Office of the Inspector General
Corporation for National and Community Service

Recommended Improvements to the Corporation's Internal Controls Fiscal Year 1999 – Management Letter

OIG Audit Report Number 00-38
March 3, 2000

Prepared by:

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Under Corporation for National and Community Service
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Task Order #7

This report was issued to Corporation management on June 27, 2000. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than December 26, 2000, and complete its corrective actions by June 27, 2001. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of the Inspector General
Corporation for National Services

CORPORATION FOR NATIONAL SERVICE

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The Office of the Inspector General, Corporation for National Service, engaged KPMG LLP to audit the Corporation's fiscal year 1999 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, 1999; however, KPMG was unable to render an opinion on the Statements of Operations and Changes in Net Position, and the Statement of Cash Flows for the fiscal year. OIG's Audit Report 00-01, *Audit of the Corporation for National and Community Service's Fiscal Year 1999 Financial Statements*, describes the basis for the opinion as well as material weaknesses, other reportable internal control conditions, and compliance issues found as a result of the audit.

During the engagement, the auditors also noted other matters involving the Corporation's internal controls that were not considered material weaknesses or reportable conditions. This report discusses these conditions and includes recommendations for corrective action. OIG has reviewed the report and work papers supporting its conclusions and agrees with the findings and recommendations presented.

We provided a draft to the Corporation for review and comment. The Corporation's response, Appendix B, cites areas in which it has made improvements and areas where it disagrees with the auditor's findings and recommendations. In order to address certain of the concerns expressed in the Corporation's response, KPMG eliminated one of the original comments and clarified the wording of two others.

Inspector General
1201 New York Avenue, NW
Washington, DC 20525

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KPMG

2001 M Street, N.W.
Washington, DC 20036

Inspector General
Corporation for National and Community Service:

We have audited the fiscal year 1999 financial statements of the Corporation for National and Community Service, and have issued our report thereon, dated March 3, 2000. Our report expresses an unqualified opinion on the Corporation's Statement of Financial Position as of September 30, 1999 and a disclaimer of opinion on the related Statements of Operations and Changes in Net Position and Cash Flows for the year then ended.

In planning and performing our audit, we considered the Corporation's internal control over financial reporting by obtaining an understanding of the internal controls. We determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, not to provide assurance on internal control over financial reporting. As a part of obtaining reasonable assurance about whether the Corporation's financial statements were free of material misstatement, we performed tests of the Corporation's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations. Our report on internal control over financial reporting and on compliance with laws and regulations based on an audit of the financial statements, performed in accordance with *Government Auditing Standards*, identified those matters we considered to be reportable conditions.

During our audit, we also noted certain matters involving internal control over financial reporting and other operational matters that are not considered reportable conditions. These comments and recommendations are presented in Appendix A to this letter for the Corporation's consideration and are intended to improve internal control over financial reporting or result in other operating efficiencies. To the extent prior year comments have continuing relevance, we have incorporated these comments into those presented in Appendix A. Our audit procedures were designed primarily to enable us to form an opinion on the Corporation's financial statements, and therefore may not bring to light all weaknesses in policies or procedures that exist. The Corporation's response to our comments and recommendations are presented in Appendix B. In order to address certain of the concerns expressed in the Corporation's response, we have eliminated one of the original comments and have clarified the wording of two others.

This report is intended solely for information and use of the United States Congress, the President, the Director of the Office of Management and Budget, the Comptroller General of the United States and the Corporation for National and Community Service and its Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 3, 2000

Corporation for National and Community Service

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Grants Management

A.1 Timely Reconciliations of NCSA Subsidiary Data to the General Ledger Are Not Performed

The Corporation uses the U.S. Department of Health and Human Services' Payment Management System (PMS) to administer its NCSA grants and other cooperative agreements. The Corporation did not perform a reconciliation of PMS to the Momentum general ledger for the period of time it was in use during fiscal year 1999. The reconciliation process is necessary to verify that all information has been accurately recorded in the general ledger. In addition, we found that the monthly reviews performed for drawdowns recorded in Federal Success (prior to the implementation of Momentum) were neither dated nor signed by the preparer. Staff turnover, the length of time required to perform the reconciliation process (approximately one to two weeks), and attention to other priorities have caused this situation.

We recommend the Corporation consider establishing an automated method of reconciliation between PMS and the new general ledger system. We also recommend that the Corporation require the reconciliation to be completed within 15 days of month-end, and be signed and dated by the individuals preparing and reviewing the reconciliation.

