OFFICE OF THE INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE

RECOMMENDED IMPROVEMENTS TO THE CORPORATION'S INTERNAL CONTROLS FISCAL YEAR 2000 – MANAGEMENT LETTER

OIG Audit Report Number 01-02
March 1, 2001

Prepared by:

KPMG LLP
2001 M Street, N.W.
Washington, D.C. 20036

Under the Corporation for National and Community Service
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This report was issued to Corporation management on July 13, 2001. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than January 9, 2002, and complete its corrective actions by July 13, 2002. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

CORPORATION
FOR NATIONAL
SERVICE

Office of the Inspector General
Corporation for National Services

Recommended Improvements to the Corporation's Internal Controls
Fiscal Year 2000 – Management Letter
OIG Report 01-02

The Office of the Inspector General, Corporation for National Service, engaged KPMG LLP to audit the Corporation's fiscal year 2000 financial statements. Their audit, conducted in accordance with government auditing standards, resulted in an unqualified opinion on the Corporation's financial statements. OIG Audit Report 01-01, *Audit of the Corporation for National and Community Service's Fiscal Year 2000 Financial Statements*, describes the basis for the opinion as well as the 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, *the management letter*, 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. In its response, Appendix B, the Corporation agrees with certain of the findings and recommendations, but disagrees with others. In order to address certain of the concerns expressed in the Corporation's response, KPMG revised the report by eliminating portions of two findings and revising the wording of others.

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

Office of the Inspector General
Corporation for National and Community Service

Recommended Improvements to the Corporation's Internal Controls
Fiscal Year 2000 – Management Letter

* Represents comment repeated from prior year(s)

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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 2000 financial statements of the Corporation for National and Community Service, and have issued our report thereon, dated March 1, 2001.

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 may exist.

The Corporation's responses 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 portions of two of the original comments and have clarified the wording of two others.

KPMG

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 1, 2001

Office of the Inspector General
Corporation for National and Community Service

Recommended Improvements to the Corporation's Internal Controls
Fiscal Year 2000 – Management Letter

Grants Management

A.1 *An automated method of reconciling between PMS and Momentum currently does not exist.*

An automated method of reconciling between PMS and Momentum currently does not exist. Although the Corporation has made improvements to the reconciliation process, it is still a manual process, which is prone to human error and will become more cumbersome as DVSA grants are migrated over to the Payment Management System (PMS).

We recommend the Corporation implement an automated system of reconciliation between PMS and Momentum.

A.2 *Grant Files continue to lack required documentation.*

As part of our audit of the Corporation's grants management process, we selected and reviewed 78 each of active NCSA and DVSA grant files to ascertain whether controls over obtaining and maintaining required documentation to support grant awards were functioning as designed. We noted the following exceptions:

NCSA grant files:

- Eleven Program Officer's Certifications were not completed or signed.
- Ten Grant Officer's Certifications were not completed or signed.
- Twenty-six FSRs were submitted late or not received from the grantee.
- Two award documents were not completed or signed.
- Eleven files did not contain a copy of the grant terms and provisions.
- Twenty files did not contain a copy of the grant application to provide evidence of appropriate approval by Corporation officials (20); signature of the Executive Director for state commission grants (8); or compliance with matching and budget requirements (8).
- Two Fund Certifications were not complete or signed.
- Two award amounts in the grant file did not agree with the amount recorded in Momentum.
- Thirty files did not contain a completed Award Tracking Spreadsheet or Grant Distribution Checklist.

DVSA grant files:

- One application (SF-424) was not in the file.
- Twelve service center checklists were not signed by service center staff. This occurred primarily at the Southern (Atlanta) service center.
- Five files did not include a service center checklist.
- One service center checklist was not fully completed.
- One Notice of Grant Awards (NGA) award year did not agree with the application form or information in Momentum.
- Twenty-one NGA's were not mailed 33 days prior to the award start date for grants starting before 6/9/00.
- Five NGA's were not mailed 10 days prior to the award start date for grants starting after 6/9/00.
- One file revealed that disbursements were made prior to the mailing of the NGA.
- One file revealed that the same staff person approved and entered the transaction in Momentum.
- One Procurement Request was not signed by the Grants Management Officer or the Budget Analyst.

The foregoing exceptions are evidence of noncompliance with the Corporation's Grant Management Guidelines. Missing, incomplete, or inaccurate file documentation makes it difficult to review matters concerning grantees should questions arise, or during grant close out procedures.

We continue to recommend the Corporation strengthen its controls over the completeness of grant files by enforcing the use of file completeness checklists. Compliance with these procedures should be monitored by supervisory spot checks of grant files. Follow-up procedures to obtain missing documents or correct errors noted in the files should also be established.

A.3 *Procedures for Administrative Close-out of DVSA Grants are not consistently performed.*

Based on our review of 35 expired DVSA grants, we noted the following:

- Three files did not have evidence that a closing reconciliation was performed.
- One file did not include a final FSR. The final FSR was due December 31, 2000.
- Five grants were not closed within the required 180 days.
- One close-out form was not signed by the service center staff.
- Six checklists for grantee completion of programmatic requirements were not located in the file. The Corporation had only requested information from the grantees for two of the six.

These are similar to the types of exceptions noted in our prior year audits. By not consistently and timely performing closeout procedures, the Corporation risks not identifying excess amounts advanced to grantees that should be returned to the Corporation.

We continue to 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.

National Service Trust

B.1 *Trust voucher processing lacks a tracking system and established time frame for payment issuance.*

As noted in the prior year, the Corporation has established an informal goal for processing Trust payment vouchers within 15 days of receiving a properly completed payment voucher. However, no formal guidelines exist to identify what time frame actually constitutes payments on a timely basis. Further, because the Corporation does not track vouchers received and their current status, we were unable to determine the reason for any noted untimely payments.

Of the 88 fiscal year 2000 Trust payments selected for test work, 32 payments (36 percent) were not made within 25 days of the lending or educational institution's sign-off date. Because the vouchers did not contain date stamps to indicate the dates received by the Corporation, we used a 25 day period from the date the institution approved the voucher until the date payment was made to assess timeliness, allowing 10 days for delivery to the Corporation.

We continue to recommend that the Corporation include, in its written policies, the time frame in which Trust payment vouchers should be processed, and take action to enforce the time frame established. In addition, the Corporation should 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 *Controls over educational award payments should be strengthened.*

During our review of 88 disbursements from the National Service Trust, we noted the following:

- Two payments were made to incorrect institutions.
- One part-time member was paid an additional $700 over and above the Corporation approved award amount for a part-time member.

