
CORPORATION

FOR NATIONAL



SERVICE

**Office of the Inspector General
Report Number 97-29**

**Report on the Follow-up Study
to the Auditability Survey - Phase 2**

July 14, 1997

Submitted by:

*Arthur Andersen LLP
1666 K Street, N.W.
Washington, D.C.
(202) 862-3100*

ARTHUR
ANDERSEN

Office of the Inspector General

July 14, 1997



To the President of the Senate and the
Speaker of the House of Representatives

In House Report 104-537, the conferees on the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Public Law 104-134) requested that the Corporation for National and Community Service's Inspector General periodically report to the Congress on the Corporation's progress in improving its financial management systems and in developing auditable financial statements.¹ This report presents the results of our second assessment² performed by Arthur Andersen LLP under contract to the Office of the Inspector General.

Arthur Andersen reports that the Corporation has corrected, or appropriately addressed, 72 of the original 99 findings identified in the Auditability Survey. However, 21 material weaknesses and other reportable conditions continued to exist through much of fiscal year 1997. Due to the nature and significance of these deficiencies, Arthur Andersen concludes that an effective and efficient audit of the Corporation's fiscal year 1997 financial statements may not be possible. We have reviewed Arthur Andersen's report and the workpapers supporting its conclusions and agree with the findings and recommendations presented.

The Corporation's management has demonstrated a strong commitment to correct the financial reporting deficiencies and internal control weaknesses identified in the Auditability Survey. Further, in its response to the report, the Corporation indicates that it will implement corrective actions to address all outstanding conditions identified in the Auditability Survey by fiscal year end. However, in our view, correction of the management control deficiencies discussed herein, those disclosed in OIG Report 97-27, *Audit of the National Service Trust Fund Fiscal Year 1995 and 1994*

¹ Issues as to the reliability of the Corporation's financial information were first reported to Congress in March 1996. In Report 96-36, OIG reported that the Corporation's fiscal year 1994 financial statements could not be audited because of deficiencies in systems, lack of documentation supporting the statements, and material weaknesses in CNS' management controls. In Report 96-38, a two volume report to OIG, Williams, Adley and Company, LLP and Arthur Andersen LLP made 99 recommendations for corrective actions necessary to produce auditable financial statements for the Corporation.

² OIG 97-09, *Report on the Follow-up Study to the Auditability Survey*, dated December 9, 1996, reported the results of the first phase of our follow up review.

1201 New York Avenue, NW
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Financial Statements,³ and other OIG reports, is critical to achieving auditable financial information for the Corporation.

We are sending copies of this report to the Chairmen and Ranking Members of the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight, and other interested Congressional committees. Copies will be made available to others upon request.



Luise S. Jordan

Inspector General

Corporation for National and Community Service

In OIG Report 97-27, *Audit of the National Service Trust Fund Fiscal Year 1995 and 1994 Financial Statements*, dated January 15, 1997, KPMG Peat Marwick LLP disclaimed an opinion on the Trust Fund's financial statements and reported material weaknesses in the Trust Fund's management controls and financial information.

ARTHUR ANDERSEN

July 14, 1997

Arthur Andersen LLP

1666 K Street NW
Washington DC 20006-2873
202 862 3100

To the Inspector General of the
Corporation for National and Community Service:

At your request, we have performed the procedures set forth below with respect to the Corporation for National and Community Service's (CNS) actions to correct the findings reported in the *Report on the Results of the Auditability Survey* (the Auditability Survey), dated March 29, 1996. The Auditability Survey disclosed 99 findings related to CNS's internal controls, including numerous material weaknesses and other reportable conditions.

The nature and significance of the material weaknesses and other reportable conditions identified in the Auditability Survey were such that CNS's internal controls were not adequate to enable an independent auditor to perform an effective and efficient financial statement audit in accordance with generally accepted auditing standards for fiscal years 1994, 1995 and 1996.

The following table depicts the status of CNS's corrective actions through the date of this report for the material weaknesses, other reportable conditions and other observations for improvement identified in the Auditability Survey.

	Total	Corrected/ Addressed	Corrective Action Adequately Designed		Not Corrected
			Action Not Yet Implemented	Action Not Operating Effectively	
Material Weaknesses	33	21	2	1	9
Other Reportable Conditions	41	32	2	4	3(A)
Other Observations for Improvement	25	19	2	0	4(A)
Total	99	72	6	5	16

(A) Includes one condition for which CNS's corrective action is not planned for implementation until 1998.

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As the table illustrates, CNS has demonstrated a commitment to correct the financial reporting deficiencies and internal control weaknesses identified in the Auditability Survey; of the 99 findings identified in the Auditability Survey, 72 have been corrected or addressed. However, although corrective action has been taken, 21 of the material weaknesses and other reportable conditions continue to exist through the date of this report. The nature and significance of these deficiencies are such that they would significantly impact the extent of audit procedures performed and potentially preclude an audit of the fiscal year 1997 financial statements.

In the *Report on the Follow-up Study to the Auditability Survey* (the Follow-up Study--Phase 1), dated December 9, 1996, we reported to you that 34 of the 99 findings had not been corrected. This report communicates our reassessment of those 34 findings and our assessment of all but two of the remaining internal control findings on which we did not previously report.

Section I of the accompanying report identifies the 44 findings that were corrected. Sections II and III discuss our bases for conclusions relating to the 11 findings for which corrective actions were properly designed, but not yet implemented or not operating effectively. Section IV discusses our bases for conclusions relating to the 16 findings which were *not* corrected. Two of the findings which were not corrected relate to conditions for which CNS intends to implement corrective action in fiscal year 1998. These findings relate to recording obligations in the general ledger on a timely basis and acquiring a comprehensive financial management system. We have not ascertained or reported on the status of actions taken to address these two findings.

We have described our assessment of the corrective actions as they existed during the period in which we conducted our assessment. During the course of our work, we periodically communicated our assessment of the adequacy of the corrective actions to management.

Our procedures included obtaining an understanding of the corrective actions, evaluating their design and, if adequately designed to correct or address the findings, assessing their operating effectiveness. To gain an understanding of the corrective actions, we interviewed CNS personnel about the action plans, read CNS written policies and procedures relating to the action plans and observed personnel in the performance of their duties. To evaluate the adequacy of the design of the corrective actions, we assessed the efficacy of the actions to correct or mitigate the related internal control findings. For those corrective actions that we concluded were adequately designed, we tested their operating effectiveness

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through discussion, observation and limited tests of processed transactions. These procedures are hereinafter referred to collectively as the "Follow-up Study--Phase 2."

Our work was performed in, and limited to, the following CNS locations:

- CNS Headquarters in Washington, D. C.
- Atlanta Service Center
- San Francisco Service Center
- San Diego National Civilian Community Corps (NCCC) Campus

Additionally, our work was performed in, and limited to, the period during which we conducted our assessment. In all cases, we performed our procedures subsequent to the date of management's planned implementation of the corrective action. Our conclusions are limited to these locations and time periods. Projection of any evaluation of internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with budgetary authority and with the laws and regulations to which CNS is subject.
- Transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles and to maintain accountability over assets.

Management of CNS is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. Because of inherent limitations in internal controls, errors or irregularities may occur and not be detected.

Under standards established by the American Institute of Certified Public Accountants, reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal controls that, in our judgment, could adversely affect CNS's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

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A material weakness is a reportable condition in which the design or operation of internal controls does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The presence of reportable conditions, including material weaknesses, could adversely affect a financial statement audit.

Our procedures for the Follow-up Study--Phase 2 were limited solely to assessing the effectiveness of the actions taken by CNS to correct or address the internal control findings identified in the Auditability Survey and the Follow-up Study--Phase 1. Volume I of the Auditability Survey describes conditions that were identified through procedures performed jointly by Williams, Adley & Co., LLP and Arthur Andersen LLP. Volume II of the Auditability Survey describes conditions related to the VISTA Management and Trust Fund Systems that were identified through procedures performed solely by Williams, Adley & Co., LLP.

In the Follow-up Study--Phase 1, we reported to you that 28 of the 99 findings had been corrected. We did not reassess, and we are not reporting on herein, the continued effectiveness of the corrective actions related to those findings. Also, the Auditability Survey which disclosed the original 99 findings was based upon procedures applied to CNS's fiscal year 1994 balances/transactions. We have not assessed the design or operating effectiveness of CNS's internal controls other than the procedures described herein relating to the 99 findings since fiscal year 1994.

We did not perform an audit of any CNS financial statements, and the procedures described above are not sufficient to enable us to express an opinion on CNS's internal controls. Accordingly, we do not express an opinion on any such financial statements or on whether all reportable conditions have been identified. While the matters presented in this report came to our attention during the course of our work, had we performed an audit of the financial statements or been engaged to render an opinion on internal controls, other matters might have come to our attention that would have been reported to you.

Management's response to this report is summarized in the following letter. Additionally, management's detailed response to each recommendation is included in the segment of each recommendation labeled "Management's Response." We have not validated management's response and have not performed any procedures to assess the adequacy of the corrective actions taken or planned by management.

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This report is intended for the use of the United States Congress, the Inspector General, the Board of Directors and management of the Corporation for National and Community Service and is not intended for any other purpose. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Arthur Andersen LLP


MEMORANDUM

July 7, 1997

To: Luise Jordan, Inspector General

From: Donna H. Cunninghame, Chief Financial Officer 

Subject: Response to the OIG Draft Report 97-29 Follow Up to the Auditability Study, Phase 2

CORPORATION
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Attached are the responses from the Corporation for National Service to the draft report summarizing the results of Arthur Andersen's Phase 2 Follow Up to the Auditability Study. We appreciate the opportunity to respond to this draft report so that the Corporation's achievements in the area of financial and management controls are formally reported along with our comments on the current survey findings and recommendations.