A.2 NCSA Grant Files Are Not Complete

Of the 46 NCSA grant files tested for documentation of compliance with established file maintenance internal controls, we noted the following:

- Two amounts awarded did not agree to the Synchronization Report;
- One grant application was not signed by the State Commission Executive Director to indicate approval prior to forwarding to the Corporation;
- Evidence of obligation date for two awards was not maintained in the file;
- One grant award was incorrectly coded in the Momentum system; and
- One grant file omitted the grantee employer identification number.

We recommend the Corporation strengthen its controls over the completeness of NCSA grant files by enforcing the use of file completeness checklists. Compliance with these procedures should be monitored by supervisory spot checks of grant files.

A.3 DVSA Grant Files Are Not Complete

Of the 83 DVSA grant files tested for documentation of compliance with established file maintenance internal controls, we noted the following:

- Completed applications were missing from two grant files;
- Checklists to document completeness of the files, were missing from six files. Completion of the checklist has been required since February 1998;
- Thirty-nine Notices of Grants Award were not issued 33 days prior to the beginning of the grant period, even though the Corporation has an informal policy that requires adherence to this issuance time frame;
- One request for advance and reimbursement was entered in to the system and approved by the same person; and
- Twelve grantee Financial Status Reports were not submitted, as required, within thirty days of the end of each program quarterly period.

We recommend that the Corporation strengthen its controls over the completeness of DVSA grant files by enforcing the use of file completeness checklists. The Corporation should also require the checklists be initialed and dated by the preparer to establish accountability. Compliance with these procedures should be monitored by supervisory spot checks of grant files.

A.4 Administrative Closeout Procedures for NCSA Grants Are Not Routinely Performed

The Corporation does not routinely follow its established procedures for closing out NCSA grants. Without completing closeout procedures, the Corporation could fail to identify excess amounts advanced to grantees that should be returned to the Corporation. Eleven of twelve expired NCSA grants selected for testing were not subject to proper administrative closeout.

We recommend the Corporation enforce, and revise as necessary, written policies and procedures with respect to administrative closeout of NCSA grants. Closeout procedures should include steps to be taken by the Corporation to ensure that grantees are in compliance with OMB Circular A-102, *Grants and Cooperative Agreements With State and Local Governments* and Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*. Review and follow-up procedures should be implemented to ensure that grants are closed in a timely manner.

A.5 Administrative Closeout Procedures for DVSA Grants Are Not Performed Routinely

The Corporation's procedures for administratively closing DVSA grants are not routinely applied, and controls are not in place to ensure all expired grants are closed in a timely manner. Our tests of 46 DVSA grants that expired during fiscal year 1999 revealed the following exceptions:

- One grant number was incorrectly recorded in the financial system;
- Three grants were not closed out within 180 days;

- One grant that was closed out had an inaccurate amount deobligated;
- Eighteen close out reconciliations were not signed within 180 days;
- Five requests for information regarding grantee completion of programmatic requirements were not sent to the grantees; and
- Eight grantees did not reply to the Service Center requests for information regarding grantee completion of programmatic requirements.

We recommend that the Corporation develop a consistent method for identifying expired grants and for administratively closing these grants in a timely manner. Review and follow-up procedures by the Service Centers and headquarters should be implemented to ensure Program Offices respond to correspondence and that grants are closed timely.

A.6 Funding Reconciliations for Expired DVSA Grants Are Not Consistently Performed

The Corporation's policy states that a funding reconciliation should be performed and documented for all DVSA expired grants to determine whether (1) funds are available for carry over into the next funding period, or (2) excess amounts have been advanced that need to be collected from those grantees that do not have continuing grants. Six of the 46 grant files reviewed did not include documentation indicating that the grant officer had completed a reconciliation of grant payments to grant expenses. Because reconciliations are not completed, grant officers are unable to properly manage the disbursement of funds and determine whether the disbursed funds are being used properly to pay for current expenses. Additionally, the Corporation can not establish accounts receivable and initiate collection efforts from grantees when necessary.

We recommend the Service Centers enforce their procedures to complete and document a funding reconciliation for all expiring grants. In addition, Service Centers should implement procedures requiring a documented review, on a sample basis, by a separate Service Center employee to ensure that the reconciliations are being performed accurately and timely. Finally, the Corporation should transfer excess grant advance balances to accounts receivable and request a prompt refund of these amounts from grantees.

