Office of Inspector General
Corporation for National and Community Service

INDEPENDENT AUDIT OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S FISCAL YEAR 2003 FINANCIAL STATEMENTS MANAGEMENT LETTER

Audit Report Number 04-02
October 31, 2003

Corporation for
NATIONAL & COMMUNITY SERVICE

Prepared by:

COTTON & COMPANY LLP
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Alexandria, Virginia 22314

This report was issued to Corporation management on January 20, 2004. 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 July 20, 2004, and complete its corrective actions by January 20, 2005. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of Inspector General
Corporation for National and Community Service

Independent Audit of the Corporation for National and Community Service's Fiscal Year 2003 Financial Statements – Management Letter Audit Report 04-02

Introduction

In accordance with the Government Corporation Control Act (31 U.S.C. §§ 9101-10), the Office of Inspector General (OIG) engaged Cotton and Company LLP to audit the Corporation for National and Community Service's fiscal year 2003 financial statements. Their audit, conducted in accordance with government auditing standards, resulted in an unqualified opinion on the Corporation's financial statements. Audit Report 04-01, *Audit of the Corporation for National and Community Service's Fiscal Year 2003 Financial Statements*, describes the basis for the opinion as well as a reportable condition: the Corporation's monitoring of grantee activities. This reportable condition was not considered a material weaknesses.

During the engagement, the auditors also noted certain matters involving the control over financial reporting and other operational matters that were not considered material weaknesses or reportable conditions. This report discusses these conditions and includes recommendations for corrective action.

The OIG is responsible for evaluating the procedures performed, monitoring the audit's progress, and reviewing the auditor's work papers supporting the conclusions in this report. Our review of the auditors' work papers disclosed no instances where Cotton and Company did not comply with, in all material respects, generally accepted government auditing standards.

We provided a draft of this report to the Corporation for review and comment. The response is included as Appendix A. In the response, the Corporation agreed with the recommendations and stated that corrective action has been completed on many of the conditions.

INDEPENDENT AUDIT OF THE
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S
FISCAL YEAR 2003 FINANCIAL STATEMENTS - MANAGEMENT LETTER

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Inspector General
Board of Directors
Corporation for National and Community Service

**INDEPENDENT AUDIT OF THE
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S
FISCAL YEAR 2003 FINANCIAL STATEMENTS - MANAGEMENT LETTER**

In planning and performing our audit of the financial statements of the Corporation for National and Community Service as of and for the year ended September 30, 2003, we considered the Corporation's internal control to determine auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

During the audit, however, we became aware of several matters that present opportunities for strengthening internal control and operating efficiency. We previously reported on the Corporation's internal control in our report dated October 31, 2003. This letter does not affect our report dated October 31, 2003, on the financial statements of the Corporation.

We will review the status of these comments during our next audit of the Corporation's financial statements. We have already discussed many of these comments and suggestions with the Office of the Inspector General and various Corporation staff, and we will be pleased to discuss these comments in further detail at your convenience. Our comments and recommendations are attached.

We would like to express our appreciation to Corporation representatives who assisted us in completing our audit. They were always courteous, helpful, and professional.

Very truly yours,

COTTON & COMPANY LLP

Alan Rosenthal, CPA
Partner

October 31, 2003
Alexandria, Virginia

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**INDEPENDENT AUDIT OF THE
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S
FISCAL YEAR 2003 FINANCIAL STATEMENTS - MANAGEMENT LETTER**

Cotton & Company LLP conducted the fiscal year (FY) 2003 financial statements audit of the Corporation for National and Community Service. During the audit we became aware of several matters that present opportunities for strengthening internal control and operating efficiency. These matters are discussed in this management letter in the following categories:

- Grants Management
- National Service Trust
- Accounts Receivable and Debt Collection
- Human Resources and Payroll
- Vendor Payments
- General EDP Controls

GRANTS MANAGEMENT

A.1. Office of Management and Budget (OMB) Circular A-133 audit findings are not resolved in a timely manner.

The Corporation reviews the Federal Audit Clearinghouse (FAC) database during the award approval process to determine if grantees submitted audit reports to FAC in accordance with OMB Circular A-133 and if any findings related to the Corporation.