The Corporation has made remarkable progress in the face of significant challenges. While initiating new programs beginning in late 1993, the Corporation faced the tasks of merging the resources, liabilities, missions and programs of existing government units; responding to new requirements for financial accounting and reporting; and establishing operational procedures and practices capable of ranging over a wide variety of activities. These challenges prevented a successful audit of the 1994 financial statements. However, we are confident that our efforts are creating a strong management control environment. Arthur Andersen clearly recognizes in the Report that "CNS has demonstrated a commitment to correct the financial reporting deficiencies and internal control weaknesses identified in the Auditability Survey." Improvements have been significant and noteworthy:

- Seventy-three percent of the total items noted in the March 1996 survey by Arthur Andersen have been corrected.
- Another eleven percent have had actions adequately designed as noted in Arthur Andersen's report and we believe these are well on the way to being corrected.
- Of the other items, two are tied to the future implementation of a new financial management system, for which the Corporation has submitted a reprogramming request.
- Significant progress has been made in each of the remaining 14 items.

We are proud of this progress and are committed to taking the further steps necessary to establish and maintain a strong management environment. As a first step, we will remove the 14 remaining deficiencies identified by Arthur Andersen before the end of the fiscal year. To this end, The Chief Executive Officer has directed the Deputy to the CFO to lead a special effort to review and strengthen the Corporation's activities related to each of the remaining auditability items.

1201 New York Avenue, NW
Washington, DC 20525
Telephone 202-606-5000

In order to provide the Deputy to the CFO with the necessary authority, the project will report to a senior management Task Force headed by the CEO, and including the Acting Chief Operating Officer, the Chief Financial Officer and the Chief of Staff. The CEO has mobilized Corporation staff and other resources to assure the success of the project.

I envision this as a temporary but intense effort to complete the review of remaining auditability items and have necessary changes designed and implemented before the end of the current fiscal year. We also intend to have recommendations arise out of this project aimed at broad improvement of the management control environment. As we await the confirmation of a new Chief Operating Officer, this project sets the stage and details the recommendations for continuous improvement. The Corporation's Board of Directors has endorsed the project, further demonstrating the Corporation's commitment to strong financial management and auditable financial statements.

At the same time, we are improving our audit resolution and internal review capabilities. As the Arthur Andersen report appropriately notes, the approach of the auditability survey does not guarantee that corrected items stay corrected. Management's responsibility is to ensure that internal controls do not deteriorate. This is a responsibility we recognize and accept. We have initiated an internal review function capable of the continuous testing of our internal controls by individuals independent of the operating units themselves. This process will continue in the future as a part of our on-going responsibility for audit resolution and reporting. We are also enhancing the Corporation's ability to use audit reports as significant input into the continuous review of the control environment. The resolution of specific findings and recommendations contained in audits must be, and will be, matched by a commitment to use the specific instance as a test case for the continual vitality of our controls.

The Arthur Andersen report notes that the nature and significance of the remaining deficiencies might "potentially preclude" an audit of the FY97 financial statements. We have mobilized the Corporation's staff to remedy all of the outstanding items by the end of the fiscal year. Further, while these remaining items are important and are being resolved, they are not the type of weaknesses that would have a pervasive and material impact on other financial information recorded in the Corporation's books prior to their remediation.

Our aim is to have a successful audit of the FY97 statements, and the special project discussed above is further demonstration of our commitment to that goal. Our fundamental commitment is to take those actions that improve the long-term viability of our management environment and its associated financial controls. Our efforts are not driven solely by, nor could they be merely directed at, the immediate and specific deadlines associated with the FY97 closing of the books and subsequent issuing of financial statements. Auditable financial statements should be a routine outcome of a strong and vibrant control environment. Our most basic responsibility is to do those things that create and subsequently sustain such an environment even when such actions require more time and deliberation. We have come a very long way in the last year. The road ahead is shorter, our effort remains intense, and the commitment of our management is unwavering.

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I. FINDINGS FOR WHICH CNS ACTIONS CORRECTED THE DEFICIENCIES

For the recommendations made in the Auditability Survey related to these material weaknesses and other reportable conditions, the actions taken by CNS were adequately designed and operating effectively during the period in which we performed our assessment and at the CNS locations at which we performed our assessment to correct or mitigate the related internal control deficiencies. Section A describes corrected material weaknesses and Section B describes other corrected reportable conditions. For the recommendations made in the Auditability Survey related to other observations, noted below in Section C, the actions taken by CNS were adequate to address the recommendations (i.e., CNS either implemented appropriate changes or demonstrated that sufficient consideration was given to our recommendation).

For certain of these matters, we present additional recommendations to help further enhance the effectiveness of CNS's internal controls. These additional recommendations are intended to improve operations and do *not* relate to conditions that constitute significant internal control deficiencies.

A. Material Weaknesses That Were Corrected

1. Strengthen Security Controls over Access to the General Ledger (Auditability Survey, Vol. I, No. 3). CNS did not maintain adequate security administration controls over logical access to data in Federal Success, its general ledger.

Status: Corrected. CNS has implemented procedures to ensure that employees are not granted access to functions within the general ledger that are not compatible with their responsibilities.

Due to the risks associated with incompatible access levels, we continue to stress the importance of CNS's commitment to periodically assessing logical access to data in the general ledger.

2. Strengthen Procedures over General Ledger Journal Entries (Auditability Survey, Vol. I, No. 4). CNS did not have adequate procedures for ensuring that data input into the general ledger was accurate and complete. CNS did not require supervisory review of general ledger journal entries.

Status: Corrected. CNS has implemented procedures to ensure that data input into the general ledger is accurate and complete. Supervisory reviews are conducted for general ledger journal entries.

Due to the deficiencies in CNS's financial reporting process, as discussed in recommendation IV-2, "Improve CNS Financial Reporting Process" (see page 29), we continue to stress the importance of management's periodic review of general ledger balances for reasonableness throughout the year. CNS's ability to record accurate and complete financial data is essential to the auditability of its financial statements.

3. Evaluate and Correct Year-end Closing Entries (Auditability Survey, Vol. I, No. 5). CNS did not establish appropriate year-end closing entries.

Status: Corrected. CNS has developed procedures for closing the general ledger accounts at year-end, detailing the purpose, responsibilities, specific procedures (including supervisory review) and timeframes for posting closing entries.

4. Improve Cash Receipt Controls at Headquarters (Auditability Survey, Vol. I, No. 7). CNS procedures for processing cash receipts at Headquarters were inadequate to ensure that such receipts were safeguarded. Several different employees received cash donations. CNS did not have procedures for tracking cash donations from the point of receipt to the point of deposit or for requiring the immediate restrictive endorsement of all checks.

Status: Corrected. CNS has implemented controls at Headquarters over cash receipts through segregating incompatible duties and requiring restrictive endorsement of checks at the point of intake. CNS has also implemented procedures to reconcile all cash receipts in the check logs to the detail of cash deposits made with the U. S. Department of the Treasury.

5. Require Periodic Review of Open Obligations (Auditability Survey, Vol. I, No. 12). CNS did not enforce its procedures regarding the periodic review of open obligations.

Status: Corrected. CNS has reviewed the Open Obligations Report in detail and has made necessary corrections. Budget holders now review the report of open obligations for accuracy on a monthly basis.

6. Segregate Duties Related to NCSA Grants Processing (Auditability Survey, Vol. I, No. 15). For National and Community Service Act (NCSA) grants, CNS did not adequately segregate the duties of grants management officers, who both authorized grantee accounts and requested funds for grantees.

Status: Corrected. CNS has implemented procedures to segregate duties relating to NCSA grants processing. Separate individuals are now responsible for authorizing the establishment of grantee accounts and requesting funds transfers on behalf of grantees.

7. Require Timely Input of FSRs for DVSA Grants (Auditability Survey, Vol. I, No. 16). CNS did not input data from Financial Status Reports (FSRs) for Domestic Volunteer Service Act (DVSA) grants into the general ledger on a timely basis.

Status: Corrected. CNS has implemented procedures to ensure timely entry of FSR data into the general ledger for DVSA grants.

8. Segregate Duties in DVSA Grants Processing (Auditability Survey, Vol. I, No. 18). CNS did not adequately segregate the duties of grants management officers (GMOs) who 1) recorded grant obligations in the general ledger and 2) approved Requests for Advance or Reimbursement (RARs) for Domestic Volunteer Service Act grants.

Status: Corrected. The duties of GMOs have been segregated such that one GMO does not have the ability to both produce Notices of Grant Award and approve RARs.

9. Substantiate Payroll Processed by NFC (Auditability Survey, Vol. I, No. 21). CNS did not reconcile time and attendance source data to the report of transactions processed by the U. S. Department of Agriculture's National Finance Center (NFC).

Status: Corrected. CNS has implemented procedures to reconcile the total number of hours transmitted to NFC to the total number of hours reported by employees each pay period.

10. Resolve Differences in Leave Balances and Segregate Related Duties (Auditability Survey, Vol. I, No. 22). CNS time and attendance data is input into the Personal Computer Time and Attendance Remote Entry (PC-TARE) database and transmitted to the National Finance Center (NFC) payroll system. After transmission of the data, NFC sends a Leave Error Report to CNS that delineates differences between NFC and PC-TARE leave balances. CNS did not resolve the differences on a timely basis. In addition, CNS did not adequately segregate the duties of 1) entering time and attendance data into PC-TARE and 2) reconciling differences between PC-TARE and NFC.

Status: Corrected. Payroll technicians resolve differences between NFC and PC-TARE leave balances on a timely basis. CNS has segregated the duties of 1) entering time and attendance data into PC-TARE and 2) reconciling differences between PC-TARE and NFC.

11. Improve Controls over Access to NFC Payroll System and PC-TARE Database (Auditability Survey, Vol. I, No. 23). CNS did not establish procedures for 1) monitoring which employees had access to the National Finance Center (NFC) payroll system and Personal Computer Time and Attendance Remote Entry (PC-TARE) database and 2) assessing whether the levels of access continued to be appropriate in relation to employees' assigned duties.

Status: Corrected. CNS has designed and implemented security administration controls over access to the NFC payroll system and the PC-TARE database. CNS assesses employee access levels to the NFC payroll system and PC-TARE database on a regular basis.