A.7 Administration of the NCSA Grants Management System Lacks Formal Policies and Procedures

The Corporation has no formal policies and procedures in place for administering the Grants Management System. Database administration duties currently include, but are not limited to, administering and changing passwords and database maintenance.

Without formal policies for database administration, the system administrator can continue to distribute and maintain unlimited individual and shared passwords, which increases the risk of unauthorized access to the Grants Management System. The risk of incorrect and undetected changes being made to the Grants Management System configuration is also increased, which increases the likelihood of data entry errors or lost data. Finally, system reconfigurations that may temporarily disable the Grants Management System could occur during critical data entry hours and lead to loss of productivity.

We recommend that the Corporation implement formal policies and procedures for current database administration and for administration of the proposed Momentum grants module before it is implemented. These policies and procedures should address the following minimum requirements:

1. Segregation of duties between database administration and password administration – a password administrator should administer passwords in accordance with Federal Information Processing Standards Publication 112 section 3. The use of shared passwords should be discontinued.

2. Changes to the Grants Management System should only be made on the basis of authorized change request forms.

3. Reconfiguration of the Grants Management System should occur only while the system is not in use for data entry.

National Service Trust

B.1 Trust Voucher Processing Lacks Tracking System and Established Time Frame for Payment Issuance

We selected 78 Trust Fund payments for internal control and substantive test work. We found that 14 of the payments tested were not made within 15 days of the requested dates and that timeliness could not be determined for 5 payments based on the information provided to us. Although the Corporation has established a goal for processing Trust payment vouchers within three weeks of receiving a properly completed voucher, no formal guidelines exist to identify at what point a "properly completed voucher" has been received so that the timeliness of actual payment can be measured. Further, because the Corporation does not track vouchers received and their current status, we were unable to determine the reason for the possible untimely payments.

We recommend that the Corporation institute a system to track vouchers it receives to assist the Corporation in identifying the current status of vouchers (e.g., returned to grantee for further information, date revised voucher was received, approved and forwarded for payment processing., etc.) and when they should be paid.

B.2 Certain Full-time Members Who Completed Service in Excess of One Year Earned Education Awards

Our tests of the SPAN database included a computer assisted audit technique for a comparison of the enrollment date to the completion date for all Members who earned full-time service awards since inception. As a result of these procedures, we determined that the Corporation had provided 4,865 full-time education awards to Members who did not complete the service requirement in less than one year, as required by law. Completing full-time service in excess of one year is allowable in certain cases (e.g., VISTA Members and Members who properly suspended service (e.g., for a family illness) for a period of time). However, the SPAN data provided to us for audit did not identify the reasons for the extended periods of service, and indicates that the Corporation may not be granting education awards in compliance with law.

The new Web-based Reporting System (WBRS) used for reporting Members' enrollment and end-of-term has controls in place to prevent Members from earning an award outside of the permitted timeframe. We recommend that the Corporation continue to examine the effectiveness of current controls within WBRS and to assess the need for additional controls. In addition, the Corporation should research the 4,865 awards we identified to determine which of the awards were made in compliance with law, and take appropriate action to resolve those awards not made in compliance with law.

Content of Annual Financial Reports

C.1 The Content of Annual Financial Reports Should Be Improved

The preparation of the 1999 annual financial statements was a very cumbersome process due to the inherent limitations of the Corporation's legacy financial system and the conversion to a new financial accounting system late in the fiscal year. The Corporation's financial management and reporting process was cited as a material weakness in our report on internal control over financial reporting.

As the Corporation becomes familiar with its new financial accounting system and looks forward to the preparation of its *FY2000 Annual Reports to Congress*, we recommend the following specific improvements in its financial reporting process and in the content of the respective financial reports be made:

1. Develop a cost accounting module that can be integrated with the new general ledger system to accumulate direct and indirect costs related to each major program. The cost accounting module should include a means to aggregate and allocate administrative and other overhead costs (such as office rent and data processing) among the programs. A separate cost category for general and administrative costs should also be maintained for costs that are otherwise not allocable to specific programs.

2. Reformat the Corporation's financial statements to report the operations of the Trust and Gift Funds separately, either on the face of, or in a note to, the financial statements. Combine the Trust Fund's financial statement disclosures, other NCSA-required reporting and other relevant statistics into a format that will facilitate understanding and analysis of the Trust Fund's operations by Congress and other financial statement users.

3. Aggregate expenses by major program on the face of the statement of operations and changes in net position. Present a supplemental schedule of program costs that would separately report grant expenses and other costs by object class for each major program.

