibility for all programs administered by the Corporation, as well as grants awarded by the former Commission, in its Office of the Inspector General.

[6] In OIG Audit Report 98-23, *Auditability Assessment of the Corporation for National Service at September 30, 1997*, we reported that the Corporation had not established procedures to monitor disbursements from these grants or to appropriately close out grants.

- Establish a process to close out the grants within the next year;
- Require grantees to return excess funds; and,
- Resolve, with the Office of Management and Budget, the issue of funding for post-service benefits where the appropriation authority has lapsed.

In its response to the report, the Corporation stated that it agreed with the recommendations and that it would implement corrective actions.

Summary of Grant Audit Reports Issued October 1, 1998 through March 31, 1999

			Other Reported Issues		
Grantee	Incurred Costs*	Questioned Costs*	Systems & Controls	Subrecipient Monitoring	Other Compliance Issues
Congressional Hunger Center Cooperative Agreement No. 96ADNDC099 (OIG Report 99-04)	$1,978,804	$239,940	✓	✓	✓
Corporation's Monitoring and Oversight of Cooperative Agreement 96ADNDC099 Awarded to Congressional Hunger Center (OIG Report 99-05)	N/A	N/A	✓	✓	✓
Review of Corporation for National and Community Service Liability for Post-service Benefits related to Former Commission on National and Community Service Grants (OIG Report 99-06)	N/A	N/A	--	--	✓
Total Questioned Costs (Federal & Match)*		$239,940			

*The amounts reported above include both Federal grant funds and funds provided by grantees as match. The amount of Federal dollars questioned is presented in the summary listing of audit reports issued on page 11 of this report.

AUDIT REPORTS ISSUED DURING THE PERIOD OCTOBER 1, 1998 THROUGH MARCH 31, 1999

Report Number	Issue Date	Report Name	Federal Dollars Questioned	Federal Dollars Unsupported
			(Dollars in thousands)	
99-01	10/9/98	Audit of the Corporation for National and Community Service Statement of Financial Position, as of September 30, 1997	--	--
99-02	11/17/98	Recommended Improvements to the Corporation's Internal Controls (Management Letter)	--	--
99-04	1/22/99	Audit of Congressional Hunger Center Cooperative Agreement No. 96ADNDC099	$233	$107
99-05	2/26/99	Evaluation of the Corporation's Monitoring and Oversight of Cooperative Agreement Awarded to Congressional Hunger Center	--	--
99-06	12/23/98	Review of the Corporation's Liability for Post-service Benefits Related to Former Commission on National and Community Service Grants	--	--
99-11	3/19/99	Audit of Corporation for National Service Contracts with Advanced Systems Technology Corporation	722	3
99-17	1/13/99	Review of the Corporation's December 21, 1998 Action Plan	--	--
99-23	3/19/99	Review of the Corporation's February 19, 1999 Action Plan Progress Report	—	—
		TOTAL	$ 955	$ 110

AUDIT RESOLUTION

In its Action Plan, the Corporation indicates that it will, by the end of April 1999, revise and implement new procedures for resolving audit findings. OIG provided comments on the proposed process in November 1998. On April 7, 1999, the Corporation issued a draft of its proposed procedures.

During this reporting period the Corporation made Management Decisions on seven OIG reports with questioned costs totaling $1.25 million. In these decisions the Corporation disallowed $265 thousand (21 percent) and allowed $991 thousand (79 percent) of the costs questioned in the OIG reports (see Table I, Inspector General Reports with Questioned Costs, page 20). For costs questioned by OIG due to the lack of supporting documentation, the Corporation disallowed $21 thousand out of $88 thousand (24 percent) of the costs.

Management Decisions on OIG Reports With Questioned Costs

	Federal Questioned Costs*				
	Allowed		Disallowed		Total
	(Dollars in thousands)				
Overall	$991	79%	$265	21%	$1,256
Unsupported	$ 67	76%	$ 21	24%	$ 88

*The management decisions relate to Federal questioned costs identified in previous Semiannual Reports. The amount allowed represents costs claimed by a grantee and questioned in an audit that management subsequently determined were allowable. The amount disallowed represents questioned costs sustained by management.

INVESTIGATIONS SECTION

We began this reporting period with 22 previously opened investigative actions. During the reporting period we opened 22 new investigative actions and closed 20. We had 24 investigative actions pending at the end of this reporting period.