12. Segregate NCCC Payroll Processing Duties (Auditability Survey, Vol. I, No. 24).

CNS did not adequately segregate duties related to National Civilian Community Corps (NCCC) payroll processing. At Headquarters, one payroll technician established NCCC members in the National Finance Center (NFC) payroll system and the Personal Computer Time and Attendance Remote Entry (PC-TARE) database and also maintained personnel files and processed payroll exceptions.

Status: Corrected. CNS has established mitigating controls such that each pay period a supervisory personnel management specialist reviews a report of all payroll transactions posted to the NFC payroll system. The specialist reviews the report for unauthorized changes and investigates such changes.

While we are sensitive to the limited staffing resources at CNS, the preferable mechanism for preventing errors or irregularities related to NCCC payroll processing would be to adequately segregate the related duties. If this is not feasible, we stress the importance of developing monitoring procedures over the mitigating controls which CNS has established in this area.

13. Segregate Duties Related to VISTA Payroll Processing (Auditability Survey, Vol. I, No. 27).

CNS did not segregate the duties for maintaining the Volunteers in Service to America (VISTA) Management System (VMS) and for processing payroll transactions in VMS. Both the systems administrator and the payroll clerk could initiate and authorize source documents and enter data into VMS. The systems administrator could also change programs and data files.

Status: Corrected. CNS has adequately segregated the duties relating to VISTA payroll processing. The Automation Department makes all programming changes to the VMS and no other party can alter VMS. The State Offices and the Service Centers initiate changes to payroll records and the VMS payroll clerk records these changes in VMS.

14. Management Controls for the VMS Payroll Process Should Be Strengthened (Auditability Survey, Vol. II, No. 1). Sound management controls for the Volunteers in Service to America (VISTA) Management System (VMS) payroll processes did not exist. Only one person had the knowledge to perform the payroll process, which was not documented. No review or approval of payroll analyses or reconciliations was performed.

Status: Corrected. CNS has defined and documented the VMS payroll process and related controls. CNS has segregated VMS payroll processing duties and provided for supervision and oversight of the process.

15. Standardize Reports for Verifying and Reconciling VISTA Payroll (Auditability Survey, Vol. II, No. 2). Standard payroll reports were not programmed as part of the Volunteers in Service to America Management System (VMS), nor was there a single report that could be produced by the system that listed the total payroll in dollars or the number of transactions for use in verifying payroll transactions.

Status: Corrected. CNS has reconfigured VMS to allow users to create standard reports that are used to verify the processing of payroll. In addition, CNS has documented and implemented revised, simplified procedures for reconciling the monthly payroll.

B. Other Reportable Conditions That Were Corrected

16. Strengthen Controls over Property and Equipment (Auditability Survey, Vol. I, No. 32). CNS did not maintain detailed listings of property and equipment or centralized records of its capital and operating leases. Additionally, CNS did not maintain a central point of control or inventory of sensitive equipment issued to employees, such as laptop computers, cellular phones and paging devices. Also, CNS's policy was to capitalize only those property and equipment expenditures greater than \$100,000.

Status: Corrected. CNS has centralized control of all CNS property and equipment and has retroactively implemented a capitalization threshold of \$10,000. CNS has developed property management procedures and now maintains listings of property, equipment and leases. Additionally, the Office of Information Technology has developed procedures to periodically inventory hardware and software issued to employees.

Going forward, CNS should ensure that when physical inventories are conducted, reconciliations are performed between property and equipment on hand and what is recorded in the general ledger and that adjustments are made to the general ledger, as appropriate.

17. Properly Record Accounts Receivable Related to Cost-Share Agreements (Auditability Survey, Vol. I, No. 33). CNS did not establish adequate supervisory controls to ensure that cost-share billings were properly recorded. Accounting personnel were not instructed on the importance of establishing billings as accounts receivable in the general ledger.

Status: Corrected. CNS has developed and implemented procedures to ensure that accounting personnel record billings for cost-share agreements as accounts receivable on a timely basis.

To further enhance its controls over cost-share agreements, CNS should clarify its procedures for accounting for unbilled accounts receivable at year-end. Specifically, CNS should ensure that at the end of each fiscal year, accounts receivable is recorded and revenue recognized for all agreements in which services have been performed prior to year-end, but bills have not been submitted (e.g., when billing periods overlap fiscal years).

18. Properly Recognize Revenue Related to Cost-Share Agreements

(Auditability Survey, Vol. I, No. 34). CNS enters into agreements with other Federal agencies and not-for-profit organizations to share expenses related to certain Volunteers in Service to America members. CNS did not consistently record as deferred revenue amounts received in advance under the cost-share agreements. As a result, revenue was not properly recognized in the general ledger and financial statements in accordance with generally accepted accounting principles.

Status: Corrected. CNS has implemented procedures to ensure that the Accounting Department records amounts received in advance under cost-share agreements as refundable advances (i.e., deferred revenue).

19. Properly Account for M-year Funds (Auditability Survey, Vol. I, No. 35).

CNS's procedures were not adequate to ensure that expired years' funds were properly accounted for in the general ledger. CNS did not make appropriate closing entries to record assets and liabilities in its current year accounts.

Status: Corrected. CNS has made appropriate entries for fiscal year 1996 to remove from the general ledger all unexpended appropriations balances related to expired years' appropriations.

20. Record Appropriations Expended in the General Ledger (Auditability Survey, Vol. I, No. 36). CNS's procedures were not adequate to ensure that appropriations expended were recorded in the proper period. CNS did not record entries in the general ledger to recognize appropriations expended.

Status: Corrected. CNS has reprogrammed the general ledger to ensure that when CNS records expenses, the related entry to the revenue account "appropriated capital used" is also recorded.

21. Request that Organizations Providing Transaction Processing Services to CNS Acquire General Controls Reviews (Auditability Survey, Vol. I, No. 38). The mainframe for the CNS general ledger, Federal Success, is operated by the U. S. Department of Transportation (DOT). CNS uses the U. S. Department of Health and Human Services (HHS) Payment Management System to process transactions related to all National and Community Service Act and certain Domestic Volunteer Service Act grants. CNS did not ensure that comprehensive information systems reviews were being performed at DOT and HHS for their data centers and processing services.

Status: Corrected. CNS has received the fiscal year 1996 data center internal control review of DOT's processing facilities. CNS has received the 1995 control review of HHS' processing facilities and has been in contact with HHS regarding the 1996 review.

CNS should continue to request and follow-up on these information systems reviews. CNS should review the related reports, determine whether any identified control issues could impact the integrity of CNS's transaction processing and take further actions, as necessary.

22. Record Complete Information for Grant Obligations in the General Ledger (Auditability Survey, Vol. I, No. 47). The Open Obligations Report revealed numerous grant obligations for which the vendor was listed as the Corporation for National Service or the Commission on National and Community Service.

Status: Corrected. CNS has corrected its open obligations records to properly reflect vendor names and employer identification numbers.

23. Strengthen Security Controls over the Grants Management Database (Auditability Survey, Vol. I, No. 48). The Grants Management database did not include audit trail functionality. CNS was using the database as a source of financial statement information related to National and Community Service Act (NCSA) grants.

Status: Corrected. CNS no longer utilizes the Grants Management database as a source of NCSA grant information for financial reporting purposes. All critical financial reporting information for NCSA grants is derived from the general ledger, and CNS reconciles NCSA grant data in the general ledger to the related data in the U. S. Department of Health and Human Services Payment Management System.

24. Record Obligations in the General Ledger Before Issuing NCSA Grant Awards (Auditability Survey, Vol. I, No. 49). CNS did not have adequate procedures to ensure that obligations for grant awards were established in the general ledger on a timely basis.

Status: Corrected. CNS has documented and implemented procedures for establishing obligations for grant awards in the general ledger prior to issuing grant awards.

25. Standardize and Document Procedures over NCSA Grant Processing and Monitoring (Auditability Survey, Vol. I, No. 50). CNS did not have formal, standardized procedures over the administration and transaction processing functions related to National and Community Service Act (NCSA) grants.

Status: Corrected. CNS has developed and implemented procedures over the administration and monitoring of NCSA grants. The procedures encompass the functions related to approval, input, substantiation and evaluation of grant information in the general ledger and the U. S. Department of Health and Human Services Payment Management System.

CNS procedures state that a site visit may be appropriate when 1) it has been specifically requested by the program, 2) there is a need to provide on-site technical assistance or 3) there are specific subjects, questions or issues that need to be addressed at the site. While these site visits will enable CNS to react to issues that have arisen, CNS should proactively perform site visits as part of its routine monitoring procedures in order to identify and prevent potential issues.

26. Improve Procedures over Accuracy of DVSA Grant Award Amounts (Auditability Survey, Vol. I, No. 51). Grants management officers input Domestic Volunteer Service Act grant award amounts into the general ledger to obligate funds and to produce the Notice of Grant Award (NGA). The NGA did not always equal the amount on the procurement request.

Status: Corrected. CNS has implemented procedures to verify that the grant award amount on the NGA matches the procurement request and that the amount is properly posted to the general ledger.

27. Segregate Imprest Fund Duties in Headquarters and NCCC Campus (Auditability Survey, Vol. I, No. 54). At Headquarters and the San Diego National Civilian Community Corps (NCCC) Campus, CNS did not adequately segregate the duties of imprest fund cashiers. In addition to maintaining, disbursing and requesting replenishment of imprest funds, the cashiers also reconciled the cash balances and documented any overages or shortages.

Status: Corrected. CNS has implemented procedures to adequately segregate the duties of the imprest fund cashiers at Headquarters. NCCC Campuses no longer maintain imprest funds.

Headquarters currently maintains an imprest fund of \$11,500 and has not established a formal replenishment schedule. To enhance its controls over imprest funds, Headquarters should reduce the balance of this fund and perform replenishments on a frequent, periodic basis.

28. Document and Distribute All Changes to General Ledger Budget and Accounting Codes (Auditability Survey, Vol. I, No. 55). Management did not establish adequate controls over the documentation and maintenance of changes to budget and accounting codes.

Status: Corrected. CNS has provided its procurement, budget and accounting staffs with a listing of all budget codes (including the budget officer responsible for the code). CNS maintains updated accounting codes on its local area network for access by all CNS employees. Additionally, CNS no longer accepts manual changes to procurement and accounting documents; all changes made to budget and accounting codes are documented on the purchase order.