The payments to the incorrect institutions were detected by the institutions when the payments were received and sent back to the Corporation for correction. Although the overpayment to the part-time member was identified by cluster representatives, the institution was not contacted until the time of our review to recover this amount.

We recommend that controls over disbursements from the National Service Trust be strengthened to include an independent review of payments to ensure the correct amounts and institutions are paid. Additionally, controls over overawards should be improved to ensure they are adequately monitored and recovered within a reasonable time.

B.3 *Controls over accuracy of information entered into SPAN should be improved.*

During our test work over the National Service Trust, we noted that information was incorrectly entered into the SPAN database as follows:

- For seven of 78 enrollment forms tested, information such as birth date, enrollment status and enrollment date, was entered incorrectly.
- For 34 of 72 end-of-term forms tested, information such as social security number (3), completion date (16), hours of service (14) and enrollment status (4), was either entered incorrectly or could not be determined according to the documentation available for review.

Although the effect of the exceptions noted was not considered material, inaccurate information in SPAN could result in errors when future educational award payments are requested and in the computation of the National Service Trust liability for financial statement purposes. We recommend an independent review of information entered into SPAN be performed by a second individual and compared to source documentation to ensure its accuracy.

B.4 *Member enrollment and end-of-term forms on file are not always properly completed and approved timely.*

We noted the following exceptions during our review of Member file documentation:

- Twelve of 72 members did not sign or date their end-of-term forms.
- Four of 70 end-of-term forms had no certifying official's signature.
- Two of 78 enrollment forms were not signed by a certifying official.
- For thirteen of 65 end-of-term forms where a date was included for the certifying official's signature, the time lag between the service completion date and the date the certifying official signed the form was over one month.

Where paper forms are still used to document enrollment and end-of-term data, we recommend Member files be subject to a periodic review to ascertain that all forms are complete, and properly signed and approved. We also recommend that certifying officials be required to indicate their approval within a 30-day period following Member sign off and the service completion date.

B.5 *Certain Members inappropriately received service 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 service awards. As a result of these procedures, we noted that:

- Three Members earned part-time education awards who did not complete service in less than two years, as required by law. Completing part-time service in excess of two years is allowable in certain cases (e.g., for members who properly suspended service or enrolled in an institution of higher education). However, the documentation provided to us did not identify the reasons for the extended periods of service in these cases.
- One VISTA Member earned a full-time education award who did not complete service in less than one year.

We recommend all potential awards be rechecked prior to entry into SPAN to ensure the award was earned within the time period required. Any exceptions to the time requirement should be properly justified and formally documented in the Member's file.

B.6 *The Trust Service Award liability calculation incorrectly included certain pending Members.*

As a part of our audit of the Trust Service Award liability, we determined that certain pending members included in the calculation were not valid as follows:

- For seven of twenty items reviewed, no enrollment forms were received for the Members to be enrolled. These pending Members were deleted from the SPAN database at the time of our review.

- For six of the twenty items reviewed, the pending Members had been previously enrolled in two service projects and therefore were not eligible to receive another education award.

Although the effect of including these pending Members was immaterial (approximately $7,500), the exceptions indicate that greater care should be taken in monitoring the pending Member information in SPAN. We recommend a periodic review of all pending Members be made to determine continued eligibility and appropriate action taken to delete or otherwise resolve any exceptions noted.

B.7 *The roster confirmation process was ineffective during FY2000.*

Although the Corporation is phasing out the roster confirmation process due to the implementation of the Web Based Reporting System (WBRS), we noted the process continued to be ineffective as a control over information entered into SPAN when used during fiscal year 2000. Exceptions noted included failure of grantees to return roster confirmations to the Corporation and failure to input corrections noted on roster confirmation responses; thus nullifying the purpose of the confirmation process. Until WBRS is fully implemented at all Corporation grantee locations and alternative controls are in place to ensure Member data input to SPAN is accurate, we continue to recommend the Corporation emphasize the importance of the confirmation process as a key control over the accuracy of the SPAN database.

Content of Annual Financial Report

C.1 *Additional improvements in the content of the Corporation's Annual Financial Report should be made.*

During fiscal year 2000, the Corporation's financial statements were compiled from its new general ledger system, Momentum, which greatly improved the overall efficiency of the financial statement preparation process. The Corporation is continuing to make enhancements to Momentum, by making preparation for and implementing additional system modules and modifying the existing general ledger module to better serve its financial management needs.

We recommend the Corporation consider the following specific improvements in its financial reporting process and in the content of the annual financial report:

- Refine the cost accounting module incorporated within Momentum to accumulate direct and indirect costs related to each major program (i.e., AmeriCorps, Learn & Serve, Senior Corps). 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.

- Report Trust and Gift fund financial information separately within the audited financial statements. Although the FY2000 Annual Report included information specific to the Trust and Gift funds in management's discussion of financial results, the information was not incorporated as a discrete part of the audited financial statements. We continue to believe the Corporation's financial statements should report the operations of the Trust and Gift Funds separately, either on the face of, or in a note to, the financial statements to enhance their usefulness to the readers. We suggest combining 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.

- 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.

- Consider the recommendations made in a separate report issued to the Corporation on the applicability and advisability of reporting the Corporation's financial operations in compliance with the requirements of OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements.* Federal entities, like the Corporation, which had been reporting under Financial Accounting Standards Board (FASB) accounting standards prior to Federal Accounting Standards Advisory Board (FASAB) recognition by the AICPA as an official standard setting body for federal agencies, 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 most of its funding from annual appropriations from Congress, reporting under the requirements of OMB Bulletin No. 97-01, as amended, may be a preferable and more meaningful reporting method for the users of the financial statements.

Revenue from Reimbursable Agreements

D.1 *Receipts are not consistently deposited and recorded in a timely manner.*

Our tests of receipts revealed one instance out of 43 fiscal year 2000 receipts tested where receipts were deposited 13 business days after initial receipt. Corporation policies #1001, *Cash Receipts,* and #1002, *Cash Receipts-Regional Service Centers*, state that receipts should be deposited timely, preferably daily, but always within Treasury Department guidelines (i.e., within 5 business days of receipt).

In order to improve the safeguarding of Corporation assets and the timely reporting of all financial transactions, we recommend the Corporation enforce the deposit of receipts within 5 business days, as prescribed by Treasury Department guidelines.

