
Office of the Inspector General

**Review of
Corporation Budgetary Controls**

**Report Number 98-12
January 22, 1998**

This report is issued to the Corporation's Management. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than October 3, 1998 and complete its corrective actions by April 6, 1999. Accordingly, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of the Inspector General
Corporation for National Service
Review of Corporation Budgetary Controls

Arthur Andersen LLP, under contract to the Office of the Inspector General, applied certain procedures, as discussed in the report, related to the Corporation's budgetary controls. The work was performed at the Corporation's headquarters in Washington, D.C. during the period October 1997 through December 1997, in accordance with *Government Auditing Standards*. We have reviewed the report and work papers supporting its conclusions and agree with the findings and recommendations presented.

The primary finding in the report is that the Corporation has not implemented a cost accounting methodology to enable it to systematically allocate costs to its various activities. These allocations are important for budgetary control because the Corporation's interpretation of its appropriations acts allows the allocation of certain costs to appropriations or allocations available only for specified activities such as the National Civilian Community Corps and for Investment for Quality and Innovation.¹ Prior to fiscal year 1998, these allocations were also necessary to comply with Congressionally mandated spending limitations for certain offices within the Corporation. Regardless, the Corporation needs a cost accounting methodology to quantify the costs to conduct and administer its programs and to assess their effectiveness.

The report also notes that the controls over cuff records were not working effectively. Weaknesses in the controls over cuff records were first reported in the Auditability Survey issued in March 1996 (OIG 96-38) and reported as not operating effectively in the Follow-up Studies to the Auditability Survey (OIG Reports 97-10, December 10, 1996 and 97-29, July 14, 1997).

We recommend that the Corporation implement a cost accounting methodology which allows it to assign indirect and overhead costs to its programmatic activities based on acceptable managerial cost accounting principles. Further, we recommend that the Corporation establish and monitor controls to ensure that amounts input into its general ledger are complete and accurate and performed in a timely manner.

The Corporation's response to a draft of this report is included as Appendix A. Although the Corporation did not address the specific recommendations in the report, the Corporation stated that its fiscal year 1998 appropriations no longer contain specific limitations for certain offices and that it would work with its General Counsel on the issues of documentation and cost allocations. The Corporation also stated that it believes that its procedures to verify the accuracy of its budgetary accounting information "generally operate effectively."

¹These activities are authorized under Subtitles E and H, of the National Community Service Act of 1990, as amended, respectively.

ARTHUR ANDERSEN

January 22, 1998

Arthur Andersen LLP

Inspector General
Corporation for National Service

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As requested, we have performed the procedures enumerated below relating to the Corporation for National Service's budgetary controls (contract 96-743-1006). We performed our work at the Corporation's headquarters in Washington, D.C. during the period October 1997 through December 1997. We performed these procedures in accordance with *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States. We did not perform an audit of the Corporation's financial statements, and the procedures described below are not sufficient to enable us to express an opinion on the Corporation's internal controls or its compliance with laws and regulations. Accordingly, we do not express an opinion on any Corporation financial statements, internal controls or compliance with laws and regulations. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The primary finding resulting from the application of these procedures is that although the Corporation's interpretation of its appropriation acts requires the allocation of costs to comply with Congressionally-mandated spending limitations, the Corporation has not implemented a cost accounting methodology to enable it to systematically allocate costs to its various activities. In fiscal year 1997, the Corporation allocated costs across its organizational units based upon its discretionary interpretation of the appropriation acts language.

We recommend that the Corporation implement a cost accounting methodology to quantify the costs to conduct and administer its programs. A sound cost accounting methodology is fundamental to any organization's financial management system, and is of particular importance to federal entities in fulfilling the requirements of the Government Performance and Results Act to assess and report on the efficiency and effectiveness of their programs. A formal cost accounting methodology will provide Corporation management and other decision makers with the cost information they need to better evaluate program performance, improve efficiency, and allocate resources.

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1. We reviewed the Corporation's 1997 appropriations legislation to understand its spending authorities and limitations. We also discussed with Corporation personnel the budget execution process to understand how its internal budgeting correlates with the legislation. We noted that the Corporation has made certain decisions concerning the use of its appropriations to finance various Corporation offices and activities that involve the interpretation of the various statutes governing the Corporation's operations. Management stated that while it has consulted with its Office of General Counsel (OGC) and the Office of Management and Budget (OMB) on these interpretations, it has not obtained any written documentation supporting the interpretations made.