29. Segregate Procurement-Related Duties (Auditability Survey, Vol. I, No. 56). CNS did not have policies or procedures to prohibit the same individual from approving a purchase order or contract and later certifying that the goods or services were received.

Status: Corrected. CNS has implemented procedures that prohibit the same individual from approving a purchase order or payment and certifying the receipt of goods or services. The new procedures also require that the goods and services be certified as received before approval for payment is made.

30. Maintain Updated Listing of Procurement Request Approval Authority (Auditability Survey, Vol. I, No. 57). CNS did not maintain an updated listing of employees with authority to approve procurement requests. Contracting officers therefore did not have information available to determine whether procurement requests had been properly authorized.

Status: Corrected. CNS now maintains lists of employees with the authority to approve procurement requests.

To further enhance the controls over procurement requests, CNS should consider merging its lists of authorized employees into one master list for use by all contracting officers.

31. CNS Management Should Conduct a Cost-Benefit Analysis for the Payroll and Payroll-Related Systems (Auditability Survey, Vol. II, No. 7). CNS did not consider the costs and benefits associated with different approaches to processing payroll.

Status: Corrected. CNS has analyzed the costs and benefits of processing all payroll through one system and has concluded that it is more cost-effective to continue to process payroll through two separate systems: the Volunteers in Service to America Management System and the National Finance Center payroll system.

CNS should continue to explore means of eliminating the duplication of information between its Trust Fund System and its payroll systems.

32. VMS Reporting Should Be Enhanced (Auditability Survey, Vol. II, No. 8). VMS reporting did not provide all of the information necessary to meet user needs.

Status: Corrected. CNS has implemented procedures to determine the reporting needs of Volunteers in Service to America Management System (VMS) users at Service Centers, State Offices and Headquarters, and has enhanced existing reports. Additionally, CNS has made existing VMS reports available to users at the Service Centers and the State Offices.

C. Other Observations That Were Addressed

33. Consider Adopting FASAB Standards (Auditability Survey, Vol. I, No. 63).

The Federal Accounting Standards Advisory Board (FASAB) has developed a comprehensive set of accounting standards applicable to Executive branch agencies of the Federal government. Currently, these standards do not apply to government corporations. However, CNS should consider seeking legislation which permits it to follow FASAB standards.

Status: Addressed. CNS has considered changing its basis of accounting from Generally Accepted Accounting Principles for commercial entities to Statements of Federal Financial Accounting Standards promulgated by FASAB. CNS is in the process of determining the relative costs and benefits of such a change.

34. Assess Business Processes (Auditability Survey, Vol. I, No. 64). CNS did not analyze its core administrative processes to identify ways to improve the efficiency and effectiveness of those processes.

Status: Addressed. CNS has contracted with the National Academy of Public Administrators to study the structure, organization and management of CNS. The study will focus on several core areas, including program service delivery, grant award and administration, funding sustainability and human resource management. This study is due to be released to CNS in October 1997.

35. Consider Merging NCSA and DVSA Grants Processing and Administration (Auditability Survey, Vol. I, No. 66). CNS did not analyze whether efficiencies might be gained through the centralization and/or merging of functions for National and Community Service Act (NCSA) and Domestic Volunteer Service Act (DVSA) grants.

Status: Addressed. CNS is consulting with the National Academy of Public Administrators (NAPA) and reviewing current and potential grant administration processing systems. NAPA has been engaged to identify areas within CNS's grants processing and administration in which "best practices" could be adopted and to provide any other relevant recommendations. Additionally, CNS has implemented pilot programs at Headquarters and various Service Centers in order to identify areas where efficiencies can be achieved in the processing and administration of NCSA and DVSA grants.

36. Improve Processing of RARs (Auditability Survey, Vol. I, No. 67).

Service Centers did not always indicate in the Domestic Volunteer Service Act grant files whether grantee Requests for Advance or Reimbursement (RARs) had been reviewed, approved for payment and entered into the general ledger.

Status: Addressed. The Service Centers have implemented a quality control process which includes supervisory review and the use of proper procedures related to the posting of RARs into the general ledger.

37. Eliminate Redundant Logs and Cuff Records (Auditability Survey, Vol. I, No. 70). The San Francisco and Atlanta Service Centers, as well as the San Diego National Civilian Community Corps Campus, maintained several logs and cuff records which duplicated information in the general ledger and/or other cuff records.

Status: Addressed. CNS has evaluated the necessity for logs and cuff records maintained outside of the general ledger and has eliminated redundant records.

38. Provide Payroll Time and Attendance Training (Auditability Survey, Vol. I, No. 72). CNS did not provide training to personnel to effectively perform their assigned duties in the payroll time and attendance function.

Status: Addressed. CNS has established comprehensive, written procedures for timekeepers and input technicians to follow. CNS has provided timekeepers with training to enable them to perform their duties effectively, and supervisors are periodically reviewing time and attendance data for compliance with established procedures.

39. Enforce Timely Submission of Time and Attendance Data to Headquarters (Auditability Survey, Vol. I, No. 73). Timekeepers at Headquarters and input technicians at the Service Centers did not consistently submit employee time and attendance data to the Personal Computer Time and Attendance Remote Entry (PC-TARE) input technician at Headquarters within the established timeframe.

Status: Addressed. CNS has established supervisory controls to effectively monitor timekeepers' and input technicians' compliance with established deadlines. Also, CNS periodically reminds employees to submit their time and attendance data on a timely basis.

40. Develop and Implement a Formal Security Awareness and Training Program (Auditability Survey, Vol. I, No. 76). CNS did not have a formal security awareness program that provided training on security enhancement techniques.

Status: Addressed. CNS has developed a formal security policy for users. Users are required to complete a systems access control form, watch a security awareness video and complete security training before they are granted access to CNS systems and applications. Additionally, users who do not attend security awareness training on an annual basis will lose their access privileges.

41. Install Anti-Virus Software on ECS-Dedicated Microcomputer (Auditability Survey, Vol. I, No. 81). CNS did not install anti-virus software on the microcomputer dedicated to the Electronic Certification System.

Status: Addressed. CNS has installed the McAfee anti-virus software on the workstation linked to the U. S. Department of the Treasury.

CNS should continue to ensure that the latest version of anti-virus software is maintained on this workstation.

42. VMS Lock-out Execution During Payroll Processing Should Be Evaluated (Auditability Survey, Vol. II, No. 16). CNS allowed users access to Volunteers in Service to America Management System (VMS) during the payroll process, which increased the possibility of payroll errors.

Status: Addressed. CNS has established procedures to lock-out Service Center and State Office users during VMS payroll processing. Service Center and State Office employees can access VMS during payroll processing, but are now prevented from making updates to the system.

43. VMS Should Require Users to Change Their Password Upon Initial Sign-on to the System (Auditability Survey, Vol. II, No. 17). The Volunteers in Service to America Management System (VMS) did not require users to change their passwords during their first attempt to access the system. As a result, several users did not change their password from the default password, which is their user identification code.

Status: Addressed. CNS now utilizes an add-on security package, Braintree, to provide enhanced password controls over VMS programs and data.

44. CNS Should Secure or Properly Dispose of Sensitive Documents and/or Reports (Auditability Survey, Vol. II, No. 18). CNS did not have procedures related to the safeguarding of sensitive information.

Status: Addressed. CNS has documented procedures for the safeguarding of sensitive information in order to ensure that such information is properly disposed and shielded from open view.

CNS should continue to provide appropriate training to relevant personnel and reinforce the importance of safeguarding sensitive information.

II. FINDINGS FOR WHICH CORRECTIVE ACTIONS WERE ADEQUATELY DESIGNED, BUT NOT YET IMPLEMENTED

A. Material Weaknesses For Which Corrective Actions Were Adequately Designed, But Not Yet Implemented

1. Establish Procedures to Properly Value Accounts Receivable Balances (Auditability Survey, Vol. I, No. 9). CNS did not have procedures for periodically evaluating the collectibility of accounts receivable and recording a valuation allowance.

Status: Adequately designed, not yet implemented.

Discussion: CNS has designed procedures to properly value accounts receivable, but has not yet implemented the procedures.

Recommendation: CNS should implement its accounts receivable valuation policies and procedures. To enhance these procedures, CNS should also periodically assess the reserve percentages employed to calculate the general allowance portion of the total valuation allowance based on the aging of accounts receivable, general economic conditions and other relevant factors.

Management's Response: The Corporation has developed a procedure for the valuation of accounts receivable. This procedure has been reviewed by Arthur Andersen and has been designated as adequately designed. The Corporation plans to implement fully the procedure prior to the close of the current fiscal year. The procedure will provide for an appropriate allowance for doubtful accounts.

2. Develop Procedures to Accrue DVSA Grant Expenses (Auditability Survey, Vol. I, No. 17). CNS did not have a methodology for accruing expenses which grantees had incurred as of fiscal year-end but had not yet reported.

Status: Adequately designed, not yet implemented.

Discussion: CNS has developed and documented policies and procedures for accruing Domestic Volunteer Service Act grant expenses. These procedures establish a mechanism for estimating the amount of expenses incurred but not yet reported by grantees at year-end. However, CNS has not yet implemented these procedures.

Recommendation: CNS should implement its policies and procedures for accruing DVSA grant expenses.

Management's Response: We have developed and documented policies and procedures for accruing Domestic Volunteer Service Act (DVSA) grant expenses. These procedures are intended to allow the Corporation to estimate accurately outstanding expenses incurred but not yet reported at fiscal year-end. We will implement these procedures before the close of FY97. The resulting accruals will be reflected in the 1997 financial statements.

B. Other Reportable Conditions For Which Corrective Actions Were Adequately Designed, But Not Yet Implemented

3. CNS Should Develop and Implement an Automated Information Security Program (Auditability Survey, Vol. II, No. 6). CNS did not have generally accepted information security policies and procedures in place. The lack of adequate contingency/business recovery plans rendered CNS vulnerable to loss of productivity due to disaster, errors and other events that could interrupt normal operations.

Status: Adequately designed, not yet implemented.