4. Assess the benefits of reporting under Federal Accounting Standards Advisory Board (FASAB) accounting standards. The American Institute of Certified Public Accountants recognized the FASAB as the authoritative standard setting body for federal entities in October 1999. Federal entities, like the Corporation, which had been reporting under Financial Accounting Standards Board (FASB) accounting standards prior to FASAB recognition have been permitted to continue to report under the FASB standards until the FASAB issues an official ruling on this matter. However, since the Corporation receives a significant portion of its funding from annual appropriations from Congress, reporting under the requirements of OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements,* may be a preferable and more meaningful reporting method.

Revenue from Reimbursable Agreements

D.1 Cash Receipts Are Not Consistently Deposited and Recorded in a Timely Manner

The Corporation lacks adequate controls over the timely deposit of cash receipts, thus increasing the risk of misappropriation of these receipts. For fiscal year 1999, 9 of the 45 cash receipt transactions tested were either not posted to the general ledger or not deposited in a timely (within 5 business days) manner. We noted time lags at three Service Centers and at the Corporation's headquarters.

We recommend that the Corporation enforce existing procedures requiring the timely deposit and posting of cash receipts. We also recommend that the Corporation continue to implement procedures requiring that management review cash receipts general ledger transaction records to ensure that cash receipts are being posted timely and accurately.

Fund Balance with Treasury

E.1 Certain Disbursements Were Reported Incorrectly on the Statements of Transactions

The August and September 1999 SF-224, *Statements of Transactions* (SF-224), included incorrect disbursement information for the 1997, 1998 and 1999 DVSA appropriations. In August, the Corporation incorrectly reported 1997 DVSA disbursements as 1999 DVSA disbursements; the Corporation attempted to, but did not, correct this error in the September 1999 SF-224. Additionally, on the September 1999 SF-224, the Corporation incorrectly reported 1999 DVSA disbursements as 1998 DVSA disbursements.

The August error overstated disbursements for 1999 DVSA appropriation and understated disbursements for 1997 DVSA appropriation. The September error overstated disbursements for 1998 and understated disbursements for the 1999 DVSA appropriations. However, the net effect on total Fund Balance with Treasury was zero.

We recommend that the Corporation implement additional supervisory review controls to ensure that transactions are correctly reported on the SF-224s.

E.2 The Corporation Did Not Record Rescinded Appropriations Timely

The Corporation did not record fiscal year 1999 rescinded appropriations of $144,000 related to the Corporation's Program Administration activity in the general ledger until March 3, 2000. As a result, fund balance with Treasury was overstated by that amount as of September 30, 1999. In addition, untimely recording of rescissions could result in over-obligating and overspending of appropriations, although it did not in this case. We recommend that the Corporation enhance control procedures over the timely recording of appropriation-related activity in the general ledger.

Information Technology

F.1 The Corporation Should Implement a Comprehensive Systems Development Life Cycle Methodology

As of the date of our report, the Corporation did not have a documented, comprehensive systems development life cycle (SDLC) methodology. If formal methodologies are not utilized, new systems may be developed inappropriately, which may result in technology that does not meet the needs of the organization. Further, the system may be developed at significant cost and delay.

In April 2000, the Corporation adopted a formal SDLC methodology; however, we did not evaluate it as a part of our 1999 audit procedures. We recommend that the Corporation begin to implement the new SDLC methodology, but remain open to suggestions for changes based on a formal review of the methodology to be performed in conjunction with the fiscal year 2000 audit.

F.2 The Corporation's Application Change Control Process Needs Improvement

The Corporation's application change control process is not documented. In addition, the current informal process does not include cost analysis, test plans, formal acceptance of change, and minutes from Change Control Board (CCB) meetings. As a result, costly, unauthorized and/or potentially inaccurate computer program changes could be entered into the production environment.

Related to the change control process, we recommend that the Corporation perform the following:

- Document the current change control process
- Prepare a formal test plan procedure
- Complete a formal acceptance of the changes
- Include minutes from the CCB meetings
- Prepare a cost benefit analysis for changes of significant value

F.3 Logical Access Controls Can Be Improved

Logical access controls exhibit the following weaknesses:

- The security mechanism protecting the dial-in access to the Corporation's internal network is inadequate because only user IDs and passwords are used for security.
- According to the Office of Information Technology (OIT) policy, the NT Administrative password is required to be changed monthly; however, a report of the passwords indicated that the NT Administrative password had not been changed for 295 days.
- Access to the Momentum system is not blocked after a series of failed logon attempts, no

limitation on the reuse of passwords exists, and terminals are not logged off after a period of inactivity.
- Network terminals are not logged off after a period of inactivity.