D.2 *Cost share agreements are not consistently established in Momentum in a timely manner.*

The Corporation did not establish cost share obligations in Momentum timely, as follows:

- Six of 45 cost share agreements tested were not established in Momentum until after the beginning of the agreement period.

- Budgeted amounts for five of 45 agreements tested were not re-established in Momentum after year-end. During January 2001, Momentum was upgraded and those budgeted amounts could not be re-established due to system problems which prevented their re-entry. However, adequate time (approximately three months) passed between year-end and the system upgrade to allow the budget information to be entered.

We recommend the Corporation monitor and ensure compliance with its Cost Share Final Procedures to ensure accurate and timely recording of all cost share obligations.

D.3 *Demand letters are not consistently sent on delinquent receivables.*

Eight of twenty receivable accounts tested were delinquent (i.e., outstanding more than 30 days) as of September 30, 2000; however, no demand letter had been sent to one of the debtors to inform the debtor of the delinquency. Thus, no interest, penalties or administrative charges were assessed on that debt. Corporation Policy #400, *Debt Collection*, requires that a demand letter be sent by the Corporation when a receivable becomes delinquent. If it has not been paid by the date specified in the demand letter (usually 30 days), a delinquent debt is subject to interest, penalties and administrative charges. An uncollectible debt must also be forwarded to Treasury's Financial Management Services (T-FMS) for further debt collection action if there is no resolution after 180 days.

We recommend the Corporation run a report to assess delinquency of accounts receivable and send demand letters where appropriate on a monthly basis. The Corporation should further run an exception report to determine which delinquent receivables have not been sent a demand letter on a monthly basis to ensure proper notification is provided to the debtors.

D.4 *The Corporation's methodology for aging receivables needs improvement.*

Sound business practice suggests that the "begin date" for the aging of receivables is the due date specified on each invoice and that penalties and interest are assessed based on this date. This practice provides "incentive" for the debtor to pay invoices timely and ensures that the receivable is properly aged based on the due date specified on the invoice for purposes of calculating the allowance for doubtful accounts.

Although the Corporation bills cost share agreements quarterly, the Corporation does not send demand letters until after the end of the agreement period. Such receivables are not considered delinquent until two demand letters have been sent. Thus, no interest penalties are assessed on cost share receivables until 90 days after the date of the final invoice, when interest is retroactively calculated as of the 60th day after final invoicing. For example, the 1st quarter billings of a one year cost share agreement would be twelve months old before being classified as delinquent.

The Corporation also does not commence the aging of receivables for cost share agreements until the final date of invoicing. Thus, the 1st quarter billings of a one year cost share agreement would be nine months old before the Corporation starts to count the number of days outstanding for purposes of calculating the allowance for doubtful accounts (i.e., the date of final invoicing is considered "day one" for aging purposes).

We recommend the Corporation review and revise its cost share accounting policies to use the due date specified on each invoice as the "begin date" for aging of receivables and assessing penalties and interest.

Information Technology

E.1 *Incomplete disaster recovery plan testing.*

The Corporation's disaster recovery plan has not been tested for over a year, although we understand the Corporation plans to conduct a test later in 2001. Federal Information Processing Standards (FIPS) Publication 87, *Guidelines for ADP Contingency Planning,* Section 4 states that:

> "one of the more important aspects of successful contingency planning is the continual testing and evaluation of the plan itself. Quite simply, a plan, which has not been tested, cannot be assumed to work. Likewise, a plan documented, tested once and then filed away to wait the day of need provides no more than a false sense of security. Data processing operations are, historically, volatile in nature, resulting in frequent changes to equipment, programs, documentation, customer requirements, and often even in the way daily business is conducted. These actions make it critical to consider the plan in the same context, i.e., one in which frequent changes occur. A plan quite adequate today may be woefully unsatisfactory 2 months, or less, from now. Suffice to say, that if the ADP contingency plan is not subjected to continual and rigorous management review as well as to in depth testing on a scheduled basis it will fail when needed."

We recommend that the plan be re-evaluated and tested regularly (i.e. annually) to increase the likelihood that the efficient recovery of IT resources will be possible in the event of a disaster. As a result of testing as well as the implementation of hardware and software changes in the IT environment, the disaster recovery plan should be updated accordingly.

E.2 *Inadequate Internal Control Assessment for Momentum at the National Business Center.*

The National Business Center (NBC) does not have a current SAS-70 report that addresses its client/server environment on which the Momentum application used by the Corporation is run. A readiness evaluation has been performed at NBC, and a SAS-70 report addressing its client/server environment, and the Momentum application, is expected to be performed during the second quarter of 2001.

The AICPA has promulgated SAS No.70, *Audits of Service Organizations*, to provide guidance for reviewing the controls in place at service organizations. A SAS No. 70 report provides an opinion on the assertions made by a service organization's management about their internal controls. These reports are intended for use by the client and its auditors in assessing control risk.

We recommend that the Corporation notify NBC of its interest in receiving a copy of the planned SAS-70 report when it is completed. Expressions of such client interest may help ensure NBC periodically re-performs the SAS-70 procedures to provide reasonable assurance to its customers that the procedures in place at NBC are operating effectively. Additionally, we recommend that the Corporation request detailed descriptions of the procedures used at NBC for the maintenance and recovery of the Momentum application and its related data.

E.3 *Shared Momentum System Administration Account.*

Three employees within the Office of Information Technology (OIT) have been authorized to perform system administration duties for the Momentum application. However, while there are only three individuals with administrative access, two of them share a single account.

Federal Information Processing Standards (FIPS) Publication 73, *Guidelines for Security of Computer Applications,* Section 3.2.1 *Requirements for Identity Verification* states... "Users should be ***uniquely*** identified so that they can be held responsible for their subsequent activities-it is usually not enough just to verify that the user is one of the authorized users. The only cases where it may not be necessary to have distinct verification test for each individual occur when:

- All approved users of a given interface are allowed to perform any of a (possibly restricted) set of actions
- There is no need to keep records of who performed what actions."

We recommend that individual accounts be set up for all personnel, including those with system administration privileges to provide for user accountability.

E.4 *Lack of proper access controls for WBRS.*

The following access control deficiencies in violation of OMB Circular A-130 were found:

- WBRS password entry attempts are not limited to three attempts; an individual may reload the login window and try to gain access indefinitely. Multiple failed attempts do not trigger a freezing of the account to defend the system against unauthorized access.

- Even though the training and help materials suggest that users should use passwords that are at least six characters long, there is no enforcement. Users were found with passwords of five character lengths.