Discussion: CNS has executed an agreement with a contractor to provide a comprehensive information security program. Over the next several months, the contractor is scheduled to 1) develop accreditation packages for the CNS local area network, the Volunteers in Service to America (VISTA) Management System and the Trust Fund System, 2) complete a risk analysis, security controls review and accreditation statement for the general ledger and 3) conduct a risk analysis of CNS frame relay and dial-in connections.

Recommendation: CNS should implement the information security program as soon as possible.

Management's Response: The Corporation has contracted with Integration Management Services, Inc. to provide technical support in accomplishing accreditation, which includes security control reviews for the Trust Fund system, the VISTA Management System, the CNS Local Area Network (CNS-LAN), and the Federal Success System's interface with the Transportation Computing Center (TCC). Also, a risk analysis of CNS Frame Relay and Dial-In connections will be performed to ensure adequate protection. The project has already begun and the draft accreditation packages and other documents will be delivered in stages, beginning with the package for the CNS-LAN. All deliverables will be complete by the end of the calendar year 1997. This represents a comprehensive approach to all systems under direct Corporation management and supports critical business functions.

4. Integration to the Cost-Share Billing System Should Be Automated (Auditability Survey, Vol. II, No. 10). Service Centers and State Offices were developing systems to process invoices for cost-share billings that required many redundant data elements. An automated download of necessary information had not been implemented at all Service Centers, requiring those Service Centers to re-enter information.

Status: Adequately designed, not yet implemented.

Discussion: CNS has plans to automate the download of information into the cost-share billing system. However, CNS has implemented these plans at the Atlanta and Philadelphia Service Centers only.

Recommendation: CNS should complete the implementation of its plans to automate the download process at all Service Centers to streamline the cost-share billing process.

Management's Response: The Corporation initiated an automated download process for VISTA billing information in the Philadelphia and Atlanta Service Centers. This will help us formulate a better and more comprehensive approach which will result in a single billing procedure and system, with an automated interface, for all of the five Service Centers. At present, a team led by representatives from the Pacific Service Center is refining the system requirements for the download of personnel and cost data from the VISTA Management System to the Cost Share Billing System. These requirements, along with some additional refinements needed in the Cost Share system, will be completed by the end of August 1997. The Corporation is committed to providing the resources necessary to have the system enhancements implemented. A firm implementation schedule is not possible until the requirements analysis is complete, but we will move ahead on this recommendation to have it in place at each of the five Service Centers.

C. Other Observations For Which Corrective Actions Were Adequately Designed, But Not Yet Implemented

5. Execute Year-end Closing Process on a Timely Basis (Auditability Survey, Vol. I, No. 62). The CNS general ledger, Federal Success, allows access to only two months of cumulative accounting balances at any one time. For the fiscal year ended September 30, 1995, the Accounting Department did not close the general ledger accounts until the second week of November. This prohibited personnel in the Accounting Department and the Service Centers from entering November 1995 transactions until after CNS had processed the year-end closing entries.

Status: Adequately designed, not yet implemented.

Discussion: CNS has developed procedures for closing the general ledger accounts at year-end. These procedures detail step-by-step actions to be performed and a timeframe in which the closing process is to occur. Although the procedures were adequately designed, CNS did not adhere to the established timeframe for the close of fiscal year 1996. As a result, personnel in the Accounting Department could not input November 1996 transactions into the general ledger until CNS year-end closing entries were processed.

Recommendation: CNS should follow prescribed procedures and adhere to established timeframes to close fiscal year 1997 on a timely basis.

Management's Response: The Corporation agrees and will establish the 1997 closing schedule and communicate it along with the closing procedure to all appropriate personnel by August 31, 1997.

6. Develop and Maintain a Disaster Recovery and Continuity Plan (Auditability Survey, Vol. I, No. 80). CNS did not have a disaster recovery and continuity plan for its information technology installations.

Status: Adequately designed, not yet implemented.

Discussion: CNS has developed a Business Resumption Plan (BRP). The BRP includes incident management procedures (such as damage assessments, telecommunications support, administrative procedures) and procedures specific to information technology recovery. The BRP defines the minimal acceptable recovery configurations and includes vendor names and numbers and a business-functions priority report. It also provides for a back-up data processing site.

Recommendation: CNS should implement the BRP as soon as possible. To ensure effective implementation of the BRP, CNS should define the responsibilities of CNS personnel in the event of an emergency; document the recovery requirements of each business function and procedures for restoring critical back-up data; designate who has responsibility for declaring a disaster; and include copies of necessary forms, reports and references required during recovery in the BRP. CNS should test the BRP and maintain copies of the plan and other critical data off-site. Furthermore, key employees should keep copies of the BRP at home.

Management's Response: The Corporation is finalizing the responsibilities of personnel and the delegation of these responsibilities in case of an emergency. The responsibilities of key Information Technology personnel have been defined and documented. The disaster recovery hot site is now available, as well as the work/office space. When the hot site becomes operational in September, backup of data will commence and will occur minute by minute by a T1 designated line. The T1 line will be installed by AT&T on July 11, 1997. Additional hardware is on order and will be delivered at the hot site. Computer racks that house the hardware have already been delivered. We have contracted with an experienced firm to provide disaster recovery workshop training, testing support and test plan documentation. Responsibility for declaring a disaster is clearly designated. After completion of the test plan and its refinement, copies of the BRP will be distributed to key employees who will keep a copy at their residence. We will be fully operational at the hot site and will have run a test of the disaster recovery plan by the end of the fiscal year.

III. FINDINGS FOR WHICH CORRECTIVE ACTIONS WERE ADEQUATELY DESIGNED, BUT NOT OPERATING EFFECTIVELY

A. Material Weaknesses For Which Corrective Actions Were Adequately Designed, But Not Operating Effectively

1. Strengthen Procedures for Completing Receiving Reports (Auditability Survey, Vol. I, No. 19). CNS did not have adequate procedures for ensuring that expenses for goods or services were recorded in the proper accounting period. Personnel who completed receiving reports often recorded the date of receipt as the date on which the receiving report was signed or the date of the vendor invoice, although this was not necessarily the date on which the goods or services were actually received.

Status: Adequately designed, not operating effectively.

Discussion: To properly segregate duties and to ensure that receiving reports were appropriately completed, CNS has established a central receiving function at Headquarters. For receiving functions not at Headquarters, CNS issued guidance on the importance of recording the date of actual receipt on the receiving report. CNS also implemented monitoring procedures that include periodic site visits by CNS Headquarters personnel. However, our work revealed that employees of the National Service Leadership Institute did not understand how to properly complete receiving reports.

Recommendation: CNS should provide additional instructions and/or training to ensure that all employees at the National Service Leadership Institute understand the importance of and the concepts behind recording the actual receiving date on all receiving reports. CNS should require Service Center Directors and other supervisors to employ monitoring procedures over the completion of receiving reports.

Management's Response: The Pacific Service Center has completed additional training of all employees and contractors assigned to the National Service Leadership Institute on how to properly complete a receiving report. All five Service Center Directors will assign specific employees the responsibility for monitoring accurate completion of receiving reports from all sources, including the National Service Leadership Institute.

B. Other Reportable Conditions For Which Corrective Actions Were Adequately Designed, But Not Operating Effectively

2. Improve Procedures for Recording Cash Deposits (Auditability Survey, Vol. I, No. 29). CNS procedures over cash deposits were inadequate to ensure that deposits were completely and accurately recorded by the U. S. Department of the Treasury (Treasury) and in the general ledger. CNS did not reconcile the deposit ticket amount to the deposit amount confirmed by Treasury.

Status: Adequately designed, not operating effectively.

Discussion: CNS has issued cash receipts policies and procedures for use at the Service Centers. These procedures were adequately designed to address the identified deficiencies. However, the San Francisco Service Center has not implemented these procedures. For example, no one verifies that checks have been properly posted in the general ledger. Additionally, multiple employees handle cash receipts and also have access to updating accounts receivable records in the general ledger.

Recommendation: The San Francisco Service Center should implement the cash receipts policies and procedures issued by Headquarters. Specifically, a Service Center employee should verify that all checks have been properly posted in the general ledger. Also, the Service Center should segregate the responsibilities for 1) handling cash receipts and 2) having the ability to update accounts receivable in the general ledger.

CNS should implement monitoring procedures to ensure that the San Francisco Service Center, and all other Service Centers, are adhering to prescribed cash receipts policies and procedures.

Management's Response: To ensure that all checks have been posted to the general ledger in each Service Center, the employee assigned the task of posting the completed collection to the log will print a copy of a transaction query screen from Federal Success showing the posting and file it in the collection file. The Service Center Director will review a log and the posting to the general ledger on a regular basis. The Service Centers will maintain the segregation of duties required in the Corporation's procedures. Compliance with these procedures will be verified periodically by Corporation internal review staff.

3. Strengthen Procedures for Tracking Commitments (Auditability Survey, Vol. I, No. 40). Budget officers maintain cuff records to track the dollar amounts of procurement requests for which they have certified funds availability. These cuff records are to be reconciled to the Status of Funds report which details obligations and related expenditures recorded in the general ledger. However, certain budget officers were not consistently performing these monthly reconciliations and/or maintaining up-to-date cuff records. Those budget officers who were performing reconciliations did not consistently maintain documentation of the reconciliations.

Status: Adequately designed, not operating effectively.

Discussion: CNS has developed uniform procedures for the documentation and review of the cuff record reconciliation process and has provided training to budget officers. The budget officers have consistently completed the form developed by CNS to document the reconciliation process. However, because CNS could not support numerous items included in four of the ten cuff records which we assessed at Headquarters, we were unable to substantiate the amounts listed on the related reconciliation forms.

Recommendation: Budget officers should maintain cuff records to allow supervisory review/reperformance of their reconciliations. CNS should more stringently monitor the budget officers' performance of established procedures. Supervisors should periodically review the budget officers' cuff records to ensure that the records substantiate the amounts reported in the monthly reconciliation forms.

Management's Response: The Corporation agrees with the need to modify its procedure to include monthly monitoring of the cuff record reconciliation and the need to provide corrective action where necessary. This will be implemented by September 1, 1997.