The interpretations were necessary due in part to the manner in which the Corporation is authorized and funded. The Corporation's activities and programs are authorized by two separate acts. The Domestic Volunteer Service Act (DVSA) authorizes the Corporation's Volunteer in Service to America and National Senior Service Corps programs. The National and Community Service Act (NCSA) authorizes the Corporation's National Civilian Community Corps (NCCC), Learn and Serve America and Americorps programs. The Corporation's operations are also funded by two separate appropriations. Generally, the Corporation's DVSA programs are financed through an appropriation under the annual Department of Labor and Department of Health and Human Services appropriation act, while its NCSA programs are financed by the annual Department of Veterans Affairs and Housing and Urban Development appropriations act.

One pervasive interpretation issue relates to the funding of general and administrative expenses. For fiscal years 1995 through 1997, the NCSA appropriation legislation stated, in part, that "no funds from any other appropriation..." should be used to pay for general and administrative expenses of certain administrative offices. However, the Corporation funds certain departments of these offices with DVSA appropriations. For example, the NCSA appropriation legislation states that the Office of the Chief Financial Officer (CFO) and the Office of Managing Director, among others, should be funded solely by it; however, there are five departments within the Office of CFO (Administrative Services, Accounting, Grants Management, Procurement, Service Centers) and two departments within the Office of Managing Director (Public Affairs, Inter-governmental Affairs) that are funded by the DVSA appropriation. We also noted that general and administrative costs for all NCSA programs except NCCC are funded from NCSA administration funds and/or DVSA funds; NCCC general and administrative costs are funded directly from the NCCC appropriation.

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Additionally, the Corporation has made interpretations related to the NCSA Act of 1990, Subtitle H (*Investment for Quality Innovation*, Section 198: *Additional Corporation Activities to Support National Service*), which states in part that the "Corporation may carry-out this section directly ... or through grants, contracts, and cooperative agreements with other entities ... provide training and technical assistance and other assistance, may organize and hold conferences ... promote and recruit participants for programs ... support national and regional participant and supervisor training, including leadership training and training in specific types of service ..." Due to the leadership and supervisory training required of NCCC Team Leaders, and the leadership nature of AmeriCorps Leaders as well as positions within the National Service Leadership Institute, Public Liaison, Recruitment, and Training and Technical Assistance, the Corporation funds certain salaries and benefits of these positions with Subtitle H funds.

With respect to the interpretation issues, we recommend that the Corporation obtain written documentation from its OGC supporting its interpretations. As deemed necessary by OGC, Corporation management should obtain congressional clarification regarding the intent of the Corporation's appropriation acts. With respect to the funding of certain general and administrative costs, if OGC and/or Congressional clarification supports the funding of these costs from the DVSA appropriation, the funding should be allocated using an acceptable cost accounting methodology.

Regardless, the Corporation should implement a cost accounting methodology to quantify the costs to conduct and administer its programs and to assess their effectiveness. Specifically, all Corporation indirect and overhead costs should be assigned to its programmatic activities based upon acceptable managerial cost accounting principles. The methodology should reflect the Corporation's mission and be linked to its programs and the organizational units responsible and accountable for those programs. Additionally, the methodology should be integrated into the Corporation's financial information system.

2. For each of the 37 Corporation offices listed in Attachment I, we tested the roll-up of the FY 1997 Operating Budget – Plan III to the Allotment Authorizations, Apportionment and Reapportionment Schedules (SF-132), Department of Treasury Appropriation Warrants, and appropriation legislation (Public Law 104-204; Public Law 104-208), including rescissions. Except for the following differences, no exceptions were noted.

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	Allotment (in 000s)	Appropriation (in 000s)
NCSA - Innovation	\$29,989.6	\$30,000
NCSA - Administrative	\$24,892.0	\$25,000
DVSA - Administrative	\$27,692.6	\$27,850

Management stated that these differences are due to reserves for unanticipated salary expenses such as terminal leave or raises.

3. We agreed the fiscal year 1997 Operating Budget - Plan III for each of the offices in Attachment I to the Corporation's accounting system (Federal Success) on a general ledger account basis, noting several errors in Federal Success. The following table summarizes the errors.