Of our sample of 32 grantees, two grantees did not resolve and close A-133 audit findings in a timely manner (i.e., within one year of receipt).

To ensure that grantee internal control weaknesses and noncompliance issues are identified and properly resolved in a timely manner, we recommend that the Corporation ensure that FAC reviews occur on a regular basis to identify grantees with noted weaknesses and compliance problems prior to grant award funding. We recommend that personnel responsible for resolution and closure follow up with grantees in a timely manner to ensure that exceptions are corrected.

A.2. Grant closeout procedures do not ensure that projects are closed in a timely manner.

The Corporation has several policies regarding grant closeout. We noted, however, that effective communication among grant managers, grant specialists, and grantees does not always occur. Corporation personnel attempt to accommodate grantees, which sometimes results in grant closeouts not being performed in accordance with the Corporation's policies for timeliness. A principal cause is the failure by grantees to submit final Financial Status Reports (FSRs) within the allotted 90-day period following the end of the grant period.

We reviewed a sample of 61 closed grant files and noted that 20 files were not closed within 180 days from the end of the project period. Of these 20 files, 14 were attributed to grantees failing to submit their closeout documents within the allotted 90-day period.

Another related condition is that some grantees do not submit their semi-annual FRSs in a timely manner. We reviewed 51 open grant files and noted that 18 grantees had not submitted FSRs within the required 30-day period. This weakness in grants management has been identified in previous management letters.

Inconsistent closeout procedures place the Corporation at risk of not identifying amounts advanced to grantees that should be returned to the Corporation. Furthermore, inconsistent closeout procedures prevent the Corporation from making timely adjustments to financial statements, if required.

We recommend that the Corporation develop a consistent method of identifying expired grants and enforce timely administrative closeout of these grants. Further, we recommend that the Corporation develop timelines for service center staff to request required documentation before the expiration date to ensure that grants are closed in a timely manner. Also, we recommend that the Corporation communicate the importance of semi-annual FRSs to applicable grantees and perform follow-up procedures when grantees are late.

NATIONAL SERVICE TRUST

B.1. Discrepancies exist between WBRS and eSPAN reports.

We reviewed reconciliation reports between the Web-Based Reporting System (WBRS) and the Electronic System for Programs, Agreements, and National Service Participants (eSPAN) and noted discrepancies in four of the 30 reports reviewed. In another test, member data for three out of 30 items tested did not agree between eSPAN and WBRS.

Previous management letters have identified this weakness. The continued presence of unreconciled items on reports causes an increased report size, which may result in inefficient time management by cluster representatives or failure by representatives to reconcile reports at the level expected by the Corporation. Inaccurate information in eSPAN could cause errors in the disbursement of education awards and inaccuracies in the computation of the National Service Award Liability for financial statement purposes.

We recommend that the Corporation establish policies and procedures to ensure that WBRS and eSPAN reports are reconciled, and discrepancies are identified, resolved, and cleared from reports in a timely manner.

B.2. Member end-of-term forms are not always processed in a timely manner.

We reviewed 30 files of National Service Trust members and noted that 11 exited members were not processed in a timely manner. Of these, eight members were processed between 30 and 60 days, one was processed after 85 days, one was processed after 180 days, and one was processed after 330 days.

Previous management letters have identified this problem. Delays in processing member exit information could impact calculation of the National Service Award Liability and related expenses.

We recommend that the Corporation re-emphasize the importance of timely processing member exit information within the allotted 30-day period following a member's completion of service.

B.3. Interest forbearance procedures are not always followed.

Corporation policies require that interest forbearance payments over $5,000 be approved by the Supervisor of the Trust. Six payments over $5,000 were made during FY 2003, and the Supervisor did not approve two of these payments.

We recommend that the Corporation re-emphasize the importance of following this approval policy and periodically run reports to ensure that all interest forbearance requests over $5,000 are verified and approved before payment.

B.4. Trust investment reconciliations are not performed in a timely manner.