To strengthen logical access security, we recommend that the Corporation:

- Implement another form of security for dial-in access, such as token authentication or dial back verification.
- Develop and implement procedures that ensure (a) the NT Administrative password is changed on a regular basis, (b) access to Momentum is blocked after a series of failed logon attempts, (c) limitations on the reuse of passwords are established, and (d) terminals are logged off after a period of inactivity or the use of password-protected screen savers is required.

F.4 The Corporation's Service Continuity Controls Can Be Improved

Contingency plans and disaster recovery plans are intended to outline steps to be taken during emergency situations. If these plans are inadequately tested or incomplete, employees cannot appropriately assess emergencies and cannot rely on established procedures to report and remedy critical problems. The current contingency plan only addresses disaster scenarios related to Year 2000 issues and does not cover business impact in the event of a disaster. In addition, testing of the disaster recovery plan only focused on computer testing and did not address all aspects of a potential disaster, making the identification of plan improvement areas difficult.

The Corporation's current security plan is missing incident response information, identification of data owners for mission critical systems, and designation of responsible management for mission critical systems. Additionally, it does not address all financial and mission critical applications.

We recommended that the Corporation revise the contingency plan and remove all references to Year 2000. During this revision process, the Corporation should:

- Perform a Business Impact Analysis (BIA) to establish business function priorities
- Update Contingency Guidelines to reflect the results of the BIA
- Develop and document roles and responsibilities for critical employees that reflect all disaster scenarios, not only Year 2000-related events
- Develop scenarios and procedures for different types of disasters
- Add critical employee and vendor phone numbers to the document

We also recommended that the Corporation prepare a security plan for all financial and mission critical applications and include the following areas in the current security plan before it is finalized:

- Incident response information
- Data owner for mission critical systems

- Designation of responsible management for mission critical systems

Finally, we recommend that the Corporation conduct a full disaster recovery test on an annual basis. The test should involve all members of the Disaster Recovery Team.

F.5 The Corporation Does Not Obtain Sufficient Information on Controls in Place at the National Business Center Service Organization

Under Statement on Auditing Standards (SAS) No. 70, *Audits of Service Organizations*, independent auditors provide an opinion on the assertions by a service organization's management about its internal control objectives and the effectiveness of the design and operation of the controls in place during a specified period of time. This report can be used by clients of the service organization and their auditors to assess control risk. Since the National Business Center (NBC) recently began to support client/server applications, such as Momentum, a SAS 70 report has not yet been completed for this business function. However, the interagency agreement between NBC and the Corporation does not include a provision that requires a controls audit report from the service organization. In addition, the agreement between the Corporation and NBC lacks detail in the area of backup and disaster recovery.

We recommend that the Corporation amend the terms of its agreement with NBC to request a client/server SAS 70 report be completed at NBC. The Corporation should also request that the interagency agreement be revised to include more detail regarding NBC services, specifically in the area of disaster recovery and backup procedures.

Procurement and General Expenditures

G.1 *Documentation to Support Certain Cash Disbursements is Insufficient*

As a part of our audit procedures, we visited each of the Corporation's service centers to review controls in place over cash receipts and disbursements. We requested service center personnel to provide us with supporting documentation for selected cash disbursements and other financial transactions. The Southern Service Center was unable to provide sufficient documentation to fully support any of the 14 cash disbursements items requested. As a result, we could not determine whether proper authorization procedures for purchases and travel were in place, or whether a proper review for funds availability was conducted for certain of these items. This is a similar condition to that noted during our visit to the Southern Service Center during the prior year audit.

We recommend that Corporation management pay particular attention to the compliance of Southern Service Center personnel to internal control policies that require documentation be maintained in support of all financial transactions. Adherence to established internal control policies and procedures should be enforced and appropriate action taken to correct any noted noncompliance.

Human Resources

H.1 Review of Payroll-Related Data Entry Is Not Consistently Performed by Service Centers and State Offices

During the Federal payroll reconciliation process, a Personnel Specialist at headquarters reviews every headquarters time sheet to verify the accuracy of hours input in the system. For the Service Center data, which includes the hours from the State Offices, the Personnel Specialist depends on technicians at the Service Centers to verify the accuracy of the hours input. However, an independent review of the hours input versus the hours recorded on the timesheets is not routinely performed by Service Center personnel. An undetected discrepancy in hours could result in over or underpayment to an employee or incorrect use of leave.