- WBRS does not automatically log off after a period of 30 minutes of inactivity.

We recommend the Corporation:

- Initiate a task to upgrade password management for WBRS that supplements the local blocking of multiple unsuccessful password attempts with a freezing of the account pending an authenticated call by the account holder.

- Initiate a task to upgrade password management for WBRS that enhances the code to check the length of new passwords.
- Initiate a task to upgrade the WBRS code so it will log off an account after 30 minutes of inactivity.

Procurement and General Expenses

F.1 *The Corporation's cut-off policy for recording liabilities for goods and services received, but not paid at year end, should be revised.*

During our search for unrecorded liabilities, we identified 17 items totaling $815,188 that should have been recorded as liabilities at year-end. Upon investigation, we noted that the Corporation did not accrue liabilities at year-end unless Corporation personnel had officially accepted the purchased items or services before October 1, 2000, even if the goods or benefits of the services were received prior to year end. The Corporation subsequently recorded an adjustment to properly recognize the $815,188 as a liability at September 30, 2000.

Per *Statement of Financial Accounting Concepts No. 6, paragraph 35,* liabilities are "probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events." The date of actual receipt of the goods or services would therefore take precedent over any internally mandated practice of "official acceptance" prior to recording a liability.

In order to ensure all liabilities are recorded in the proper period, we recommend the Corporation revise its policy to make its official acceptance date the same as the date the goods or services are received.

F.2 *Duplicate vendor codes should be deleted from Momentum.*

As part of extended procedures performed over vendor files during the fiscal year 2000 audit, we obtained a listing of all disbursements recorded in Momentum from September 1999 through September 2000. We sorted this listing by vendor code, scanned it, and determined that 37 vendor codes corresponded to more than one vendor profile.

This situation typically results from the correction of information in the vendor profile. When corrections are made, the original vendor information is required to be deactivated or deleted. However, in 4 of the 37 cases noted above, the original vendor information had not been deactivated or deleted until we identified the problem. As a result, disbursements could have been made using the incorrect vendor information.

We recommend that the Corporation implement procedures to periodically review vendor codes to ensure that only one active vendor profile is associated with each vendor code.

Human Resources

G.1 *Controls over processing of payroll and maintenance of supporting documentation should be improved.*

During our internal control test work related to payroll we noted the following matters requiring management attention:

- Three of 83 *Notification of Personnel Action* forms (SF-50) did not include the signature of the Employment and Training Manager indicating her approval. Corporation policy requires that the Employment and Training Manager approve all SF-50s.
- For one employee, $312.10 was deducted for retirement benefits under the Federal Employees Retirement System (FERS) instead of $50.61.
- For one employee, $6.20 was deducted for Federal Employees Group Life Insurance premium (FEGLI) instead of $11.78.
- Four of 78 timesheets were not signed by a timekeeper to indicate review for technical accuracy. Corporation policy requires that all timesheets be signed by a timekeeper.

We recommend Corporation policies regarding required payroll documentation be reemphasized to all payroll personnel. Additionally, we recommend a review of payroll deductions and other amounts included on the payroll register be performed on a periodic basis by someone independent of the regular payroll accountant to identify and correct any noted errors.

G.2 *National Civilian Community Corps (NCCC) member application files are incomplete.*

During our test work over the fiscal year 2000 NCCC payroll process, we noted that 33 of the 78 member's application files were incomplete as follows:

- For 7 members, there were no background checks on file.
- For 1 member, there was no W-4 on file.
- For 16 members, the certifying official did not sign the enrollment forms.
- For 1 member, the certifying official did not sign the agreement or enrollment form.
- For 8 members, there were no application forms on file.

Corporation policy requires a complete application file that includes application forms, certifying official's signature on the enrollment form and service agreement, background investigation, and a W-4 for all NCCC members.

We recommend the Corporation reemphasize the importance of maintaining accurate and complete NCCC Member files. Additionally, periodic spot checks of the completeness and accuracy of files should be made by NCCC supervisors.

G.3 *Controls over National Civilian Community Corps payroll could be improved.*

During our test work over NCCC members during fiscal year 2000, we noted the following payroll processing exceptions:

- One of 30 Members selected from pay period 14 was paid $90.72 instead of $129.60.
- One of 37 Members selected from pay period 21 was paid $818.40 instead of $142.56.
- Four of the 37 members enrolled in pay period 21 were not included in the pay register for that period.

Proper internal controls require that payments made to NCCC members be reviewed for accuracy by an authorized person. We recommend an independent review of payroll deductions and other amounts included on the NCCC payroll register be performed on a periodic basis by someone independent of the regular payroll accountant to identify and correct any noted errors.

G.4 *VISTA member files are incomplete.*

During our review of 78 VISTA member files for fiscal year 2000, we noted that files were incomplete as follows:

- Fourteen application forms were not signed by the State Program Director or Regional Program Director.
- Nine application and sponsor evaluation forms were not included in the member file.
- One application form was not signed by the Member.
- Seven files did not have completed health questionnaire or health benefits forms.
- Six terminated VISTA member files did not contain Future Plan forms.
- Nine Stipend/Education forms were not signed by the State Director.
- Properly completed Sponsor verification forms were not included in all files reviewed (sixteen missing forms; eleven forms not submitted timely, one form with incorrect Member's name)

Corporation policy requires a complete application file that includes completed health questionnaire or health benefits form, Future Plan form, sponsor evaluation and verification forms, stipend/education form that is signed by State Program Director and application form that includes both State Program Director and member signature.

We recommend the Corporation reemphasize to all personnel the importance of maintaining accurate and complete VISTA Member files. Additionally, periodic spot checks of the completeness and accuracy of files should be made by VISTA supervisors.

G.5 *Inaccurate information is entered into VMS for VISTA members.*

During our test work over VISTA members, we noted that information was incorrectly entered in VMS as follows:

- For 8 of the 49 Future Plans forms reviewed, the termination date was incorrectly entered into VMS.
- For 3 of the 78 items selected, the stipend/education award election was incorrectly entered into VMS.

Proper internal controls require that data entered into the VMS system is complete, accurate and supported by source documentation. We recommend an independent review of information entered into VMS be performed by a second individual and compared to source documentation to ensure its accuracy.

G.6 *Approval of Federal payroll reconciliation is not secured by a cryptography system.*

During the NFC PC-TARE payroll reconciliation process, the reconciliation is signed by both the Personnel Management Specialist (preparer) and the Labor and Employee Relations Team Leader (reviewer) by means of scanned-in-signatures. The signatures are not secured.