The Corporation did not reconcile the Trust investment subsidiary ledger (QuickBooks) to the general ledger (Momentum) in a timely manner. As of September 30, the July and August reconciliations had not been prepared. During our review of the May reconciliation, we found that prepaid interest from investment and interest receivable was incorrectly posted in Momentum. Interest receivable was overstated by $155,929 and was not corrected until year end. Had the Corporation performed the reconciliation in a timely manner, these errors could have been detected and possibly corrected in the normal course of business.

We recommend that the Corporation establish and enforce a policy of timely reconciliations and that the Trust Supervisor be responsible for ensuring that reconciliations are performed and all differences are resolved.

B.5. National Service Trust disbursements were late.

We reviewed 45 Education and Interest Forbearance award payments and noted that four disbursements were made after the allotted 30-day period. These delays inconvenience members and result in a misstatement of the Trust liability. Discussion with the Trust Supervisor indicated that mechanical problems with the imaging software were the cause of these delayed payments. Trust staff were, however, unaware of the problem until a member inquired about the status of a payment.

We recommend that the imaging software be upgraded to prevent this situation from recurring. We also recommend that procedures be implemented to track the timeliness of all award payments and that the Trust staff be required to document the reason for any delays in excess of 30 days.

ACCOUNTS RECEIVABLE AND DEBT COLLECTION

C.1. VISTA receivables of $30 and under are directly written off.

We noted during our review of VISTA receivables that the Corporation is unable to automatically age these receivables. Because the procedure is manual, it is only performed annually. To facilitate this manual process, the Corporation has decided to write off any VISTA receivable of $30 and under. While the direct write-off method is contrary to generally accepted accounting principles (GAAP), the amounts are too small to have a significant impact on financial reporting. We found no documentation to support this departure from GAAP or to document the policies and procedures regarding execution of this activity.

Without policies and procedures, proper monitoring may not occur, resulting in debt being written off without supporting documentation or research to determine why it is outstanding. One of the causes of the VISTA receivables problem is that sponsor verification reports were not always submitted to State offices by sponsor organizations in a timely manner. In two of 30 cases reviewed, reports were not submitted. These two instances did not result in overpayments, but the possibility for overpayment exists.

Because the Corporation cannot automatically age these receivables, we recommend that it completely document the reason for the departure from GAAP. The Corporation should also document procedures for executing write-offs and the level of supporting documents required for such a transaction. Additionally, we recommend that the Corporation emphasize the importance of sponsor verification reports and strengthen monitoring of delinquent sponsors. The Corporation should also require all sponsors to have alternate personnel available to perform these functions when needed.

C.2. Debt collection activities are inconsistently conducted.

Debt collection activities are not consistently conducted in accordance with Corporation policies and procedures. We reviewed eight cost-share agreements and identified one agreement with delinquent payments. We also reviewed five VISTA members and identified three members with outstanding debt.

We recommend that the Corporation review and emphasize debt collection policies to Corporation staff, and implement monitoring procedures to ensure that policies are followed.

C.3. Cost-share agreements are not reconciled in a timely manner and discrepancies exist between eSPAN and Momentum.

We reviewed eight closed cost-share agreements (CSAs) and noted that two were not reconciled in a timely manner following the end of the cost-share period. Two other agreements contained discrepancies between expenses recorded in eSPAN and revenues recorded in Momentum. Attempts to fix these two CSAs resulted in an unsupported special voucher and an outstanding difference. In these cases, there was a lack of communication between the program specialist and accounting personnel, and a lack of supporting documentation to research adjustments. The effect is that revenue can be misstated in Momentum.

We recommend that the Corporation establish reconciliation criteria for CSAs and require that every adjustment in eSPAN be fully documented. We also recommend that all discrepancies between eSPAN and Momentum be researched and resolved in a timely manner.

HUMAN RESOURCES AND PAYROLL

D.1. Overtime was not always approved in writing.

We reviewed time sheets and noted that overtime was recorded in four instances. Evidence of overtime approved in writing in advance was missing in three of the four instances. We verified the policy requiring advance written approval of overtime with human resource management. This policy is not clearly documented or correctly applied. Although an overtime approval form does exist, it is not consistently used. Failure to attach this form to time sheets limits the monitoring abilities of the timekeeper. Unapproved overtime may be misused by employees and may not be budgeted for by supervisors.