HIGHLIGHTS OF INVESTIGATIONS CLOSED DURING THIS REPORTING PERIOD

Director of AmeriCorps-Funded Program Convicted of Theft and Sentenced

We completed an investigation that we opened after learning that Corporation management was notified that an individual might have been certified to receive two educational awards when in fact the individual was not an AmeriCorps Member and had not performed any qualifying service.

Our investigation disclosed that the former Executive Director of an AmeriCorps-funded program for disadvantaged youth certified that his son performed AmeriCorps service and was eligible to receive two education awards when his son had never served as an AmeriCorps Member.

Looking beyond the initial allegation, we learned that the AmeriCorps grantee was also charging each AmeriCorps Member an activity fee that was collected in cash from each member when they received their living allowance. The State Commission learned of this practice and ordered the grantee to return all collected "activity fees" and to stop this practice immediately. However, we determined that the Executive Director did not return any funds and continued to collect activity fees from the AmeriCorps Members until his employment was terminated in October 1997. Both current and former members told us that the Executive Director collected $20.00 to $40.00 per member during each pay period with the exception of the last pay period of the program year. During the last pay period they claimed the Executive Director collected between $75.00 to over $100.00 per AmeriCorps Member for what the Executive Director said was overpayment to the member for hours they had not served.

We also learned that the grantee opened a savings account for each AmeriCorps Member and forced the members to save money each pay period. The State Commission stopped the forced savings and directed the grantee to repay each AmeriCorps Member the amount of money that had been withheld. The grantee prepared individual checks for the members in the amount of money they were due, totaling over $8,000.00, and then directed the Executive Director to give the AmeriCorps Members their checks. We found that the Executive Director had each member endorse their check and the Executive Director then kept the checks. The Executive Director,

over a period of several months, either deposited the checks into his personal banking account or cashed them at his bank.

The former Executive Director of the AmeriCorps-funded program pled guilty to theft in Federal District Court. He was sentenced to four months confinement; four months home detention, to run consecutively; two years probation; a $8,100.00 fee; and 80 hours of community service. (Investigative Report 98-014)

Alleged Conflict of Interest - Unfounded - Referred to Management

We completed an inquiry opened after Corporation management asked us to review the circumstances surrounding a Corporation employee, who is also a retired military officer, being granted a waiver of the dual compensation law. The waiver was granted after a determination was made that the employee was a member of the National Civilian Community Corps permanent cadre. Absent the waiver, the law required forfeiture of a portion of the employee's military retirement pay. We found no violation of law or regulation and provided our findings to Corporation management on June 29, 1998. During the course of our inquiry we identified some practices for which there is no governing policy or guidance. Our report to the Corporation addressed these findings, provided our recommendations with regard to the findings, and requested a response addressing action taken by management with regard to these findings.

On October 9, 1998, after receiving no response from Corporation management, we requested the Corporation's Chief of Staff to advise us whether management intended to respond to our findings. We received no response from the Chief of Staff and closed this file on October 29, 1999.

On December 14, 1999, the Executive Assistant to the Corporation's General Counsel provided a single page, undated and unnumbered document, that bears the title "Policy Regarding Appointments to the NCCC Permanent Cadre" and the signature of the Corporation's Chief Executive Officer. The document provides what it describes as the policy governing future appointments to the permanent cadre of the National Civilian Community Corps. (Investigative Report 98-030)

Alleged Worker's Compensation Fraud - Unfounded - Management Notified

We completed an investigation we opened after being notified of a possible false claim that may have allowed a Corporation employee to receive Worker's Compensation benefits and Veteran's disability benefits for the same injury. We reviewed payroll documents and medical records from the Department of Veterans Affairs (VA) and determined that the disability payment from the VA was for a different injury than the reported injury under the Worker's Compensation Claim. Our coordination with the Department of Labor Claims Examiner responsible for this

claim disclosed that they had also reviewed the VA medical records and agreed with our findings that the employee was entitled to receive both VA medical disability payments and Worker's Compensation payments. We notified the Corporation's Director of Human Resources of our findings and closed this matter as unfounded. (Investigative Report 98-033)

Grantee Provides Meals to Corporation Employees - General Counsel Rules No Violation