A similar situation exists at the State Offices with respect to the process to review the accuracy of data entered into the VISTA Management System (VMS). Incorrect data entry into VMS could cause a VISTA member to be paid incorrectly, receive incorrect benefits, or not receive a paycheck due to an incorrect mailing address.

We recommend that the Corporation specifically assign staff at each service center to review the accuracy of hours entered into the system. We also recommend that the Corporation implement a review process for the data entered into VMS.

H.2 Approval of Federal Payroll Reconciliation Is Not Secured by Cryptography System

During the Federal payroll reconciliation process, both the Personnel Management Specialist (preparer) and the Labor and Employee Relations Team Leader (reviewer) sign the reconciliation by means of scanned-in signatures. However, the signatures are not secured by a cryptographic system; as a result, they could be accessed and used by employees other than those noted above.

The Corporation began using scanned in signatures in an attempt to streamline the approval process for the payroll reconciliation and to limit the amount of paper needed to process its payroll. However, the electronic signatures exist as plain text files on a Personal Computer connected to the Corporation's Local Area Network, and could be accessed and put to improper use by anyone with a technical background and computer knowledge. Although the users of these signatures maintain items on a diskette, the e-mail exchanged can be accessed.

We recommend the implementation of true electronic signatures to prevent unauthorized use of such signatures. As part of a public key cryptography system, only the person to whom a signature belongs can use it. Improper use is detected by means of cryptographic algorithm.

H.3 Approval of Request for Personnel Action Forms Is Not Consistently Documented

To provide independent assurance that a personnel action requested by a Department Head is necessary and can be funded, the Employment, Compensation, and Training Team Leader reviews and approves all *Requests for Personnel Action* (SF-52s). The SF-52 must be approved before initiating the *Notifications of Personnel Action* (SF-50s). The SF-50 is used to change personnel information in the system. However, our test work indicated that the approval of 28 of 78 SF-52s prior to initiation of SF-50s was not documented.

Inadequate review of the SF-52 can result in undetected abuse of the personnel system, such as Department Heads by-passing the Team Leader for Employment, Compensation, and Training, and taking an SF-52 directly to the Office of Human Resources to initiate an SF-50.

We recommend that the Corporation enforce its SF-50 initiation policy and the importance of not initiating an SF-50 without proper approval of the SF-52.

H.4 National Civilian Community Corps (NCCC) Member Application Files Are Incomplete

NCCC policy requires a complete application that includes Member signature, reference check, background investigation, and service agreement for all NCCC Members. Our review of 78 selected NCCC Member application files revealed 20 applications without Member signatures, two files without background checks, and one Member with an unacceptable background check, according to Corporation guidelines, who was still accepted into the program.

Member signature, reference check and background investigation are necessary to verify important information about Member qualifications. Without these elements, the Corporation may recruit Members who can not promote Corporation ethics or who may not be eligible for the program.

We recommend that the Corporation enforce its NCCC application policies and require that all NCCC campuses use a standard checklist to identify and correct incomplete application files. All NCCC campuses should be required to periodically certify to the Corporation that all files have been reviewed and are complete. Justifications for accepting Members with background checks that fail the established guidelines should be adequately documented and approved by NCCC top management.

H.5 VISTA Member Files Are Incomplete

The Corporation pays AmeriCorps*VISTA Members based on receipt of sponsor verification rosters that detail any changes in the membership at their sites. Of the 78 active VISTA Member files examined during the fiscal 1999 audit, 10 files did not contain sponsor verification rosters for the pay periods selected for review. Without the returned roster, no evidence exists to support that the VISTA Member was active during the pay period. Therefore, the Corporation could have erroneously paid the Member.

Additionally, we noted that 5 Members received payments that were less than the subsistence amount to which they were entitled (ranging from $6 to $86) and one Member was overpaid by $92. Further, 10 Member files had stipend/education award election forms that differed from the classification entered into the VMS (and did not contain evidence of a proper change in election). Incorrect data entry to VMS could cause a VISTA Member to be paid incorrectly or receive incorrect benefits.

According to Corporation policy, VISTA Member applications must be completed, approved and maintained at State Offices. The VISTA Member should be approved by the Corporation as represented by a State Office or Regional Program Director signature on either the application or the Sponsor Evaluation Form (as appropriate). Members should also fill out life insurance forms electing or waiving life insurance coverage.