We recommend the Corporation clearly document and distribute this advance written approval policy and allow timekeepers to reject time sheets without proper attachments.

D.2. Controls over time sheet reporting are weak in some instances.

We noted other isolated instances in which controls over time sheet reporting are weak. We identified one instance in which a time sheet was inaccurately entered into the Personal Computer Time and Attendance for Remote Entry (PC-TARE) system. We noted another instance in which leave approvals exceeding 24 hours were not maintained in personnel files. We also noted one instance of compensatory time being earned without prior written approval, and one time sheet was not initialed by the timekeeper as evidence of review.

We recommend that the Corporation implement procedures to improve the accuracy of transferring time sheet data into PC-TARE. We also recommend that existing policies addressing leave approval be re-emphasized to Corporation staff. Finally, we recommend that timekeepers perform a quality review of each time sheet before submission and initial each time sheet to document this review.

VENDOR PAYMENTS

E.1. Vendor payments are not always disbursed in a timely manner.

We reviewed 108 procurements, and found 34 procurement disbursements that were paid in excess of 30 days. The Corporation appropriately included interest when disbursing these late payments, which prevented violations of the Prompt Payment Act. Also, the interim balances of accounts payable were understated by $163,889. One reason for the delay is that certain contracts have to be verified by several offices to ensure that goods and/or services have been provided before vendor payments are made.

We recommend that the Corporation place stricter controls over responsible offices, re-emphasize the importance of timely payments, investigate offices with delinquent payments, and resolve bottlenecks in the disbursement process.

GENERAL EDP CONTROLS REVIEW

F.1. Certain general controls on information security are weak.

As part of the FY 2003 audit, we reviewed controls over systems that process and report information in support of the Corporation's annual financial statements. We also reviewed network access controls used to secure and safeguard financial information traveling over the network. This review was conducted under the guidelines of the General Accounting Office's (GAO) *Federal Information Systems Control Audit Manual* (FISCAM).

The systems included in our audit were:

- Windows NT and 2000 servers (network)
- Momentum Financial System
- Electronic System for Programs, Agreements, and National Service Participants (eSPAN)
- eGrants
- Health and Human Services Payment Management System (HHS/PMS)
- Web-Based Reporting System (WBRS)
- National Finance Center Personnel/Payroll System (NFC/PPS)

We relied upon special publications and guidelines developed by the National Institute of Science and Technology (NIST); guidelines developed by the National Security Agency (NSA); OMB Circulars A-123, A-127, and A-130 (Appendix III); and Control Objectives for Information and Related Technology (CobiT) as review criteria.

In conducting our review of internal control over information technology (IT), we reviewed controls in the following FISCAM categories:

- Entity-wide security program planning and management
- Access controls
- Application software development and program change controls
- System software controls
- Segregation-of-duty controls
- Service continuity controls

Within these six review areas, we noted three conditions in which the information security general control environment is weak. While the Corporation has practices in place, it does not have formal, documented policies and procedures in place for all practices. In addition, we found that technical controls and practices were lacking in the network operating systems. Also, technical control deficiencies within the general support systems and network weakened controls within financial applications. This reduces the reliability, integrity, and confidentiality of the financial data used to prepare the Corporation's financial statements.

The instances we noted are discussed below.

- The current Windows NT and 2000 domain controllers are not configured in compliance with NIST, NSA, and regulations.

- Documentation of policies, procedures, and standards is not in place for some areas, including:

    - Rules of behavior within application system security plans.

    - Program manager sign-off to approve system use within certification and accreditation packages.

    - Account reviews for all systems.

    - Minimum baseline for password standards to be used in defining security requirements for systems.

    - System development life cycle policy to include more specific criteria and processes to perform when selecting commercial off-the-shelf software.

    - Changing and implementing systems.

    - Methodology for reviewing access to sensitive utilities.

    - Processing priorities not included in the business function report section of the Disaster Recovery Plan/COOP.

    - A final approved Overall Security Program Plan was not in place for most of the reporting year.

- The application programmer, who also acted as the backup database administrator (DBA), had access to the production environment and, in turn, possessed the ability to change applications and place changes into production. Management implemented corrective actions during our review to mitigate this matter, and, accordingly, this issue is considered closed.