We completed a limited inquiry we opened after receiving information that a Corporation grantee provided meals to attendees of a Corporation board meeting. Attendees included Corporation employees and Corporation board members. We referred this matter to the Corporation's Office of General Counsel. In a memorandum dated October 15, 1998, the General Counsel wrote that he determined the fair market value of the meal was under the $20.00 per occasion exclusion contained in 5 CFR 2635.204, concluding that there was no prohibition against Corporation board members and staff accepting the meal. The General Counsel added that the Corporation staff, to include those responsible for preparing board members' expense reports, were instructed that they may not claim the portion of their per diem applicable to any meal they did not purchase. (Investigative Report 99-005)

PREVIOUSLY REPORTED MATTERS

In our semiannual report for the period April 1998 through September 1998, we reported on a completed investigation into allegations concerning a conflict of interest situation involving a senior staff member of a Learn and Serve grantee, and unauthorized *drawdowns* of grant funds by the grantee.

Our investigation determined that the Puerto Rico Department of Education (PRDE) did in fact award a contract to Educavipro, Inc., a consulting firm owned by a personal friend of a senior PRDE staff member. We determined that the PRDE staff member was involved somewhat in the selection of Educavipro, Inc. as the contractor, although a lack of documentation prevented us from determining the full extent of her involvement. We also determined that the PRDE senior staff member subsequently retired from PRDE and began teaching at the same university where the friend was employed, and in the same department in which the friend was employed.

We presented the results of our investigation to an Assistant U. S. Attorney (AUSA) in the U.S. Attorney's Office in Hato Rey, Puerto Rico. The AUSA declined to prosecute the alleged conflict of interest, citing the low dollar amount involved and the poor health of the PRDE staff member.

Our investigation found no evidence of impropriety by the grantee concerning the *drawdown* of funds after the account had been frozen. However, we did identify a practice that, if not

corrected, could allow this grantee to continue to make and other grantees to make unauthorized *drawdowns* of Corporation grant funds managed by the Department of Health and Human Services' (HHS) Payment Management System (PMS).

On March 9, 1998, we referred the matter to Corporation management and recommended they develop and implement written policy that addresses procedures that must be followed when an account is frozen. We advised Corporation management that such policy should include, at a minimum, requiring each grants officer to routinely review the HHS daily activity report, or the data extracted from that report, pertaining to the grantees for which they are responsible, for discrepancies. We also informed the Corporation that we felt that particular attention should be afforded to those grantees with frozen accounts. And finally, we recommended that discrepancies should be promptly reported to Corporation and HHS management, researched, resolved, and completely documented.

The above matter was closed within the files of our office on June 30, 1998, after Corporation management did not respond to our findings or to our requests for the status of corrective measures that they might have been contemplating.

On February 18, 1999, a copy of an unsigned memorandum, dated July 7, 1998, with an attached, unsigned document, dated July 2, 1998, titled "NCSA Grant Management Guidelines GMG 98-08" was received in the OIG. The memorandum bore a handwritten note from the Corporation's Chief Operating Officer noting that the OIG had informed Congress that the Corporation had not acted with regard to our findings and seemingly offering the memorandum as management's response.

On March 23, 1999, the Corporation's Director of Grants Management provided us a copy of "NCSA Grant Management Guidelines GMG 98-08" dated March 3, 1999, and added that the July 7, 1998 version of this document was a draft, and that the March 3, 1999 version was the final document. The March 3, 1999 document bore the signature of the Director of Grants Management. The guidelines appear to implement policy intended to correct the conditions we noted above. (Investigative Report 97-021)

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	4
Number of Cases Closed During This Period With No Significant Findings	16
Total Cases Closed This Reporting Period	20
Number of Cases Open at End of Reporting Period	24
Referred	
Number of Cases Referred for Prosecution During This Reporting Period	5
Number of Cases Accepted for Prosecution During This Reporting Period	2
Number of Cases Declined for Prosecution During This Reporting Period	2
Number of Cases Pending Prosecutive Review	1

REVIEW OF LEGISLATION & REGULATIONS

Section 4(a)(2) of the Inspector General Act requires 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. OIG recommendations are to address the impact of legislation and regulations on the economy and efficiency of the administration of the Corporation's programs and operations. The OIG is also to make recommendations concerning the impact of legislation and regulations on the prevention and detection of fraud and abuse in programs and operations administered or financed by the Corporation.