True electronic signatures, as part of a public key cryptography system, can only be used by the person to whom it belongs. Improper use is detected by means of a cryptographic algorithm.

Adequate control procedures include the safeguarding of approval signatures maintained in electronic or stamp form.

We recommend the Corporation secure approval of Federal payroll reconciliation signatures by a cryptography system.

Net Position

H.1 *Expired obligations are not consistently de-obligated.*

During our procedures over obligations open at September 30, 2000, we noted that 7 of 79 items selected should have been deobligated at year end. The Corporation posted an adjustment in the amount of $362,821 to the FY 2000 financial statements to deobligate these items.

Corporation policy requires that remaining obligations are to be deobligated when final payments are made on non-grant items and 180 days after the grant award periods expire for grant-related obligations.

We recommend the Corporation institute measures to ensure prompt and accurate de-obligation of expired obligations.

CORPORATION FOR NATIONAL SERVICE

DATE: June 22, 2001

TO: Luise Jordan, Inspector General

William Anderson

FROM: William Anderson, Deputy Chief Financial Officer

SUBJECT: Comments on June 18 draft of OIG Report 01-02, *Recommended Improvements to the Corporation's Internal Controls – FY 2000 Financial Statement Audit Management Letter*

The Corporation has reviewed the draft management letter containing suggestions for improving internal controls and is pleased to note that two areas for improvement that appeared in the fiscal 1999 management letter: Laws and Regulations, and Property and Equipment are no longer considered areas in which improvements are needed. The Corporation is providing detailed responses to each of the suggestions in other areas below.

A. Grants Management

Summary of Finding:

The management letter stated that the Corporation does not currently have an automated method of reconciling between the Payment Management System (PMS) and Momentum; grant files were not complete; and administrative closeout procedures of Domestic Volunteer Service Act (DVSA) grants are not routinely performed.

Corporation Comments:

Automated System of Reconciliation

The Corporation developed an automated system for reconciling PMS and Momentum and is currently testing it. Using Visual Basic for Access Program, the Corporation performs an automated comparison of authorizations reported in the monthly PMS Synchronization Report with the obligated amount recorded in Momentum. The report generated from this comparison identifies the differences between the two systems by document number and fiscal year. The Corporation will continue to refine the program logic to minimize timing differences. The estimated completion date is December 2001.

Grant Files

The Corporation has implemented supervisory spot check procedures for grant files and will re-emphasize the importance of following them. Follow-up procedures are also in place to obtain missing documents. For example, for all National Community Service Act (NCSA) grants the files are reviewed each year during the award process to ensure that all required documentation is included in the file. However, the Corporation will need to review the auditor's working papers and evidence supporting the auditor's conclusion to analyze the exceptions noted because its review of the NCSA files tested by the auditors does not agree with the results reported in the management letter.

Specifically, the Corporation's records agree with those of the auditors' in only one of the 11 categories of exceptions noted. For example, the finding notes that 10 of 78 files did not contain a grant officer's certification for a specific grant amendment. However, in at least five of those cases, a certification is not required because the amendment was issued for a de-obligation or a no-cost extension. Those circumstances were discussed with the auditors during the course of the audit.

In addition, the auditors stated that missing, incomplete or inaccurate file documentation makes it difficult to review matters concerning grantees should questions arise, or during grant close out procedures. However, the Corporation reviewed the items that were identified as missing from the files and determined that most were not necessary to answer questions about or close out grants. Most of the missing documents were items such as the checklists of file contents. In these cases, there were no required documents missing from the file, just the checklist that confirms that all documentation is in the file.

Documents such as Financial Status Reports (FSRs), which would affect the Corporation's ability to answer questions or close out grants, were missing in only seven of a total of 156 files tested. In most of those cases, the file documented that the FSR was late and that grants staff was following up to obtain it. Grantees are responsible for submitting FSRs and some do not submit them in a timely manner. Therefore, at any given point in a grant cycle, an FSR may be missing and standard procedures are in place to secure the missing documents. Grants staff follow-up with grantees to obtain missing FSRs and withhold payments to grantees in cases of excessive delinquency.

Close Out of Grants

The Corporation has implemented policies and procedures for close out of grants that both service center and headquarters staff follow. The Corporation is also in the process of closing out all expired NCSA grants and expects to complete the process early in fiscal 2002. The Corporation does not believe that the conditions found created a risk that funds due to the Corporation might not be identified and returned. Most of the auditor's findings were related to issues that would not affect proper reconciliation of amounts due to the Corporation, such as missing checklists or signatures or missed deadlines. Of the 35 expired grants reviewed, only one was missing a document (an FSR) that might affect amounts due, and only three others did not contain verification of the reconciliation.

The most common finding was that a closeout checklist was not included in the file. However, the checklist procedure was implemented during the year and files of grants closed out before implementation would not have contained it. In addition, timeliness is directly affected by the number of grants to be closed. Current practice requires that all 1800 DVSA grants be closed out each year. The Corporation agrees that, although grants are closed out, they are not always closed within the targeted 180 days. Therefore, as the Corporation moves the DVSA grants to the Department of Health and Human Services' payment system, grant terms, and thus closeout activities will be spread over a three-year period, which will allow more timely, consistent close outs.

B. National Service Trust

Summary of Finding:

The management letter stated that Trust voucher processing lacks a tracking system and time frame for payment issuance; controls over educational award payments should be strengthened; controls over accuracy of information entered into SPAN should be improved; member enrollment and end-of-term forms on file are not always properly completed and approved timely; certain members inappropriately received service awards; the service award liability calculation incorrectly included certain pending members; and the roster confirmation process was ineffective during fiscal 2000.

Corporation Comments:

Processing Vouchers Timely

In previous audit findings, the auditors recommended that the Corporation institute a voucher processing tracking system that would identify the status of vouchers. In response to this finding, the Corporation instituted a date stamp system in August 2000. Each educational award payment voucher and interest voucher is date stamped on the day it is received into the Trust. The auditor's sample was selected primarily from forms received prior to implementation of the date stamp procedure.

In discussions with the auditors, the auditors stated that they used the date on which the institution signed the form as the basis for when the "clock starts." As previously explained, institutions will frequently hold vouchers and send them in large numbers several days, weeks, or even months after they have signed them. For example, while the auditors were on site, the Corporation tested the last 20 vouchers received by the Trust on February 14, and examined the dates that the institutions signed them. The dates ranged from February 9, 2001 to August 24, 2000, or from 5 days to *5 months* before the Corporation received them. Therefore, the Corporation does not agree with the conclusion that disbursements were made more than 25 days after receipt.