4. Properly Establish Obligations for Travel (Auditability Study, Vol. I, No. 43). The Service Centers did not have procedures to ensure that they established obligations in the general ledger prior to the occurrence of travel. CNS risked violating the Antideficiency Act by entering into obligations for which no funds were available.

Status: Adequately designed, not operating effectively.

Discussion: CNS has developed procedures relating to the proper establishment of obligations by the Service Centers in the general ledger for travel. CNS has not, however, fully implemented those procedures in the San Francisco Service Center.

The San Francisco Service Center processes Blanket Travel Orders (BTOs) from the State Offices to obligate funds for employee travel. These BTOs show the travel planned for each employee, when the travel will occur and the amount of expense expected. This procedure ensures that CNS obligates funds before travel occurs. However, the Service Center only processes BTOs for travel by State Office employees. For all other travel, procedures require that the traveler submit travel orders to the Service Center prior to the occurrence of the travel. However, the San Francisco Service Center has not implemented these procedures and continues to obligate funds for travel after its occurrence.

Recommendation: CNS should ensure that all Service Centers, State Offices and National Civilian Community Corps Campuses (NCCC) are aware of and are adhering to established procedures. Service Centers should continue to use BTOs to obligate funds for employee travel. CNS should impress upon travelers and their supervisors the importance of submitting travel orders to the Centers before the occurrence of the travel. CNS should implement procedures for monitoring the establishment of obligations for travel.

Management's Response: The Corporation will, through its five Service Centers, issue instructions to State Offices and the NCCC campuses reaffirming the requirement that travel be obligated in the general ledger prior to the actual travel. The Deputy to the CFO will formally discuss the issue on July 14, in the Senior Staff meeting to be held in Washington, to impress upon senior managers their responsibility to ensure that all field units submit travel orders to the Service Centers within defined time frames. The Corporation will establish procedures for monitoring this process by the end of 1997.

5. Implement Procedures to Ensure Completeness of Grant Files (Auditability Survey, Vol. I, No. 45). Numerous CNS grant files did not contain essential documents, including Financial Status Reports, Requests for Advance or Reimbursement and grantee budgets. Grants management officers (GMOs) did not ensure that complete documentation was maintained in the files, and the files were not subject to periodic supervisory review.

Status: Adequately designed, not operating effectively.

Discussion: CNS has developed a checklist of documentation required to be maintained in the grant files. CNS has also developed procedures requiring that GMOs periodically review the files for completeness.

The Service Centers have effectively implemented these procedures for Domestic Volunteer Service Act grants. For National and Community Service Act (NCSA) grants, we noted three files out of a statistical sample of 58 files which were missing one essential document, even though the files contained checklists. One of the grant files, which was awarded approximately one year ago, contained none of the essential documents. Although CNS has made some progress with respect to previously existing NCSA grant files, Headquarters has not formalized its plans for ensuring that those files contain all critical documentation.

Recommendation: CNS should enforce its procedures for ensuring the completeness of grant files. CNS should monitor whether the procedures are operating effectively. GMOs should take steps to obtain missing grant documents on a timely basis. Additionally, Headquarters should finalize its plans for inserting checklists into and reviewing the completeness of the active grant files which were established prior to the implementation of procedures applicable to newly awarded grants. Consistent with the Service Centers, Headquarters should initiate an effort to evaluate the completeness of a portion of existing grant files each month.

Management's Response: As noted in the report, the Corporation has developed procedures to ensure the completeness of the grant files. These procedures were effectively implemented by the Service Centers for DVSA grants. In Washington, the vast majority of files tested by Arthur Andersen were complete. In order to rectify the remaining deficiencies, we are renewing our effort to assure the timely filing of documents. A protocol has been developed which will be implemented with grantees who are delinquent in submitting forms and reports. In addition, each Grants Management Officer will review at least 10 percent of the official files on a rotating basis in his/her portfolio every month to ensure completeness. These procedures supplement the check-list procedure already in place.

IV. FINDINGS FOR WHICH CNS ACTIONS DID NOT CORRECT THE DEFICIENCIES

A. Material Weaknesses That Were Not Corrected

1. Strengthen Management Control Environment (Auditability Survey, Vol. I, No. 1). CNS lacked a strong management control environment. This was evidenced by 1) the number and magnitude of the reportable conditions described in the Auditability Survey, 2) a lack of sufficient oversight over financial management activities and 3) a lack of management-level review and analysis of balances recorded in the general ledger and reported in the financial statements.

Status: Not corrected.

Discussion: Management has initiated several actions to strengthen the management control environment, including the following: 1) in fiscal year 1997, a permanent chief financial officer (CFO) was appointed and 2) discussions and training related to creating a strong management control environment were conducted for Headquarters and Service Center CFO staff members at a CFO Conference in January 1997.

Management has also demonstrated a commitment to correct the financial reporting deficiencies and internal control weaknesses identified in the Auditability Survey; of the 99 findings identified in the Auditability Survey, 72 have been corrected or addressed. However, the significance of the findings yet to be corrected, including 12 material weaknesses and 9 other reportable conditions, continues to impact CNS's ability to prepare accurate financial statements as well as the auditability of those financial statements. To date, CNS has not prepared financial statements beyond fiscal year 1994. Accurate and timely financial information is fundamental to management's ability to effectively monitor risks, manage its business and assess its performance.

CNS has not yet performed or reported on a comprehensive assessment of its internal accounting and administrative control systems for fiscal years 1995 and 1996, as required by the Government Corporation Control Act. Furthermore, CNS has not effectively ensured that supervisors "buy-in" to implementing corrective actions, maintaining adequate internal controls and actively fostering a strong management control environment.

Recommendation: CNS should continue to monitor the corrective actions it has implemented and is in the process of implementing to address known internal control deficiencies and ensure that controls to address previously corrected findings are still operating effectively. CNS must focus on improving its financial reporting processes to enable it to prepare accurate and timely financial statements. To strengthen the management control environment, management must develop a comprehensive internal control framework that includes the following key components:

- Ensure that there are a sufficient number of employees, including managers and supervisors, that are knowledgeable about the critical processes and how they work. Each manager should have adequate experience and training to perform his or her duties.
- Ensure that information systems and processes are effective in obtaining reliable and relevant information from internal sources (e.g., financial and operating information necessary to assess performance against targets) and external sources (e.g., stakeholder needs and economic, regulatory and technological changes). CNS should establish clear responsibility and accountability protocols to evaluate the completeness and accuracy of its information.
- Ensure that the appropriate management level evaluates program and internal control risks. Risk assessments should be performed to identify and address the internal and external risks that threaten the achievement of CNS's objectives. The results should be summarized, evaluated and communicated to top management and CNS oversight bodies.
- Ensure that the organizational structure facilitates an effective exchange and flow of information—for example, strategy and overall performance from management downward throughout the organization, program risks and process performance from lower levels upward, and control and improvement within and across the organization.
- Ensure that supervisors and managers “buy-in” to management’s plans and objectives, including the implementation of effective corrective actions and internal controls, and are involved in the objective setting process. Supervisors’ and managers’ performance should be evaluated accordingly.

Management's Response: The Corporation places a high priority on building and sustaining a strong management control environment. It is important to note that the Corporation has taken action on each of the specific issues raised in the finding by Arthur Andersen.

- The CEO has initiated a special project with high level management participation to address and remedy the remaining auditability items.
- The CFO has prepared financial statements for 1995 and has presented them to the Management Committee of the Board of Directors. A plan is in place to produce the 1996 financial statements. This will allow for the timely issuance of 1997 financial statements.
- The Corporation is assessing its internal controls and will submit required reports for each year with the issuance of that year's financial statements. This submission will be part of the Corporation's Annual Report process.
- To ensure that supervisors understand their role in the implementation and maintenance of a strong control environment, the Corporation has initiated specific supervisor training programs. The curriculum includes management controls, performance reviews, equal opportunity, diversity and leadership skills.
- The Corporation accepts its responsibility to monitor closely its control environment. In order to ensure that previously corrected items are still operating effectively, the Corporation is instituting the internal review process described earlier in this response.

The Corporation will incorporate in its internal control program the key components described in Arthur Andersen's recommendation. During the first quarter of this year, the Management Committee of the Board of Directors addressed these issues. The need to resolve these concerns is a major underpinning of the special project described earlier. The progress made on the wide range of auditability issues, the current momentum of our efforts, and high level of involvement and attention from senior management demonstrate the Corporation's commitment to an effective management control environment.

2. Improve CNS Financial Reporting Process (Auditability Survey, Vol. I, No. 2).

CNS had not established a methodology for ensuring that its financial statements, including footnote disclosures, were accurate, complete and of high quality.

Status: Not corrected.

Discussion: CNS has established milestones for the completion of its financial statements and has also developed a listing of issues to be addressed in the preparation of its financial statements. However, to date, CNS had not yet prepared financial statements for fiscal year 1995 or 1996.

Recommendation: Management should ensure that the organizational commitment and resources exist to enable CNS to prepare financial statements in accordance with generally accepted accounting principles. A critical element of this objective will be the adequate resolution of the remaining internal control deficiencies. Also, because the auditability of the fiscal year 1997 financial statements is contingent, in part, on the auditability of the fiscal year 1996 balance sheet, CNS should develop a specific plan to ensure that there are no material misstatements in the fiscal year 1996 balance sheet.

Management's Response: The Corporation completed the preparation of the 1995 financial statements on a GAAP basis subsequent to completion of Arthur Andersen's field work and is now focusing its efforts on completing the 1996 financial statements. A key objective of the plan for these financial statements is to ensure that all balance sheet accounts have been adequately reconciled and all outstanding balances are appropriate and supportable. The plan identifies the necessary resources required to prepare these statements and reconciliations by September 1, 1997. This will establish a baseline for the 1997 financial statements. The Corporation is committed to providing the necessary resources.

3. Reconcile Cash on a Timely Basis (Auditability Survey, Vol. I, No. 6). CNS maintains its cash accounts at the U. S. Department of the Treasury (Treasury). CNS did not have established procedures to perform a detailed reconciliation of cash balances per its general ledger to balances per Treasury's records on a periodic basis. This resulted in numerous differences between the detail of cash balances per CNS and Treasury.