REVIEW OF LEGISLATIVE MATTERS

The Kennedy Reauthorization Bill. OIG reviewed a bill proposed by Sen. Edward Kennedy which would amend both the National and Community Service Act of 1990, as amended, and the Domestic Volunteer Services Act of 1973, as amended. The Corporation's enabling legislation originally authorized appropriations for the Corporation for fiscal years 1994, 1995 and 1996. Since that time the Corporation has existed without authorization but has received funds each year in annual appropriations. The proposed reauthorization would extend the Corporation's existing legislation and authorize support for the programs noted in the legislation through fiscal year 2004.

The proposed reauthorization bill clarifies a few terms and concepts found in the original Acts. For example, it clarifies the total amount of awards available to an individual, and changes the name of National Senior Volunteer Corps to National Senior Service Corps. The proposed reauthorization bill also expands Corporation authority in certain areas. As examples, it explicitly includes service-learning as a purpose of the National and Community Service Act and disaster relief as a purpose of the National Civilian Community Corps; it allows the Corporation to spend money earmarked for outreach to individuals with disabilities in a less restricted manner than currently permitted; and, it allows the repayment of a wider variety of educational loans than currently permitted. The proposed reauthorization bill places few new restrictions on the Corporation. An overall effect of the reauthorization as perceived by OIG is an endorsement of the Corporation's operations and programs. It tends to broaden the Corporation's programs and authority.

We recommend that the reauthorization proposal be considered as an opportunity to implement recommendations in previous OIG audit and investigative reports to improve Corporation operations and programs. For example, under the current Act, the Corporation has various reporting requirements with fixed deadlines. However, the Act goes on to allow the Corporation's Chief Executive Officer to "consolidate the reports to Congress required under the national service laws . . . into a single report, and submit the report to Congress on an annual basis." There is no deadline stated in this section of the Act 42 U.S.C. 12561d(c)(9). With no fixed deadline, the Corporation's 1995 reports were not submitted

until December 17, 1997; the 1996 reports were not submitted until March 19, 1998; and the 1997 reports were submitted on December 21, 1998. OIG recommends that any reauthorization bill establish a fixed date for submission of any such consolidated report so that Congress receives timely information for its oversight needs.

OIG has reported problems in the area of service hour reporting by Corporation grantees. Under Corporation programs, individuals become eligible for post service education benefits depending on the type and extent of service performed in a given time period. The Corporation has not promulgated effective requirements on documenting service hours performed. A reauthorization bill could place a requirement on the Corporation to produce standards under which Corporation grantees must document service hours performed.

OIG has reported problems in the area of the National Trust data. Currently, the Corporation provides membership rosters to Corporation grantees, with instructions to verify the information contained therein and return the membership roster to the Corporation. This information is entered in Corporation systems to determine, among other things, membership statistics and trust liabilities. The Corporation has, historically, had a very difficult time in obtaining the verified membership rosters from its grantees, and has done little to enforce the requirement with its grantees. Consequently, the Corporation utilizes, in part, unverified information on enrollment and membership. Since the Corporation is reluctant to act, OIG recommends that a reauthorization bill require the Corporation to obtain confirmed information on program enrollment and membership, even if suspension of funding of a noncompliant grantee is needed.

Federal Vacancies Reform Act. OIG reviewed the Federal Vacancies Reform Act and discussed its implications with the Corporation's Office of the General Counsel. In part, the Act limits the amount of time for which a person can serve in an acting capacity in a Presidentially-appointed position. The OGC agreed that the Corporation's Chief Financial Officer (CFO) position is, as a Presidential appointment, covered by the Act. The OGC also agreed that the current holder of the Corporation's Chief Operating Officer position was also the *de facto* acting CFO. We agreed that, absent an intervening act (such as a nomination or appointment to the CFO position), the acting CFO's authority would expire in early August 1999. We also agreed that actions taken after that date by the acting CFO could not, pursuant to restrictions in the Act, be ratified.

The National Community Service Act creates two positions titled "Managing Directors," each to be appointed by the President, by and with the advice and consent of the Senate. The relevant language of the NCSA states: "There *shall* be in the Corporation 2 Managing Directors . . . " (emphasis added) (42 U.S.C. 12651e(a)(1)). The Act does not closely define the roles of the managing directors. The OGC did not agree that the Corporation's two managing director positions are covered by the Vacancies Reform Act, asserting that because the functions of the positions are not statutorily defined, it cannot be concluded that anyone at the Corporation is filling the positions in an acting capacity. The OIG asserts that because

there is an affirmative statutory requirement to fill these positions, they are covered by the Vacancies Reform Act.