Controls Over Award Payments

The finding states that $700.00 was paid to an incorrect institution because cluster representatives can override system flags. In fact, the payment was made to the wrong institution simply due to human error. To correct this error, a system flag was *appropriately* overridden. The Trust made over 43,000 payments in fiscal 2000. Although the Corporation strives for 100 percent accuracy, it knows of no cost-effective payment system that does not have some errors.

The report also states that one payment was made to an institution before the requested payment date. However, by regulation, payments are scheduled to arrive at the institution by the beginning date of the enrollment period (and midpoint, if there are two installments), regardless of what date the member or the school requests. If payments are $1,500.00 or less, the Corporation does not split the payment, as it is not cost effective for the Trust to do so. Thus, the payment was properly processed.

Controls Over Accuracy of SPAN

Data that the Trust receives via the Web-Based Reporting System (WBRS), is considered to be the official source of information and is considered to be the correct data, unless the Trust is notified by the program of an error. Auditors compared enrollment and exit data in SPAN with data on paper enrollment and exit forms maintained at program sites, which may not have had the most current, updated information on them. However, award eligibility is based on data that is entered into WBRS by authorized program personnel. Award amounts, which are the basis of the Service Award Liability, are determined by the total hours served. The official information that the Trust has is not taken from paper sources, unless the program does not use WBRS.

The auditors reported that for 9 of the 88 disbursements tested, the requested payment date on the voucher was incorrectly entered into SPAN. As explained to the auditors, the default payment date in SPAN is always "today's" date. For example, if a payment were requested for a school enrollment that began in September, the September date *would not* be entered. Because the enrollment in school has already occurred, the payment should go out immediately. The default date would automatically appear creating an immediate payment. It is unnecessary and would be wasteful to change the default date to last September.

Member Forms

The enrollment and end of term forms were developed prior to WBRS, when these forms were the official means for transferring enrollment and exit information to the Trust. Now that WBRS is the official source of this information, the forms are unnecessary for programs in WBRS. On both the enrollment and end of term forms, the only information the member enters is their name, social security number and addresses. The member enters no information that would affect the eligibility for or the amount of an education award. There is a signature line on the form that has no corresponding statement or declaration. The member is not authorizing, verifying or certifying anything by signing the form.

Officials who enter enrollment and exit data into WBRS have been given the authority to enter and/or approve that information through the security measures found in WBRS. Each one has a password. Approving the enrollment or exit data in WBRS is comparable to certifying the accuracy of the information. In addition to the official certification within WBRS, it would be redundant and time consuming to require a signature on an unofficial form.

In the related Notification of Findings and Recommendations, the auditors state that the effect is that the Corporation may have paid an education award to a member who was not eligible to receive one. However, education awards are issued only to members who are eligible for awards, as duly certified by an official through WBRS. There is no more of a chance for a person to mistakenly receive an award if the Trust receives the approval through WBRS, than there would be if the Trust receives the approval through a paper form.

In addition, there is no relationship between when a member fills out their name and address and signs the end of term form and when the certifying official does. The member's portion of the form simply needs to be completed by the time the exit data is entered into WBRS. Members can do this 10, 20, or 60 days before they complete their service. The Trust has no policy regarding this, nor is one needed.

The report states that for 20 percent of the items reviewed, the certifying official signed the form more than 30 days after the member completed service. This delay would be a cause for concern if the Trust still relied upon paper end of term forms as the source for transferring exit information to the Trust. However, the current requirement is that exit information must be entered into WBRS within 30 days of the member completing service. Since the end of term forms are for the program's own files, they could have gone back to sign them well after the data was downloaded to the Trust.

AmeriCorps State/National members are enrolled and exited via WBRS, with some minor exceptions for programs that are not currently in WBRS. WBRS information is downloaded directly into the Trust's database. The Corporation relies upon the WBRS system to fulfill OMB requirements that agencies institute "paperless" systems. If programs are forced to return enrollment and exit forms to the Trust, the effect of a paperless system will be eliminated.

Inappropriate Service Awards

Members are able to serve up to three years in a part time term of service if concurrently enrolled in school (as authorized by the Corporation's legislation). The responsibility for this requirement lies with the Commission and National Direct organizations. The findings states that the auditors did not obtain documentation from a program identifying where three members served at the time of their enrollment. However, the Corporation noted that since the AmeriCorps program itself was a university, it is likely that they were students.

In addition, a VISTA who serves for less than a year should not earn a full time award. Awards are given to full time VISTAs if they successfully complete their service in one year. If they serve slightly more than one year, that does not affect the amount of their award. In the instances cited in the report, the Trust correctly granted education awards to the members.

Some Pending Members Incorrectly Included in Service Award Liability

Even though a third term member is in the pending category, it does not necessarily mean that s/he is not eligible for an award for that term. By statute, an individual may receive an education award only for the first and second terms in an approved national service position. An approved national service position is one for which one of the benefits is an education award. Some terms of service do not meet the definition of an approved national service position. These include, for example, a term that ends before the individual has completed 15 percent of the required hours, provided the member has not engaged in misconduct; and a term in which the member has elected to receive a post-service cash stipend instead of an education award.

If one of the member's other two terms did not meet the definition of an approved national service position, that previous term would not "count" and the member would be eligible for an award for this third term. As for the "members" who did not have enrollment forms for program year 1994, the Corporation never counted these people as members; they were classified as pending, and eventually deleted from the database. At the end of fiscal 2000, the service award liability *estimate* was $191,985,000. Thus, a potential overstatement of $7,500 would be considered to be a negligible amount and does not constitute an internal control weakness.

Roster Confirmation Process

The condition states that not all of the rosters mailed during the roster reviews were returned and for one that was returned, the database was not updated. When the auditors sent rosters to a sample of programs for their review, they experienced the same problems that the Trust has experienced with its return rate. In fact, the auditors' return rate of 40 percent was significantly below the Trust's own return rates during the fiscal year of 70 percent and 57 percent respectively. With the implementation of WBRS, the Reconciliation report generated through WBRS is the main tool used to compare the data at the program site and the data in the Trust's database. Though the Corporation agrees that there have been problems with the roster confirmation process (that is why the Reconciliation Report was instituted) we do not agree that this has affected the accuracy of the service award liability.