Status: Not corrected.

Discussion: CNS has developed procedures to perform a monthly reconciliation between cash balances per the general ledger and cash balances per Treasury. Those procedures entail compiling a listing of differences between transactions posted to the general ledger and those processed by Treasury. This listing of differences is then forwarded to appropriate individuals at Headquarters and the Service Centers for resolution and recording of adjustments, as appropriate. However, the procedures are not adequate to ensure that reconciliations are performed on a timely basis or that identified reconciling items are resolved in a timely manner. In fiscal year 1997, CNS has performed one cash reconciliation for the October 1996 through January 1997 period, and one reconciliation for February and March of 1997. To date, CNS has not resolved many of the items identified in those reconciliations. Furthermore, the procedures do not provide for an adequate supervisory review of the disposition of reconciling items.

CNS has made progress with respect to resolving differences between the general ledger and Treasury that occurred prior to fiscal year 1996. However, as of the date of our report, the net unreconciled difference resulting from years prior to 1996 was approximately \$20 million. Records no longer exist to support certain transactions which resulted in this difference.

Recommendation: CNS should ensure that differences identified in the cash reconciliations are completely *resolved* on a timely basis. This resolution should include making the needed corrections in the general ledger or initiating corrections to the Treasury records. CNS should review the disposition of differences to assess the propriety of the reconciling items and to validate that the reconciliations were performed in accordance with established policies and procedures.

Through its reconciliation procedures, CNS should identify the underlying conditions causing significant reconciling items and take corrective action, if necessary. Also, CNS should develop a plan for resolving the unreconciled differences that relate to periods prior to fiscal year 1996 to determine the causes for such differences and to fulfill its stewardship role relating to its funds held by Treasury.

Management's Response: The Corporation has made significant progress in reconciling its cash balances recorded in the general ledger with the balances maintained in the U.S. Treasury. This was accomplished through the establishment of two project efforts focusing on (1) cash differences existing prior to FY 1996 and (2) those arising in the subsequent years.

As noted by Arthur Andersen, progress has been made in reducing the unreconciled pre-1996 difference to \$20 million. Efforts to reconcile the account continue, and since the study was completed, we have reduced this difference to \$12 million.

As part of the effort to resolve differences arising after FY 1996, the Corporation developed procedures and reports for performing monthly reconciliations of cash differences arising in FY 1996 and beyond. This represents another significant control improvement as the Corporation can now identify by date and transaction type each outstanding cash variance with the U.S. Treasury.

As recommended by Arthur Andersen, we will broaden these procedures to establish ongoing standards and functional and supervisory responsibilities for monitoring the reconciliation process. These revisions will be completed by August 15, 1997. Additionally, the plan being prepared by July 15 for preparation of the 1996 financial statements will include bringing the resolution of all outstanding reconciling items up to date by September 30, 1997.

4. Record All OPAC Transactions in the General Ledger (Auditability Survey, Vol. I, No. 8). CNS did not have established procedures to record all On-line Payment and Collection (OPAC) transactions in the general ledger on a timely basis. As a result, numerous transactions were not recorded in the general ledger. This contributed to large differences between the U. S. Department of the Treasury and CNS cash balances.

Status: Not corrected.

Discussion: CNS has not established procedures to ensure that On-line Payment and Collection (OPAC) transactions are recorded in the general ledger on a timely basis. Under current procedures, Headquarters receives the vendor billing statements and sends them to the Service Centers. Only then do the Service Centers input the transactions into the general ledger. This results in delays because 1) the vendors do not send the billing statements to Headquarters on a timely basis and 2) for certain programs (e.g., the National Civilian Community Corps), Headquarters does not send billing statements to the Service Centers until program officials have reviewed and approved the billing statements.

Recommendation: CNS should develop and implement procedures to ensure that OPAC transactions are recorded in the general ledger on a timely basis. We continue to recommend that the Headquarters Accounting Department retrieve the detail of OPAC transactions from the Government On-line Accounting Link System (GOALS) on a monthly basis, immediately verify the accuracy of Headquarters transactions and then input all OPAC transactions into the general ledger.

The Accounting Department should input the transactions related to the Service Centers to improve the timeliness of information in the general ledger. The Accounting Department should then forward a copy of the OPAC documentation to the applicable Service Centers. The Service Centers should verify the propriety of the OPAC transactions and take corrective action, as necessary. If a transaction is modified, accounting personnel should update the general ledger accordingly. CNS should monitor this process to ensure that it is operating in accordance with established procedures.

Management's Response: The Corporation, as part of its cash reconciliation effort, has identified all outstanding OPAC transactions and implemented a monthly OPAC control report that lists all open transactions for follow-up. This represents a significant improvement in management's ability to monitor and control this activity. The Corporation agrees there is still need for a formal procedure requiring the timely posting of OPAC transactions and is currently developing one as part of the 1996 financial statement plan.

The Corporation disagrees with Arthur Andersen's recommendation to post OPACs from the GOALS system. Insufficient detail is available from GOALS to allow posting of the transactions and the posting would require the use of estimates, which would create new reconciling and control issues. The Corporation is still reviewing this issue to identify a method to record OPAC transactions in a more timely manner while not creating additional control concerns. Among the items under consideration is the initial posting of all OPACs in Washington before sending information to the Service Centers.

5. Accrue Expenditures for Goods and Services Received (Auditability Survey, Vol. I., No. 10). CNS did not have procedures for establishing and evaluating the accuracy of year-end accruals.

Status: Not corrected.

Discussion: CNS has not developed specific procedures to establish accruals for goods and services in the proper accounting period. CNS documented general procedures which described broad concepts relating to the establishment of accruals. However, these procedures did not address how the accruals should be developed or identify who would be responsible for developing the accruals.

Recommendation: CNS should develop comprehensive, detailed procedures for establishing accruals in the proper accounting period. These procedures should identify who is responsible for developing the accruals and how the accruals should be developed. Additionally, supervisory control procedures should be developed and implemented for evaluating established accruals. CNS should consider requiring the Accounting Department and the Service Centers to review transactions occurring subsequent to the reporting period to ensure that proper accruals for those transactions were established.

Management's Response: The Corporation is developing procedures for properly accruing goods and services as recommended by Arthur Andersen. These procedures will identify responsibilities, timing, and supervisory controls. This is a year-end accrual. We anticipate completing these procedures by August 31, 1997 in conjunction with the development of the year-end closing procedures.

6. Reconcile Data in Grant Systems (Auditability Survey, Vol. I, No. 13). CNS did not have procedures for reconciling grant data in its general ledger to the data in the U. S. Department of Health and Human Services (HHS) Payment Management System on a monthly basis.

Status: Not corrected.

Discussion: CNS has made progress in identifying the correcting entries necessary to reconcile grant data in its general ledger to grant data in the HHS Payment Management System. However, CNS has not made all of the necessary correcting entries. Additionally, CNS has not developed procedures to be used for performing a regular, monthly reconciliation of the grant databases and for monitoring that performance. CNS has developed an interface between its general ledger and the Payment Management System, but has not yet fully tested and implemented this interface.

Recommendation: CNS should record the identified correcting entries in the proper system(s) and continue its efforts to reconcile the systems' grant data. CNS should develop procedures for performing a monthly reconciliation of its general ledger and the Payment Management System and for monitoring that performance. CNS should test and implement the interface between the two grant systems to streamline the reconciliation process.

Management's Response: The Corporation is currently completing the recording of required correcting entries in the appropriate systems as recommended. In addition, we are currently testing an automated reconciliation report that identifies differences between the general ledger and the Payment Management System. The benefit of the automated system will be its ability to provide the Corporation a sustainable methodology for reconciling on a monthly basis. We will complete this testing during July 1997, and will develop procedures to complement this process and implement an automated reconciliation process by September 30, 1997.

7. Strengthen Procedures over VISTA Payroll (Auditability Survey, Vol. I, No. 26).

Project directors have responsibility for reporting to their State Offices the correct time and attendance data for the Volunteers in Service to America (VISTA) members under their supervision. CNS did not provide project directors rosters of their volunteers for review each pay period. The directors need these rosters to detect errors in payroll records on a timely basis. CNS also sent payroll checks for VISTA members to the project directors instead of directly to the members themselves.

Status: Not corrected.

Discussion: VISTA members now receive their paychecks in sealed envelopes at their designated addresses. Project directors properly do not receive checks for their volunteers. However, CNS has not designed procedures to ensure that its record of VISTA members is accurate and complete, and that any VISTA payroll updates are processed on a timely basis. Each pay period, CNS queries the VISTA Management System for project membership rosters and sends the rosters to the applicable project directors for their review and correction. Project directors do not, however, consistently review the rosters to ensure that the rosters contain the proper payroll information for all VISTA members under their supervision. State Offices do not retain the signed rosters, nor do they ensure that they receive a roster from each project director in their state.

Recommendation: CNS should develop procedures to verify that project directors review their membership rosters each pay period. CNS should inform project directors of the importance of reviewing their rosters, making necessary changes and communicating those changes to their State Offices. CNS should also provide State Offices with a list of the project directors who are responsible for this review. Each State Office should ensure that it receives a signed roster from each project director in its state. Furthermore, CNS should develop procedures to verify that the State Offices make all requested changes in a timely manner. CNS should consider incorporating the use of electronic mail into these procedures to simplify the process of verifying compliance.

Management's Response: The Corporation will revise the current procedures to incorporate the recommended control improvements. The revised procedure will continue to require the mailing of checks directly to the VISTA members. The Corporation will clarify the responsibilities of project sponsors. This includes the timely and accurate responses to the request for information in the sponsor verification letters on active volunteers. In addition, the Corporation will establish specific procedural requirements in the State Offices to monitor the receipt all roster reports. This enhancement of procedures will ensure that all project sites provide the necessary information on their members and their dates of service in a timely and consistent manner. Headquarters staff will review all late entries into the VISTA Management System (VMS) to ensure these procedures are being followed. The use of electronic mail as a reporting mechanism will be reviewed and incorporated as practical. The Corporation plans to revise and implement these procedures prior to the end of fiscal 1997.