However, the VISTA Member files we reviewed did not appear to be closely reviewed for completeness. Of the 78 files reviewed, 59 contained at least one of the following types of errors: incomplete life insurance election or waiver forms, missing future plans forms (when applicable), omitted supervisor signatures on stipend/education forms; and omitted approval signatures on the sponsor evaluation forms. These errors could have an effect on further processing of VISTA Members to projects, or on their pay or benefit entitlements.

We recommend that:

- The Corporation enforce its policy requiring that sponsor verification rosters be received each pay period prior to paying VISTA Members. In addition, State Offices should be required to follow up with project sponsors if verification rosters are not submitted to ensure the accuracy of the member allowances.
- The Corporation implement a review process for the data entered into VMS.
- All State Offices use a standard checklist to provide reasonable assurance that all required documents and approvals related to VISTA Members are on file. State Offices should be required to periodically certify to the Corporation that the files have been reviewed and are complete.

Laws and Regulations

I.1 Reports on Budget Execution Are Not Always Accurate or Submitted Timely

Because of complications experienced during the fiscal year 1999 financial accounting system conversion process, the Corporation was unable to submit its "4th Quarter" *Reports on Budget Execution* (SF-133). Instead, it submitted its "revised" September 30, 1999, SF-133s on January 29, 2000. Although these reports were based on information recorded in Momentum, they were prepared manually. During our review of a sample of fiscal year 1999 SF-133 reports, we identified several deficiencies and errors in the reporting process. Certain amounts reported on the SF-133s did not agree to the documentation used to support the reports, and the Corporation used incorrect lines on the SF-133 to report certain account balances.

The Corporation has not implemented effective controls to ensure that the SF-133s are prepared in accordance with OMB standards. Although the Corporation has developed review procedures, the Corporation has been unable to detect incorrect amounts that are entered on the SF-133s. As a result of incorrectly preparing SF-133s, the Corporation is in violation of OMB Circular A-34, *Instructions on Budget Execution.*

We recommend that the Corporation establish more comprehensive controls over the SF-133 reporting process, including, but not limited to, the following:

- Development and maintenance of an "audit trail" that documents how the amounts reported on the SF-133 were obtained.
- Review and approval of the audit trail documentation by a designated supervisor held accountable for accurate SF-133 reporting.

I.2 Certain Apportionment and Reapportionment Schedules Were Not Submitted Timely

Although the Corporation submitted the majority of its fiscal year 1999 *Apportionment and Reapportionment Schedules* (SF-132s) reports on a timely basis, the Corporation did not submit an SF-132 to report the fiscal year 1999 rescission of $144,000. In addition, the SF-132 report used to account for the $800,000 fiscal year 1999 non-expenditure transfer from the Year 2000 Contingent Emergency Fund was not submitted until three months subsequent to the actual transfer. Similar timeliness problems existed in fiscal years 1997 and 1998. As a result of submitting SF-132s late, the Corporation is in violation of OMB Circular A-34 and can be charged with fines and penalties (or experience other repercussions).

We recommend that a designated supervisor be held accountable for the timely submission of SF-132s.

Property and Equipment

J.1 Procedures for Performing Physical Inventories of Property and Equipment Were Not Implemented

The Corporation developed a policy late in fiscal year 1999 to perform a Corporation-wide physical inventory of its property and equipment. Although an inventory of headquarters property was taken during fiscal year 1999, a complete Corporation-wide inventory had not been performed as of September 30, 1999. This control weakness can result in the misappropriation of Corporation assets and the inaccurate reporting of assets and related depreciation expense in the financial statements.

We recommend that the Corporation follow through on its plan to perform physical inventories of all Corporation property and equipment, including those items at the Service Centers and other locations, at least on a biannual basis.

develop a production control log was also included in the fiscal 1998 management letter, issued in May 1999. Our response to that report stated

> *The Corporation does not need a separate production control log with Momentum in place. With the implementation of Momentum a production schedule has been established and a log is maintained by the operations group at the Department of the Interior/National Business Center*

The Corporation considers this recommendation closed. Another recommendation suggested that the Corporation amend the terms of the agreement with NBC to request a client/server SAS 70 report. The Corporation has requested that NBC provide it with a SAS 70 report by December 31, 2000. The report is also to include a disaster recovery plan and backup procedures related to NBC operations.

Property and Equipment

As we reported in the response to the Notice of Finding and Recommendation, the Corporation did conduct a property inventory in FY 1999. In addition, we have put policies and procedures in place that require an annual inventory of property and equipment. The policy was signed August 5, 1999. This was reported in our February 3, 2000 Management Decision (IG report 99-24). In addition, the inventory of equipment and property has been completed for fiscal 2000.