C. Content of Annual Financial Reports

Summary of Finding:

The management letter stated that additional improvements should be made to the content of the Corporation's annual financial reports.

Corporation Comments:

As stated in the Corporation's response to this finding in the fiscal 1999 management letter, the Corporation recognizes that its financial reports can be improved and reviews the content of the report each year to identify and make improvements. As more and better information becomes available the Corporation will continue to revise and refine its financial reports. Specific accomplishments in this area follow.

Cost Accounting

During fiscal 2000, the Corporation developed a cost allocation methodology in conformance with federal cost accounting standards and integrated with the Corporation's financial management system. Under the methodology costs are distributed in such a manner as to allow financial reporting by program area. Once direct costs are assigned, indirect costs are allocated based on a systematic and rational basis. In fact, direct and indirect costs related to each major program were reported in the fiscal 2000 Annual Report to Congress.

Trust and Gift Financial Information

The Corporation fully complied with this finding during fiscal 2000. In the Corporation's fiscal 2000 Annual Report the Corporation included compact and concise reports on both the Trust Fund operations and Gift Fund activity, including separate financial statements. The balances presented in these statements were audited but were not included in the "financial statement" section of the Annual Report. The Corporation does not believe that placing the individual statements in the same section as the consolidated financial statements facilitates understanding and analysis of the Trust and Gift Funds' operations by Congress and other financial statement users but will continue to assess and improve the financial statements' presentation.

Expenses by Major Program

The Corporation has developed pro forma financial statements that will be populated with data under the cost allocation methodology described above. These statements will be supported by a footnote that presents program costs by major object class, including grants.

Follow OMB "Form and Content" Guidance

As evidenced by the Corporation's financial statements and footnotes for fiscal 2000 and prior, the Corporation has integrated some of the requirements of OMB 97-01 where it was deemed meaningful to the reader of the financial statements (e.g., footnote disclosures by fund for certain areas such as Fund Balance with Treasury and Net Position).

FASAB has recently been designated as the standard setting body for GAAP for federal entities. The Corporation does not plan to materially alter its financial statement presentation until FASAB and OMB establish official requirements for reporting by federal corporations, which may differ from current 97-01 reporting. However, the Corporation will continue to integrate 97-01 requirements if deemed to enhance reader understanding of the financial statements.

D. Revenue from Reimbursable Agreements

Summary of Finding:

The management letter stated that cash receipts were not consistently deposited and recorded in a timely manner; cost share agreements are not consistently established in Momentum in a timely manner; demand letters are not consistently sent on delinquent receivables; and the Corporation's methodology for aging receivables needs improvement.

Corporation Comments:

Cash Receipts

One of 43 cash receipts tested was deposited 13 business days after receipt because the Service's Center's collection officer was out sick. The Corporation does not believe this constitutes an internal control weakness. During fiscal 2000, the Corporation continuously reemphasized with appropriate supervisory staff the requirement to deposit and record cash receipts in a timely manner. In addition, supervisory staff is to periodically review activity in this area to ensure that this policy is adhered to. The Corporation has made significant improvements in this area, reducing the number of untimely deposits from nine out of 45 tested in fiscal 1999 to one out of 43 in fiscal 2000. In addition, the one instance of untimely deposit, totaling $236.82, was a matter of unavoidable circumstance whereby one of the service center employees was out sick. A back-up person has been trained to make deposits in the absence of the Collection Officer in order to assure timely deposit.

Cost Share Agreements

The instances where cost share agreements were not recorded prior to their start date noted by the auditors were mainly the result of system implementation and upgrades. Momentum was implemented in September 1999; however, final cost share procedures were not disseminated until January 2000. Five of the six exceptions noted by the auditors were for cost shares that began during this time period but were not entered until after the final cost share procedures. The main reason for the delay was a backlog of payments and other higher priority items. Cost shares starting in the first quarter are not billed until January; therefore, they were a lower priority than invoices that were already due.

The instances noted by the auditors where budgeted amounts were not re-established in Momentum after year-end are due to the amounts not being entered prior to January when the system was upgraded. Problems with the cost share module after the initial upgrade prevented the budgeted amounts from being properly entered. This was due to other priorities that took precedence over cost share agreements that are not billed but once a quarter. These agreements have since been entered.

Accounts Receivable Delinquency

The Accounts Receivable team already runs monthly reports of all accounts receivable, and monitors the status of each receivable. Therefore, the auditor recommendation is already standard procedure. Monthly monitoring of the AR reports includes verifying that an initial demand letter is sent timely, that a debtor file is forwarded to HQ for further collection action, and that the debt is sent to Treasury according to federal and Corporation Debt Collection regulations. AR staff requests monthly updates from the originating office of each receivable. As noted by the fact that there was only one exception, the monitoring process is working in an effective manner.

In the case of the one exception noted by the auditors, the specific originating office did not respond to repeated update requests from HQ about whether a demand letter had been issued or not. The Corporation has re-emphasized to that specific office the importance of reviewing the receivables reports, and the necessity of following debt collection policy timely. The office has recently assigned one individual to be the central contact point with HQ. This should ensure that appropriate action, such as sending a demand letter, will occur on a timely basis.

Accounts Receivable Aging

The Corporation agrees with the need update its policy on aging of cost share accounts receivables and will implement a new policy by December 2001.

E. Information Technology

Summary of Finding:

The management letter stated that the Corporation had incomplete disaster recovery plan testing; an inadequate internal control assessment for Momentum at the National Business Center; a shared Momentum system administration account; and lack of proper access controls for WBRS.

Corporation Comments:

Disaster Recovery Plan

The Corporation acknowledges that formal testing of the disaster recovery site was not conducted. Formal testing was postponed while infrastructure upgrades, which will dramatically change the configuration of the site and render any prior testing useless, are being performed. Additionally, the Corporation disagrees with the statements in the audit report that the current plan "cannot be assumed to work" or "provides no more than a false sense of security." The disaster recovery site is a hot site that is monitored every minute through automated tools and data is transmitted to the disaster recovery servers daily. The Corporation plans to complete all infrastructure upgrades and reconfigure the disaster recovery site before the end of fiscal 2001.

National Business Center SAS 70 Report

The Corporation acknowledges that the Department of the Interior, National Business Center (NBC), has yet to conduct a SAS 70 study for the client-server environment that Momentum is operating within. NBC has been made fully aware of the importance of obtaining a completed study and that the Corporation needs to receive a copy of the completed report. On April 1, 2001, NBC began the SAS 70 control period, which will conclude on September 30, 2001 and the SAS 70 review is scheduled to begin in October 2001. Because of the timing involved in establishing a control period this is the soonest that a SAS 70 study can begin. In the interim, to assure the Corporation of the protection of its financial data, NBC has been sharing its backup and disaster recovery plans with the Corporation's Office of Information Technology.