Sunshine Act Regulation. The Government in the Sunshine Act requires Federal agencies to conduct certain business meetings in a manner that is open to the public. There are specific exceptions to this requirement, and particular procedures to follow for closing and documenting a meeting pursuant to an exception. Under the terms of the Sunshine Act, the Corporation is required to promulgate regulations implementing the Sunshine Act and has not yet done so. The Corporation's OGC agreed with this conclusion and the Corporation has begun drafting a regulation to implement the Government in the Sunshine Act.

Corporation Appropriations. OIG reviewed fiscal year 1999 appropriations language for the Corporation for National Service to inform OIG staff about restrictions on the use of Corporation funds and to determine the Corporation's and the OIG's responsibilities under appropriation language which established reporting requirements concerning the expenditure of certain appropriations to "improve financial management and other urgent program administration activities." This language required the Corporation to develop a detailed plan for the expenditure of $3,000,000 for the above purposes. The language required the Corporation to update the plan every 60 days, and required the OIG to comment on the original plan and each reiteration. A detailed discussion of the Corporation's response to this requirement, and OIG's comments thereto, can be found beginning at page 3.

U.S. House of Representatives Committee on Appropriations language included a requirement that all OIGs funded under the Department of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act report to the Committee on issues of diversity in OIG staffing levels (HR 105,610, Title IV, General Provisions). In compliance with this requirement, we issued our Report on Issues of Diversity on January 4, 1999 to both the House and Senate committees on appropriations.

REVIEW OF CORPORATION-PROPOSED REGULATIONS

During this reporting period, OIG reviewed and commented on proposed regulations concerning the Corporation's National Service Trust so that the proposed regulation more closely followed the intent of the NCSA. OIG also commented on the Corporation's proposed Privacy Act and System of Records regulations to help ensure that OIG controlled access to OIG systems of records under Privacy Act requests. Finally, OIG reviewed and commented on the Corporation's Debt Collection Regulation, pointing out internal inconsistencies in the Corporation's proposed regulation on debt collection efforts.

TABLE I
INSPECTOR GENERAL REPORTS WITH QUESTIONED COSTS

		Number	Federal Costs Questioned	Federal Costs Unsupported
			(Dollars in thousands)	
1.	For which no management decision had been made by the commencement of the reporting period	8	$1,803	$88
2.	Which were issued during the reporting period	2	955	110
3.	Subtotals (1 plus 2)	10	2,758	198
4.	For which a management decision was made during the reporting period	7	1,256	88
	(i) dollar value of disallowed costs		265	21
	(ii) dollar value of costs not disallowed	—	991	67
5.	For which no management decision had been made by the end of the reporting period (3 minus 4)	3	$1,509	$ 110
6.	Reports with questioned costs for which no management decision was made within six months of issuance	1	$547	

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

		Number	Dollar Value
			(Dollars in thousands)
A.	For which no management decision had been made by the commencement of the reporting period	1	$1,609
B.	Which were issued during the reporting period	0	0
C.	For which a management decision was made during the reporting period	0	0
	(i) dollar value of recommendations that were agreed to by management		
	based on proposed management action	0	0
	based on proposed legislative action	0	0
	(ii) dollar value of recommendations that were not agreed to by management	0	0
D.	For which no management decision has been made by the end of the reporting period	1	$1,609
	Reports for which no management decision was made within six months of issuance	1	$1,609

TABLE III
SUMMARY OF AUDITS WITH OVERDUE MANAGEMENT DECISIONS

Report Number	Title	Federal Dollars Questioned	Mgmt Decision Due*	Status as of March 31, 1999
		(Dollars in thousands)		
98-24	Audit of the Corporation's Procurement and Contracting Processes and Procedures**	$547	3/29/99	1

* Under section 6009 of the Federal Acquisition Streamlining Act of 1994, as amended, a final management decision must be made within 6 months of the final report issuance.