To correct the above issues, we recommend that the Corporation's Office of Information Technology (OIT):

- Review deficiencies identified by the audit team for the Windows 2000 server configurations and take corrective actions to ensure that the configuration is in line with NIST and NSA guidelines. To correct the Windows NT deficiencies, we recommend that OIT complete its efforts to fully migrate from Windows NT to Windows 2000.

- Document policies, procedures, and standards, as follows:

- Develop and document rules of behavior specific to major financial applications and include them in the security plan for each application.

- Modify written procedures for conducting system certification and accreditation to require the program manager, or system owner, to acknowledge awareness of residual risks and accept the associated risk of having the particular system in production.

- Develop fully documented procedures for the methodology and frequency of account reviews currently conducted by OIT for the network platforms and financial applications.

- Document a minimum baseline configuration for passwords that must be adhered to within all Corporation systems and applications.

- Modify the current Corporation system development life cycle to include procedures and processes for selecting commercial off-the-shelf software products, and procedures that ensure that these products meet the Corporation's security standards and needs.

- Develop policies requiring future system implementations and changes, including the network operating system, to be fully documented by detailing the reason for the change, all planning decisions, and the final outcome of the implementation or change.

- Develop written procedures for reviewing lists of individuals with administrative-level access to the network, and individuals with access to sensitive system and developer utilities, to ensure that all individuals continue to require such privileges in the performance of their assigned duties.

- Modify the Disaster Recovery Plan/COOP to include a business function report section, which should note the priority of restoring the respective applications and systems.

- Finalize efforts to implement a documented and approved entity-wide security program that will provide overall security policies and procedures to act as an umbrella for all IT systems and operations. Also, document procedures for periodically reviewing and updating the program to ensure that it meets current business and technology needs.

STATUS OF PRIOR-YEAR MANAGEMENT LETTER COMMENTS

Fiscal Year 2002 Management Letter Comment	Fiscal Year 2003 Status
A.1 Oversight of OMB Circular A-133 reporting should be improved.	Management has fully implemented corrective actions to address this issue. This issue is closed. A new issue related to A-133 reporting is reported.
A.2 Site visit report monitoring should be improved.	This issue remains open.
A.3 Grant closeout procedures should be improved.	This issue remains open.
A.4 Grant approval should be improved.	Management has fully implemented corrective actions to address this issue. This issue is closed.
B.1 The process of reviewing Web-Based Reporting System (WBRS) Reconciliation Reports should be strengthened.	This issue remains open.
B.2 Member end-of-term forms are not always processed in a timely manner.	This issue remains open.
B.3 Certain members inappropriately received service awards.	Management has fully implemented corrective actions to address this issue. This issue is closed.
B.4 Overpayment of Education Awards.	Management has **partially** implemented corrective actions to address this issue. The issue related to Trust Director approval of interest forbearance awards over $5,000 remains open.
B.5 The Corporation's methodology for calculating the Service Award Liability estimate needs to be reviewed.	Management has fully implemented corrective actions to address this issue. This issue is closed.
B.6 Improvements to Access Controls for the System for Programs, Agreements, and National Service Participants (eSPAN) need to be completed.	Management has fully implemented corrective actions to address this issue. This issue is closed.
B.7 Database Integrity for the System for Programs, Agreements, and National Service Participants (eSPAN) periodically needs systematic review.	This issue remains open.
C.1 The Corporation's methodology for aging receivables needs to be reviewed.	Management has fully implemented corrective actions to address this issue. This issue is closed. A new issue related to receivables is being reported.
D.1 SF 133 reporting should be improved.	Management has fully implemented corrective actions to address this issue. This issue is closed.
E.1 Procedures should be established to monitor compliance with NCSA Subsection 129(b) [42 U.S.C. 12581(b)].	Management has fully implemented corrective actions to address this issue. This issue is closed.