Nature of Error	Number of Errors	Magnitude of Errors (in 000s)
Federal Success less than Office Budget	11	\$2,101.3
Federal Success greater than Office Budget	10	\$707.5
	Gross differences	\$2,808.8
	Net differences	\$1,393.8

Although the Corporation subsequently corrected these errors in Federal Success, procedures to verify the accuracy of budgetary control amounts input into Federal Success are not operating effectively. (We previously reported this finding in the Report on the Follow-up Study to Auditability Survey - Phase 2, dated July 14, 1997). Errors should be detected during the reconciliation of the Status of Funds to the cuff records; however, as indicated above, we noted 21 errors in Federal Success that had not been detected and corrected. The Corporation should establish and monitor controls to ensure that amounts input into Federal Success are complete and accurate. The Corporation should also establish and monitor controls over cuff record reconciliations.

4. We reviewed the "Report of Obligations and Expenses for 4th quarter of fiscal year 1997" (Plan 03 Version 01 dated October 28, 1997). We noted numerous instances in which obligations were recorded in excess of the amount budgeted. We determined that, in the aggregate, these differences did not exceed the related appropriations.

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Management indicated that the October 28 report was not the "final run," thus the differences might not exist on the final report. We subsequently reviewed the "Report of Obligations and Expenses for 4th quarter of fiscal year 1997" dated November 4, 1997. Corporation personnel stated that this report reflected the final close for fiscal year 1997. For the general ledger accounts (with balances greater than \$50,000 at October 28, 1997) showing overobligations in the October 28, 1997 report, we reviewed the November 4, 1997 report to determine the status of the overobligations. There were four accounts for which overobligations still existed at November 4, 1997. In the other instances, the budget was either revised upward and/or the obligations were revised downward. For instances in which the budget was revised, we reviewed the related Corporation budget amendment noting that the change was approved. Due to the number of changes in budgets from the October 28, 1997 report to the November 4, 1997 report, we requested that the Corporation provide us with copies of all budget amendments. We reviewed the amendments provided by the Corporation, noting that they all related to the National Civilian Community Corps. We noted that, in the aggregate, the amendments did not cause the NCCC budget to exceed the fiscal year 1997 NCCC appropriation.

For instances in which obligations were adjusted downward from the October 28, 1997 report to the November 4, 1997 report, the Corporation should determine whether the adjustments were proper. Also, because there are no system controls in Federal Success to prevent users from recording obligations in excess of budget, the Corporation should strengthen its controls relating to supervisory review of budgetary reports to ensure that obligations are not incurred in excess of budget.

During our review of the October 28, 1997 report, we also noted numerous instances in which actual costs incurred were less than budgeted. The Corporation should review these variations to assess whether the variations are reasonable, or possibly indicative of misstatements in the Corporation's records.

5. For the following four judgmentally selected offices, we agreed the budgetary control amounts on the approved fiscal year 1997 Operating Budget (Plan III) to the budgetary control amounts on the cuff records maintained by the budget officers. No exceptions were noted.

CFO/ Administrative Services
CFO/Service Centers - Atlanta
CFO/Service Centers - Southwest
AmeriCorps State & National

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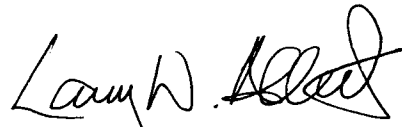
6. We asked management whether there had been reprogramming of funds other than that approved by law. Management responded that there had not been. We also asked management whether obligations have been charged to the proper appropriations in accordance with laws and regulations. Management responded that, to the best of its knowledge and belief, obligations have been properly charged. We obtained written representations from management on these assertions.
7. As part of the above procedures, we also discussed with Corporation personnel the controls over the budget cycle. Except as discussed herein and except for the matters already reported to you in our Report on the Follow-up Study to the Auditability Survey - Phase 2, we did not note any additional control deficiencies.

Management's comments relating to the procedures performed and our findings are included in Attachment I.

This report is intended solely for the use of the Inspector General 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.

Very truly yours,

ARTHUR ANDERSEN LLP

By 
Larry W. Albert

Attachment I

Corporation's Comments on Draft Report

MEMORANDUM

March 20, 1998

TO: Luise S. Jordan
Inspector General

FROM: Donna H. Cunningham *DHC*
Chief Financial Officer

SUBJECT: Follow-up Review of Budgetary Controls (OIG 98-12)

CORPORATION
FOR NATIONAL
★ SERVICE

Thank you for the opportunity to provide our comments on the draft report of the follow up review of the Corporation's budgetary controls which was performed by Arthur Andersen LLP under contract to the OIG. Our comments, numbered to correspond to the numbered items in the draft report, are as follows:

1. Language Interpretations

The draft report addresses two interpretations of authorizing and appropriations language made by the Corporation. Each should be treated separately.