** This report also included recommendations that funds be put to better use in the amount of $1.6 million (Table II).

Status

1 – Management Decisions must be made within 180 days of the final report issuance. OIG received the Corporation's *Proposed Management Decision* for review and concurrence on March 30, 1999, the last day of the reporting period (182 days after the report's issuance). The report, discussed in our September 30, 1998, Semmiannual Report, identified pervasive weaknesses in the Corporation's procurement operations that left it vulnerable to fraud, waste, and abuse. In a memorandum to the Corporation dated April 22, 1999, OIG disagreed with the management decision because the management decision proposes that the same personnel responsible for the deficiencies in procurement operations will be responsible for the corrective actions, without any indication that these individuals have received training and are now capable of developing and implementing corrective actions.

TABLE IV
REPORTS DESCRIBED IN PRIOR SEMIANNUAL REPORTS WITHOUT FINAL ACTION

Report Number	Title	Date Issued	Final Action Due*	Status Of Final Action
96-01	Review of the New Orleans Youth Action Corps	3/5/96	3/5/97	*Final Action has not been completed and/or reported to OIG*
96-21	Audit of ACORN Housing Corporation	3/29/96	3/29/97	
97-02	Audit of Oregon Youth Conservation Corps	12/23/96	12/23/97	" "
97-27	Audit of National Service Trust Fund Fiscal Year 1995 and 1994 Financial Statements	3/10/97	3/10/98	" "
97-31	Recommended Improvements to National Service Trust Fund Operations	4/30/97	4/30/98	" "
98-06	Audit of West Virginia Conservation and Service Corps	1/27/98	1/27/99	" "
98-22	Summary of the Results of Audits and Reviews of Grants Fiscal Years 1995 through 1997	3/20/98	3/20/99	" "
98-23	Auditability Assessment of the Corporation's FY97 Statement of Financial Position**	7/8/98	7/8/99	" "

* Under section 6009 of the Federal Acquisition Streamlining Act of 1994, as amended, a final action must be completed within 12 months of the report's issuance.

** The findings in this report were included in previous OIG audit assessments, as well as in the audit of the Corporation's fiscal year 1997 Statement of Financial Position. The Corporation has incorporated its corrective action on these reports onto its "Action Plan," and considers all open corrective actions related to auditability issues overdue.

TABLE V
STATUS OF RECOMMENDATIONS ON CORPORATION MANAGEMENT ISSUES

	Number of Recommendations in Reports*	Corrective Action Completed**	Open Recommendations
Corporation Financial Management			
Auditability Survey & Follow-up Reports (OIG Audit Reports 96-38, 97-09, 97-29, 98-23, 99-01, and 99-02)	177	76	101
Audit of the Corporation's Procurement and Contracting Operations (OIG Audit Report 98-24, issued September 30, 1998)	26	0	26
Trust Fund Operations			
Audit of National Service Trust Fund Fiscal Year 1995 and 1994 Financial Statements (OIG Audit Report 97-27, issued March 10, 1997)	11	7	4
Recommended Improvements to National Service Trust Fund Operations (OIG Audit Report 97-31, issued April 30, 1997)	12	5	7
EDP Systems			
Assessment of Computer Difficulties Associated With the Year 2000 (OIG Audit Report 98-20, issued July 7, 1998)	21	8	13

TABLE V - CONTINUED
STATUS OF RECOMMENDATIONS ON CORPORATION MANAGEMENT ISSUES

	Number of Recommendations in Reports*	Corrective Action Completed**	Open Recommendations
Grant Oversight and Monitoring			
Review of Training and Technical Assistance (OIG Audit Report 98-01, issued November 3, 1997)	4	2	2
Review of Corporation Pre-Award Financial Assessment of Grant Applicants (OIG Audit Report 98-02, issued April 27, 1998)	3	0	3
Assessment of AmeriCorps Service Hour Reporting (OIG Audit Report 98-19, issued August 27, 1998)	18	9	9
Review of the Corporation's Liability for Post-service Benefits Related to Former Commission on National and Community Service Grants (OIG Audit Report 99-06, issued August 27, 1998)	3	0	3
Audit Resolution			
OIG FY97 Semiannual Report 1 (issued April 30, 1997)	5	0	5
Total	280	107	173

* Under section 6009 of the Federal Acquisition Streamlining Act of 1994, as amended, a final management decision must be made within 6 months of the final report issuance and corrective actions completed within one year.

**The Corporation has not implemented an audit resolution system as required by OMB Circular A-50, *Audit Resolution*. Therefore the information on corrective actions completed is based on OIG records and the results of OIG follow-up audits when available.