Fiscal Year 2002 Management Letter Comment	Fiscal Year 2003 Status
F.1 Reliance cannot be placed on automatic controls for VISTA volunteer payments.	Management has fully implemented corrective actions to address this issue. This issue is closed.
G.1 Procedures should be established for the performance of risk assessments.	OIT uses contractors to perform certifications and accreditations, which include risk assessments. Contractors are instructed to follow OMB guidance in performing risk assessments. This issue is closed.
G.2 The Business Continuity and Contingency Plan (BCCP) should be updated and tested.	This issue is closed. The BCCP is updated and tested annually.
G.3 Specific policies, procedures, and controls should be established for transactions that flow across multiple systems.	This issue remains open. While OIT has documented system interconnections within their system design documents, details of the connections and the security over the connections are not included in the written system security plans.

CORPORATION
FOR NATIONAL
AND
COMMUNITY
SERVICE

MEMORANDUM

Date: January 8, 2004

To: Dan Lybert, Assistant Inspector General for Audit

From: Bill Anderson, Deputy CFO for Financial Management

Subject: Fiscal 2003 Management Letter

Thank you for the opportunity to comment on the draft management letter on the results of the fiscal 2003 financial audit. The Corporation is pleased that it continues to receive a clean opinion on its financial statements and that the audit found continued improvement in our internal controls. The management letter recommends several areas for further improvement. The Corporation's response to each recommendation is outlined below. In addition, the Corporation has completed action on eight of the 14 issues included in the report; therefore, this response serves as notice of final action for those items.

Grants Management

Recommendation A.1:

The Corporation should ensure that Federal Audit Clearinghouse reviews occur on a regular basis to identify grantees with noted weaknesses and compliance problems prior to grant award funding. Personnel responsible for resolution and closure should follow up with grantees in a timely manner to ensure that exceptions are corrected.

Corporation Response:

The Corporation concurs with this recommendation. The audit report indicated that two out of 32 OMB Circular A-133 audits were not resolved within the one-year timeframe. This does happen on occasion with grantees, particularly for organizations in which the specific grantee is part of a larger A-133 report and the Corporation is not directly responsible for taking corrective action on findings. The Corporation recently filled a Grants/Financial Analyst position that will oversee the A-133 audit resolution process and work with other staff to track and ensure timely resolution. The Corporation also established an A-133 database to track the resolution process in 2003. It is fully operational and will help the Grants/Financial Analyst ensure resolution is completed on time. [Corrective Action Completed]

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Recommendation A.2:

The Corporation should develop a consistent method of identifying expired grants and enforce timely administrative closeout of these grants; develop timelines for service center staff to request required documentation before the expiration date to ensure that grants are closed in a timely manner; and communicate the importance of semi-annual FRSs to applicable grantees and perform follow-up procedures when grantees are late.

Corporation Response:

The Corporation concurs with this recommendation. In 2003, the Corporation began managing its grants through an electronic system, eGrants. eGrants includes a module for grant closeout which will be used in 2004. In eGrants, grantees receive reminders when final FSRs and other required closeout documents are due. They also receive notifications when reports are late. Corporation staff is also notified automatically if reports are late so they can follow up with grantees. In addition, the grants staff is developing an automatic process in eGrants to identify grantees who are over 45 days late with their reports. The Corporation can then suspend access to grant funds through the Payment Management System until the reports are submitted. [Corrective Action Completed]

National Service Trust

Recommendation B.1:

The Corporation should establish policies and procedures to ensure that WBRS and eSPAN reports are reconciled, and discrepancies are identified, resolved, and cleared from reports in a timely manner.

Corporation Response:

The Corporation concurs with the recommendation. Grants staff is working with the Office of Information and Technology to alleviate the need for our dual system process. Specifically, planning and development is underway to combine the components of WBRS into the eSPAN system. In the interim the Corporation will review its reconciliation procedures to ensure that discrepancies are resolved on a timely basis.

Recommendation B.2:

The Corporation should re-emphasize the importance of timely processing of member exit information within the allotted 30-day period following a member's completion of service.

Corporation Response:

The Corporation concurs with the recommendation. A letter was sent to WBRS users by the acting CEO to re-emphasize the need for timely posting of end-of-term documents. We will also issue periodic reminders. [Corrective Action Completed]

Recommendation B.3:

The Corporation should re-emphasize the importance of following its interest forbearance approval policy and periodically run reports to ensure that all interest forbearance requests over $5,000 are verified and approved before payment.