Momentum System Administrator Account

The Corporation agrees with this finding and corrected the problem in February 2001.

Access Controls for WBRS

The Corporation agrees with the need for additional access controls and will address these issues with system modifications.

F. Procurement and General Expenditures

Summary of Finding:

The management letter stated that the Corporation's acceptance policy for recording liabilities for goods and services received, but not paid at year-end, should be revised and duplicate vendor codes should be deleted from Momentum.

Corporation Comments:

Acceptance Date

The management letter recommended that "the Corporation revise its policy to make its official acceptance date the same as the date the goods or services are received." The Corporation's policy on acceptance is based on federal law. However, the Corporation also recognizes that some employees responsible for completing receipt documents do not completely understand the difference between receipt and acceptance dates. During fiscal 2001, the Corporation posted additional guidance on the Intranet and forwarded the information to supervisors for distribution in order to reinforce proper procedures.

Vendor Codes

In the scenario described by the auditors regarding duplicate vendor names, the risk of making disbursements to the wrong vendor name is not significant. It is a common practice within government to set up multiple addresses under one vendor code at the request of vendors that have many regional offices. The accounting technicians entering payment documents must always determine the correct address code to use when making a payment. The address code is a required field within Momentum from the requisition document through to the payment voucher. A disbursement cannot be made based on a vendor code alone. Therefore, although in some cases there are numerous address lines set up for one vendor code, the accounting technician must always lookup the proper line for input. The document will not otherwise process.

In the specific instances cited by the auditors, the four duplicate vendor code address lines were deactivated prior to identification by the auditors, not subsequent. The auditors incorrectly assumed that they were testing from only active vendor codes; when the Corporation explained to the auditors that the four codes questioned were deactivated, they incorrectly assumed they were deactivated at that point in time. However, the vendor file contains all vendor codes ever populated in Momentum, regardless of current status. These codes must be maintained for historical purposes.

The Corporation agrees that vendor codes that have not been utilized since conversion can be deactivated and is currently in the process of further analyzing the vendor table in Momentum and making changes as needed. In addition, user access to the vendor table is being limited to specific individuals at each service center and in HQ.

G. Human Resources

Summary of Finding:

The management letter stated that controls over processing of payroll and maintenance of supporting documentation should be improved; some files were incomplete; inaccurate information is entered into VMS for VISTA members; and approval of federal payroll reconciliation is not secured by a cryptography system.

Corporation Comments:

Payroll Processing Controls

The Corporation followed up the instances where the audit finding indicated that there were errors made in payroll deductions. The review disclosed that no errors were made and the process is working correctly. The Corporation will re-emphasize the need to keep signed copies of training documents in the files.

NCCC Member Application Files

The files referred to in this finding are not payroll files and have no bearing on the amounts paid to NCCC members. However, the Corporation agrees that in several instances the files were incomplete and will re-emphasize the need to ensure that files are complete.

NCCC Payroll

An independent review is already performed of the stipend payments made to corpsmembers each pay period. Of the two errors cited in the audit, one was a shortfall of one day's payment to a corpsmember. The other instances cited was not an error but in fact was an intentional overpayment required for a corpsmember who had been given team leader duties over the summer but had only been compensated at the corpsmember rate. When the underpayment was discovered the additional pay was sent to him, which is why it appears to be an overpayment for that pay period.

The audit also identifies four corpsmembers who were paid in the second pay period rather than the first pay period for the year they started. These corpsmembers' names were not forwarded to the payroll-input technician in time because they were last minute additions. An additional review of the payroll input technician's work would not reveal this condition. However, the Corporation plans to have the input technician contact each campus during the first week of each class to identify any late additions to classes. This should prevent this from reoccurring in the future.

VISTA Member Files

The Corporation will need to review the auditor's working papers and evidence supporting their conclusions to analyze the exceptions noted because the Corporation's review of the files tested by the auditors does not agree with the results reported in the management letter. However, in the interim, the Corporation will reemphasize the importance of maintaining accurate and complete VISTA member files.

VMS Data Entry

Within the past two months, State Program Assistants, the individuals primarily responsible for VMS data entry, participated in SPAN training. This training focused on the importance of accurate data. The Corporation believes that this additional training will result in improved data entry. The Corporation will continue to monitor data entry to assure that accurate data is entered into the system in a timely manner.

Payroll Reconciliation Approval

The PC-TARE payroll reconciliation does not contain sensitive information requiring the security afforded by a true electronic signature, i.e., one containing a cryptographic algorithm. Nonetheless, the Personnel Management Specialist has been instructed to eliminate the use of his scanned-in signature and to affix his original signature on future forms.

H. Net Position

Summary of Finding:

The management letter stated that 7 of the 79 items selected should have been deobligated at year-end.

Corporation Comments:

The amount in question in this finding is $362,821, or .06 (less than one) percent, of total obligations and does not have an impact on Corporation obligations as stated in the finding. In the related Notification of Findings and Recommendations, the auditors state that the effect is that "the Corporation may be unaware of available balances that could be used to fund other activities." Approximately $350,000, or 96 percent, of the amount relates to grants that were issued in fiscal 1998 and prior. The obligations set aside for these grants (grant award) were not fully used by the grantee. However, the grantee has use of these funds for the entire grant period. Thus, once a grant period has expired, the grant funds, which are only available for obligation for periods up to two years, have also expired. These funds cannot be "used to fund other activities."

The Corporation has acknowledged that it has been delinquent in prior years in timely closeout of grants; however, there is an initiative currently underway to improve upon grant closeout. Grant closeout was already addressed in the report on internal controls as part of the grants management weakness. In any case, the lack of use of grant funds awarded to a particular grantee does not allow the Corporation to utilize these funds elsewhere after a grant period, and the period of funds availability, has expired. There is little chance of being able to reobligate these funds once the grant period and a six-month closeout period has passed; generally the period for obligation allowed by law will have passed, causing the funds to automatically expire.

cc: Wendy Zenker
Phyllis Beaulieu
Charlene Dunn
Julia Fisher
Peg Rosenberry
Dave Rymph
Dave Spevacek
Bob Torvestad
Simon Woodard
Gerry Yetter
Terry Bathen
Karyn Molnar