A. The report noted that during the FY 1995 - FY 1997 period, the Departments of Veterans Affairs, Housing and Urban Development and Independent Agencies Appropriation Act contained language which limited the funding of certain offices to amounts provided in that appropriation bill. The Corporation interpreted that language, which listed the Office of the Chief Financial Officer among those offices that was to be funded through that appropriation, to mean the immediate office of the Chief Financial Officer, not other offices which report to the Chief Financial Officer, such as the Accounting Office.

At the time the Corporation was formed, it inherited the administrative structure of the former ACTION agency which was funded in the Departments of Labor, Health and Human Services, and Education and Related Agencies Appropriation bill. The administrative funds provided to the Corporation through the VA/HUD bill were modest and were to be split between the Corporation and the State Commissions on National and Community Service. The justification of the President's FY 1995 budget request for the Corporation to the Labor/HHS committee made it clear that it was requesting funding for these administrative offices in the Labor/HHS bill.

When the VA/HUD Subcommittee inserted the limiting language described above, it did not include an appropriation transfer of those administrative funds traditionally appropriated and included in the 1995 request in the Labor/HHS bill.

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The only thing that had changed since the founding of the Corporation was the creation of the Office of the Chief Financial Officer. Without any appropriation transfer and with funding for the administrative offices clearly in the Labor/HHS bill, the Corporation interpreted the language as meaning only the new Chief Financial Officer was to be funded out of the VA/HUD bill.

The funding for these CFO administrative offices has continued to be included in the Labor/HHS justification. The VA/HUD Subcommittee dropped the restrictive language in the FY 1998 appropriation bill. Thus, this issue does not appear to be relevant to current or future appropriations.

B. The report also noted that the Corporation has interpreted the authorizing language of Subtitle H activities, which states in part that the “Corporation may carry-out this section directly... or through grants, contracts...,” as allowing it to use funds appropriated to support that title to support certain individuals carrying out those activities. The Corporation will work with its General Counsel on the issues of documentation and clarification noted in the report.

The report recommends the Corporation implement a cost accounting methodology to assign all indirect and overhead costs to its program activities. The Corporation already charges salaries and benefits of staff who work on specific programs to the appropriation in which those programs are funded. In instances where those staffs serve programs funded in both appropriations, the Corporation has chosen to assign to one or the other of its two appropriations the costs of staff and related overhead. To implement a cost allocation system with our current accounting system would be difficult and time consuming. The Corporation is in the process of replacing that accounting system. As a new system is put into place, the Corporation will attempt to build into it and its related procedures a cost allocation system which fairly allocates costs with a reasonable administrative burden. As noted above, these assignments are the result of historic appropriation patterns and are spelled out in the budget justification documents. These funds amount to 4 or 5 percent of the total of the two appropriations.

2. Operating Budgets in Federal Success

The draft report indicates that “procedures to verify the accuracy of budgetary control amounts input into Federal Success are not operating effectively.” The Corporation believes the procedures to generally operate effectively. The procedures involve having the Budget Team review the budgets entered into Federal Success and having individual offices review these same budgets. The Federal Success budgets are reviewed at least each quarter and compared to the hard-copy operating budgets provided by the Budget Team to Corporation offices. The Arthur Andersen review was conducted during the time that the Budget Team was conducting its review and, as such, the auditors found items before the Budget Team had a chance to correct them.

Additionally, offices had not yet completed their cuff record reconciliations as the month was not over. The review was completed during the last month of the fiscal year when several amendments were issued, but prior to offices completing their reconciliations for that month.

3. Obligations Exceeding Amounts Budgeted

While obligations existed in Federal Success which created some line item (object class) budgets to be exceeded at the time of the review, it is important to note again that the review was conducted prior to offices having a chance to review the Status of Funds reports and submit corrections and adjustments, as appropriate, to Accounting. The Corporation had hoped to review the auditor's work papers prior to submitting this response to determine if the problems identified were clerical ones within the accounting office or whether they represented supervisory problems as indicated in the report. Unfortunately, we were not able to obtain those papers in time to make that determination. When that determination is made, the Corporation will take appropriate actions to lesson the chance of that happening in the future.

cc: Louis Caldera, COO
Kenneth Klothen, GC