Corporation Response:

The Corporation concurs with the recommendation. The two payments made without Director approval occurred during a period of transition in the management of the trust staff. The new Supervisor of the Trust has re-emphasized the need to have all payments over $5,000 verified and approved by the Supervisor in advance of processing. [Corrective Action Completed]

Recommendation B.4:

The Corporation should establish and enforce a policy of timely reconciliations of its investment balances and the Trust Supervisor be responsible for ensuring that reconciliations are performed and all differences are resolved.

Corporation Response:

The Corporation concurs with the recommendation. Reconciliations of the investment subsidiary ledger to the Corporation's general ledger are performed in a timely manner and approved by the Supervisor of the Trust. The delays noted during the audit occurred during a period of transition in the management of the trust staff. [Corrective Action Completed]

Recommendation B.5:

The Corporation should upgrade its imaging software; implement procedures to track the timeliness of all award payments; and require Trust staff to document the reason for any delays in excess of 30 days.

Corporation Response:

The Corporation concurs with the recommendation. We are reviewing the imaging system to determine the feasibility of changes to ensure that problems are discovered and resolved timely. Additionally, new procedures will be implemented to monitor transactions posted to the eSPAN database. Trust staff have been advised to document any delays or problems in posting these transactions.

Accounts Receivable and Debt Collection

Recommendation C.1:

The Corporation should completely document its debt collection policy and procedures for executing write-offs and the level of supporting documents required for such a transaction; emphasize the importance of sponsor verification reports and strengthen monitoring of delinquent sponsors; and require all sponsors to have alternate personnel available to perform these functions when needed.

Corporation Response:

The Corporation concurs with the recommendation. Corporation policies 400 – Debt Collection, and 801 – AmeriCorps*VISTA Cost Share Agreements, document the Corporation's policy and procedures for debt collection.

In addition, an August 2003 policy memorandum documents the VISTA receivable threshold for adjustment (the threshold was raised to $40 in the August 2003 memorandum). The memorandum also provides policy guidance. However, in fiscal 2004, amounts related to VISTA payroll will no longer be classified as a write-off but an adjustment charged to the VISTA budget. When the payroll costs are incurred for $40 or less, the charge will be directly posted to the VISTA budget via the payroll process. No receivable will be established. Thus, these items will not be aged.

The Corporation continues to stress the importance of timely reviewing of verification reports and to include adequate backup for the review with sponsoring organizations. The Corporation sends sponsors verification reports each pay period with instructions to complete the review. In addition, the Corporation is developing an on-line process which will allow the sponsors to communicate and confirm the continued service of all participants via eGrants. Once implemented, the on-line process will replace the sponsor verification report.

Recommendation C.2:

The Corporation should review and emphasize debt collection policies to Corporation staff and implement monitoring procedures to ensure that policies are followed.

Corporation Response:

The Corporation concurs with the recommendation. We have and will continue to emphasize the debt collection process and procedures with staff. In addition, we are utilizing new aging reports first completed in fiscal 2003 and will continue to identify and collect on outstanding debt. [Corrective Action Completed]

Recommendation C.3:

The Corporation should establish reconciliation criteria for Cost Share Agreements and require that every adjustment in eSPAN be fully documented and research all discrepancies between eSPAN and Momentum in a timely manner.

Corporation Response:

The Corporation concurs with the recommendation. The two cost-shares identified during the audit as not reconciled timely have documented issues that need to be resolved before completing the reconciliation. These efforts will continue until resolved. In addition, the Corporation is working to improve the lines of communication among staff and ensure proper supporting documentation is received in the future. [Corrective Action Completed]

Human Resources and Payroll

Recommendation D.1:

The Corporation should clearly document and distribute its policy on obtaining advance written approval for overtime/comptime and allow timekeepers to reject time sheets without proper attachments.

Corporation Response:

The Corporation concurs with the recommendation. An email was sent to all employees reminding them of the policy for ensuring that all overtime/comptime is approved in writing prior to the earning of the overtime, in addition to some other timekeeping issues that we wanted to re-emphasize to all employees. [Corrective Action Completed]

Recommendation D.2:

The Corporation should implement procedures to improve the accuracy of transferring time sheet data into PC-TARE; reemphasize existing policies addressing leave approval to Corporation staff; and require timekeepers to perform a quality review of each time sheet before submission and to initial each time sheet to document this review.