CORPORATION
FOR NATIONAL
SERVICE

Appendix B

DATE: June 13, 2000

TO: Luise Jordan, Inspector General

FROM: Tony Musick, Chief Financial Officer

SUBJECT: Comments on Draft Report 00-38, Recommended Improvements to the Corporation's Internal Controls Fiscal Year 1999 - Management Letter

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We reviewed the draft audit report containing suggestions for improving the Corporation's internal controls. We are pleased to note that two areas for improvement that appeared in the 1998 Management Letter, Performance Measures and Investments, are no longer considered areas in which improvements are needed. Based on our preliminary review of the draft, of the 31 recommendations in the report, 21 are repeated from other OIG audits. For these suggestions, the Corporation has already identified needed corrective actions and is in the process of implementing them. We also provided extensive comments on these matters when the auditors first provided the Corporation with its Notice of Findings and Recommendations after completing the audit. Therefore, we will limit our comments to certain sections of the draft report.

Grants Management

The Corporation responded to most of the recommendations in its response to the fiscal 1998 management letter and began corrective action at that time. We are pleased to note that findings related to grant file systems indicated that the files were generally in order, all significant documents were in the files, and only about 2% of the files were missing items. We believe this is an acceptable error rate for this process. We will continue to review grant files to ensure that they contain the proper documentation. We also agree with the recommendation related to development of a grants administration database. Beginning the development process for a new system is one of the Corporation's priorities for fiscal 2000. However, it must be recognized that it will take several years to complete development and implement a new system.

The report states that about 47 percent of the DVSA grants reviewed were not awarded at least 33 days before the beginning of the grant period. However, the 33-day turnaround requirement was an internal Corporation goal, which exceeded the OMB of 10 days. Therefore the Corporation has revised its policy to state that ordinarily, grant awards should be made at least 10 days before the beginning of the grant period.

National Service Trust

We were pleased to note that the Trust is no longer an area of material weakness. The WBRS system has contributed to improvement in Trust processing and, as recommended, we are continually examining the effectiveness of that system.

We do note that the draft report contains the same error related to processing timeframes that was contained in the fiscal 1998 management letter. As we have previously stated, the "requested date" is a date identified by an external institution and is not related to the Corporation's processing time. The Corporation's "Guidelines and Uses for the AmeriCorps Education Award" states the Corporation's processing goal is "Within three weeks of the Trust receiving a properly completed voucher, the institution will be mailed a check..." This benchmark allows two weeks for the Trust to determine that the payment is proper and process the voucher and another week for the processing cycle with Treasury to be completed.

Content of Annual Reports

Three of the four recommendations in this area are repeat recommendations from the fiscal 1998 management letter. The Corporation made its management decision on those recommendations and those decisions have not changed. The fourth recommendation suggests that the Corporation assess the benefits of reporting under Federal Accounting Standards Advisory Board (FASAB) accounting standards rather than under generally accepted accounting principles (GAAP) which are established by the Financial Accounting Standards Board (FASB). As we have discussed with the auditors, the Corporation is required by law to prepare its financial statements under GAAP. In October 1999 (fiscal 2000), FASB recognized FASAB as the body that promulgates GAAP for Federal reporting entities. The Corporation is awaiting FASAB and OMB guidance (which will apply to all Federal government corporations) before it revises its reporting model.

Revenue from Reimbursable Agreements

The Corporation responded to the recommendation in this area in the fiscal 1998 management letter and our decision has not changed. We believe controls are adequate to ensure timely deposits and recording of cash receipts. The auditors found exceptions to the five-day timeframe in 9 of 45 instances. However, we cannot tell from the finding how many days late the deposits were or if the deposit was received over a holiday period. Without that information, we cannot determine whether the incidents constituted significant delays that suggest we need to reconsider our controls or were just isolated instances that happen in the normal course of business.

Fund Balance with Treasury

The Corporation agrees that a staff member made an error preparing the SF-224 and the Corporation will require enhanced supervisory review of the report prior to its submission.

Information Technology

The Corporation responded to many of these recommendations when it received the Notices of Findings and Recommendations. One of the recommendations, suggesting that the Corporation develop a production control log was also included in the fiscal 1998 management letter, issued in May 1999. Our response to that report stated

> *The Corporation does not need a separate production control log with Momentum in place. With the implementation of Momentum a production schedule has been established and a log is maintained by the operations group at the Department of the Interior/National Business Center*

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