8. Segregate Duties Related to Trust Fund Payments and Administration (Auditability Survey, Vol. I, No. 28). Several individuals had the incompatible abilities to approve, record and schedule payments to recipients through the Trust Fund System.

Status: Not corrected.

Discussion: CNS issued work orders to modify the access levels of the Trust Fund administrator. The intent was to eliminate the administrator's capability to both approve and record payments in the Trust Fund System. However, these work orders were not properly executed, thus leaving the administrator with these same incompatible functions.

Recommendation: CNS should modify the access levels of the Trust Fund administrator. Additionally, when CNS submits work orders relating to systems access, it should monitor the successful execution of the request.

Management's Response: In response to these findings, the Data Administrator no longer has the ability to create, change or delete a payment. This eliminates the specific control weakness.

In addition, the Corporation is currently developing access screens that will enable the Trust staff to perform the operational functions currently being performed by the Data Administrator in a secure and controlled environment. The Corporation is also developing a report that tracks all relevant system changes. This report will provide management the ability to monitor changes made to both system access levels and key data changes as recommended. Both system changes described in this response will be in operation before the end of the fiscal year.

9. Procedures for Verifying the Official Enrollment of VISTA Volunteers Should Be Developed (Auditability Survey, Vol. II, No. 3). CNS did not have controls in place to ensure that only members officially enrolled in the Volunteers in Service to America (VISTA) program received paychecks.

Status: Not corrected.

Discussion: As discussed in recommendation IV-7, “Strengthen Procedures over VISTA Payroll” (see page 34), CNS has not designed procedures to ensure that its record of VISTA members is accurate and complete.

Recommendation: CNS should develop procedures to verify that project directors review their membership rosters each pay period.

Management’s Response: As outlined in our response concerning VISTA payroll, the revised procedures and controls for processing the membership rosters by both the State Offices and the project director will address this issue. Those procedures will emphasize the controls associated with timeliness and follow-up for the enrollment verification process.

B. Other Reportable Conditions That Were Not Corrected

10. Establish Unused or Misapplied Grant Funds as Accounts Receivable (Auditability Survey, Vol. I, No. 46). CNS did not record all funds due from grantees as accounts receivable in the general ledger. For National and Community Service Act (NCSA) grants, CNS had no procedures in place for consistently reporting to the Accounting Department any accounts receivable for unused and/or improperly applied funds at the termination of a grant. Domestic Volunteer Service Act (DVSA) grants management officers did not consistently record such funds in the general ledger.

Status: Not corrected.

Discussion: CNS has developed procedures to identify and record accounts receivable from grantees, but has not yet implemented those procedures. However, the procedures do not specify 1) the criteria to be used by grants management officers in identifying accounts receivable, 2) the criteria for establishing a related allowance for doubtful accounts, 3) a mechanism for monitoring, receiving and recording related payments from grantees and 4) how CNS will monitor the performance of these procedures. Furthermore, CNS has not implemented procedures relating to debt collection, the determination of interest due and the recording of that interest.

Recommendation: CNS's procedures for identifying and recording accounts receivable from grantees should not only address the grants management officers' responsibilities, but also the specific steps that should be taken to fulfill those responsibilities. CNS should develop monitoring procedures over grants management officers' execution of required procedures. Additionally, CNS should implement procedures related to debt collection, the determination of interest due and the recording of that interest.

Management's Response: The finding is different for DVSA grants and NCSA grants. The criteria used by Grants Managers for DVSA grants were established in the Grants Management Handbook and was reiterated to Grant Management Officers (GMO) by Memorandum on April 24, 1996. Arthur Andersen's concern was that the GMOs were not consistent in their recording of such funds in the general ledger. The Corporation will review the criteria in the present procedures for completeness and accuracy and will issue, within the next two months, policy guidance to ensure consistency in the application of the procedures. The Corporation will also determine a mechanism for monitoring the performance of the procedure.

For NCSA grants, the Corporation issued guidance to the Grants Management staff, dated March 27, 1997. This was in the form of NCSA Grant Management Guidelines (GMG 97-02), entitled "Amounts Due the Corporation from NCSA Grants and Other Awardees." This procedure is currently being implemented. In light of the findings, the procedures will be reviewed and revised where appropriate to satisfy the deficiencies noted by Arthur Andersen. This will be completed by September 30, 1997.

The Office of Accounting will issue procedures for debt collection and interest penalties before the end of the current fiscal year.

11. Improve Procedures for Substantiating Personnel and Payroll Records (Auditability Survey, Vol. I, No. 59). CNS did not have established procedures to ensure that officials requesting personnel actions were notified of the results of their requests. In addition, supervisors and department heads did not routinely review and substantiate data related to employee grade levels, pay rates and assignments within the organization.

Status: Not corrected.

Discussion: CNS has not developed comprehensive procedures for substantiating payroll and personnel records. The Office of Human Resources provides Headquarters department heads with monthly reports on employees within their departments. However, Headquarters department heads have not received detailed instructions on how to verify the payroll information. In addition, the Service Centers do not receive periodic payroll reports, nor do Headquarters department heads perform a detailed review of payroll data for Service Center employees.

The Office of Human Resources provides Headquarters department heads with periodic notification of the status of personnel actions requested. However, there are no procedures requiring department heads to monitor the status of personnel actions and follow-up, as necessary. Additionally, the Office of Human Resources does not notify Service Center Directors requesting personnel actions of the status of their requests.

Recommendation: CNS should establish procedures to ensure that appropriate personnel periodically review payroll reports to ensure the accuracy and completeness of payroll data. CNS should provide Headquarters department heads and Service Center Directors with monthly reports relating to employees' pay rates, grade levels and organizational assignments. Discrepancies or questions relating to data on the reports should be investigated and resolved on a timely basis. Additionally, CNS should establish procedures that require requesting officials to monitor the status of requested personnel actions and to follow-up on any actions for which confirmations have not been received within a specific period.

Management's Response: The Office of Human Resources had established procedures for substantiating payroll and personnel records. Each month, Department Heads receive a report that includes all salaries (base and locality), job titles, pay plans, pay bands/grades and duty locations for their employees. Department Heads are required to review the report for accuracy and to sign and return a copy of the memo to indicate that the review for accuracy was completed. There were significant follow-up efforts made by the Office of Human Resources to obtain the reports from those Departments who had not returned the certifying memorandum.

To improve the process, instructions will be developed for Department Heads to verify the data on the monthly personnel/payroll reports. Monthly reports will continue to be provided to Department Heads with separate reports for their sub-units, i.e., Service Centers. The Corporation will also establish procedures that require requesting officials to monitor the status of pending personnel actions and to follow-up on any actions for which confirmations have not been received within a specific period.

C. Other Observations That Were Not Addressed

12. Establish Performance Measures (Auditability Survey, Vol. I, No. 65). CNS did not establish measurable standards of performance to evaluate its financial management activities and administrative functions and the performance of individual employees.

Status: Not addressed.

Discussion: CNS has established a mechanism for developing corporate-wide measures of performance and a five-year strategic plan, however, as of the date of our report, performance measures had not been established and implemented. CNS intends to submit its plans to the Office of Management and Budget (OMB) no later than August 15, 1997, as part of the fiscal year 1999 budget submission.

Recommendation: CNS should submit its plans to OMB within the established deadlines. CNS should ensure that all performance measures, methodologies for capturing performance measure data and processes for assessing CNS performance are in accordance with the requirements of the Government Performance and Results Act. The performance measures should reflect the information needs of interested parties (e.g., OMB, Congress, CNS Board of Directors, etc.).

Management's Response: As required by the Government Performance and Results Act, a revised strategic plan has been completed by the Corporation and submitted to Congress and our Board of Directors for review and comment. We are conducting a series of five workshops with all program offices to design performance measures. We will meet the requirement to submit the required documents to OMB by August 15, 1997.

13. Document and Maintain a Systems Development Life Cycle Methodology (Auditability Survey, Vol. I, No. 79). CNS did not have a documented systems development life cycle methodology.

Status: Not addressed.

Discussion: CNS management has adopted Oracle methodology as its structured approach for systems development. Additionally, CNS uses the CASE*Method for its information engineering technology. However, this approach does not focus on documenting the requirements of each major information system and does not provide the information necessary for a periodic review of those requirements over the life of the system. This information is essential to enabling management to determine whether the requirements continue to exist and the systems continue to meet the purposes for which they were developed.

Recommendation: We continue to recommend that, in order to effectively manage information resources, CNS should document and maintain a formal systems development life cycle methodology in accordance with information systems development principles and practices.

Management's Response: The Corporation agrees that it should document and maintain a formal systems development life cycle methodology. We will seek the help of an external consultant to aid in the development and implementation of a methodology that supports the Corporation's system tools and information engineering approach. The methodology will be in accordance with generally acceptable information systems development principles and practices. We expect to complete the development of the methodology by calendar year end.

14. CNS Should Develop and Maintain System and Other Supporting Documentation (Auditability Survey, Vol. II, No. 14). Written policies and procedures to reflect the assigned duties of Volunteers in Service to America (VISTA) Management System (VMS) personnel did not exist, the VMS manual was outdated and did not accurately reflect the current functionality of the system and there were no procedures for preventing or detecting duplicate payments to VISTA members.

Status: Not addressed.

Discussion: CNS has established written policies and procedures to reflect the assigned duties of personnel involved with VMS. Additionally, CNS has updated the VMS manual to reflect the current functionality of the system. However, CNS has not established procedures for preventing or detecting duplicate paychecks to VISTA members.

Recommendation: CNS should establish procedures to periodically review the complete listing of all VISTA members for duplicate names. All duplicate names should be investigated to ensure that duplicate/erroneous payments are not occurring. CNS should perform this procedure by comparing project numbers and mailing addresses and further verifying the existence of members, as necessary.

Management's Response: The Corporation has developed an automated report that compares the first and last names of all VISTA members. Any matches in these names are printed out along with the member's social security number, project number, and mailing addresses. A subsequent review of this report is then conducted to ensure that no members are active under more than one payroll record and could potentially receive duplicate payroll.