Corporation Response:

The Corporation concurs with the recommendation. The Corporation is migrating to a new payroll system in fiscal 2004. All timekeepers will receive training on the system. The Office of Human Resources will go over all of their timekeeping responsibilities and re-emphasize to them the importance of their role as timekeeper and their responsibilities.

Vendor Payments

Recommendation E.1:

The Corporation should place stricter controls over responsible offices, reemphasize the importance of timely payments, investigate offices with delinquent payments, and resolve bottlenecks in the disbursement process.

Corporation Response:

The Corporation concurs with the recommendation. The Corporation adheres to the Prompt Pay Act. The parameters in the Momentum financial system are designed to ensure the proper treatment of transactions as they pertain to the Act. The Accounting Office will work with staff that have vendor payment responsibility to ensure they are trained in the overall payment process and the Prompt Pay Act. The Accounting Office recently conducted teleconferences with field offices and met with Executive Officers to emphasize the overall prompt payment controls and responsibilities. The Accounting Office also reemphasized the importance of prompt review of multi-task invoices. The Corporation will also review other possible enhancements including separate invoicing per task for future contracts that are issued. [Corrective Action Completed]

General EDP Controls Review

Recommendation F.1:

The Corporation's Office of Information Technology should review deficiencies identified by the audit team for the Windows 2000 server configurations and take corrective actions to ensure that the configuration is in line with NIST and NSA guidelines. To correct the Windows NT deficiencies, we recommend that OIT complete its efforts to fully migrate from Windows NT to Windows 2000 and document policies, procedures, and standards, as follows:

- Develop and document rules of behavior specific to major financial applications and include them in the security plan for each application.

- Modify written procedures for conducting system certification and accreditation to require the program manager, or system owner, to acknowledge awareness of residual risks and accept the associated risk of having the particular system in production.

- Develop fully documented procedures for the methodology and frequency of account reviews currently conducted by OIT for the network platforms and financial applications.

- Document a minimum baseline configuration for passwords that must be adhered to within all Corporation systems and applications.

- Modify the current Corporation system development life cycle to include procedures and processes for selecting commercial off-the-shelf software products, and procedures that ensure that these products meet the Corporation's security standards and needs.

- Develop policies requiring future system implementations and changes, including the network operating system, to be fully documented by detailing the reason for the change, all planning decisions, and the final outcome of the implementation or change.

- Develop written procedures for reviewing lists of individuals with administrative-level access to the network, and individuals with access to sensitive system and developer utilities, to ensure that all individuals continue to require such privileges in the performance of their assigned duties.

- Modify the Disaster Recovery Plan/COOP to include a business function report section, which should note the priority of restoring the respective applications and systems.

- Finalize efforts to implement a documented and approved entity-wide security program that will provide overall security policies and procedures to act as an umbrella for all IT systems and operations. Also, document procedures for periodically reviewing and updating the program to ensure that it meets current business and technology needs.

Corporation Response:

The Corporation agrees that its domain controllers are not configured in accordance with all of the recommended parameters that have been issued by NIST and NSA. However, the Corporation has concluded that its domain controllers are operating in an appropriately secure manner and that the current configurations have been set in accordance with the industry's best practices. For the Windows 2000 domain, the Corporation will develop a process by which it will acknowledge the guidelines that are set by NIST and NSA and, if configurations are not set in accordance with the guidelines, a justification as well as the documentation to support the Corporation's configured setting will be maintained. This process will be in place by April 1, 2004. For the Windows NT domain, the Corporation continues to migrate functionality into the Windows 2000 domain currently and plans to complete the migration by June 1, 2004.

The Corporation agrees that system documentation needs to be updated. During fiscal year 2003 well over 100 documents were created that detail many aspects of the Information Technology environment at the Corporation. The Corporation is also developing a documentation methodology that will include the review of all system documentation. This methodology will be in place by February 1, 2004, with the documents listed in the management letter being created or updated by May 1, 2004, and the remainder of all Information Technology documentation being reviewed by December 31, 2004.