
**Office of the Inspector General
Corporation for National Service**

**Recommended Improvements to the
Corporation's Internal Controls**

**Report Number 99-02
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Corporation for National Service
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This report was issued to Corporation management on November 17, 1998. 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 May 16, 1999, and complete its corrective actions by November 17, 1999. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

**Office of the Inspector General
Corporation for National Service**

Recommended Improvements to the Corporation's Internal Controls

The Office of the Inspector General, Corporation for National Service, engaged KPMG Peat Marwick LLP to audit the Corporation's Statement of Financial Position as of September 30, 1997.¹ The auditor's report on the financial statement, issued on October 9, 1998, was qualified because of the Corporation's inability to provide sufficient evidence to support the reasonableness of the amounts recorded for grant advances, grants payable, and the component balances of net position at September 30, 1997. In that report, the auditors reported material weaknesses in six financial management areas: the overall control environment that sets the tone for the organization, the National Service Trust, cash reconciliations, grants management, financial systems, and financial management.

During the engagement, the auditors also noted other matters involving the Corporation's internal controls that were not considered material weaknesses or reportable conditions. This report discusses these conditions and includes recommendations for corrective action.

OIG has reviewed the report and work papers supporting its conclusions and agree with the findings and recommendations presented. We provided a draft to the Corporation for review and comment. The Corporation stated that it would evaluate the issues and recommendations presented and include them in its corrective action plan as appropriate. The Corporation's response is included in its entirety as Appendix B.

¹OIG Audit Report 99-01, *The Corporation for National and Community Service, Statement of Financial Position, September 30, 1997.*

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2001 M Street, N.W.
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September 14, 1998

Inspector General
Corporation for National Service:

We have audited the 1997 Statement of Financial Position of the Corporation for National Service (the Corporation), and have issued our report thereon dated September 14, 1998. Our report was qualified because we were unable to satisfy ourselves as to the reasonableness of amounts recorded for grant advances, grants payable, and the component balances of net position at September 30, 1997.

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

During our audit, we also noted certain matters involving internal control over financial reporting and other operational matters that are not considered reportable conditions. These comments and recommendations are presented in Appendix A to this letter for your consideration and are intended to improve internal control over financial reporting or result in other operating efficiencies. Our audit procedures were designed primarily to enable us to form an opinion on the Corporation's Statement of Financial Position, and therefore may not bring to light all weaknesses in policies or procedures that exist.

This report is intended solely for the information and use of the management of the Corporation, its Board of Directors and its Inspector General and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

Fund Balance with Treasury

The Corporation submits payment schedules to the U.S. Department of Treasury (Treasury) which then prepares and distributes checks as indicated on the payment schedule. Currently, the Corporation records the disbursement of funds when the schedule is submitted to Treasury. However, the transfer of ownership rights to cash does not occur until Treasury prepares and disburses the checks. Although the time lag between payment schedule submission and check disbursement is typically short, an audit adjustment of approximately \$2.6 million had to be made at year-end to increase Fund Balance with Treasury for amounts that had not yet been disbursed by Treasury.

We recommend that the Corporation include the reversal of payment schedules that have not been disbursed by Treasury as of year-end in its closing procedures to ensure proper cut-off.

Trust Fund Investment Management

The fiscal year 1996 National and Community Service Act (NCSA) appropriation authorized the transfer of \$59,000,000 of NCSA funds into the Trust Fund. The Corporation was able to transfer the funds with the use of fiscal year or “fenced” funds. The fiscal year funds for 1996 were available for use from October 1, 1995 to September 30, 1996, and the “fenced” funds for 1996 were available for use from September 1, 1996 to September 30, 1997.

The Corporation elected to transfer \$54,980,000 of the \$59,000,000 with the use of “fenced” funds. Based upon review of supporting documentation, we noted the funds were not transferred to the Trust Fund until approximately nine months (May 1997) after the funds were first available to be transferred. The delay in transferring funds into the Trust Fund caused the Corporation to lose approximately \$2 million of interest revenue, assuming investment in September 1996.

We recommend the Corporation annually analyze appropriation availability and disbursement requirements to determine the appropriate timing of the Trust Fund transfers to maximize interest revenue.

Investments - Written Procedures

The Corporation’s portfolio manager is responsible for the investment of trust funds. Once the portfolio manager has determined the type of investment, the amount to invest, and the desired maturity date of the investment, he sends a memo to the Senior Director for Budget and Trust for review and approval prior to notifying Treasury of the purchase request. However, this procedure is not documented in the Corporation’s investments policies and procedures. The absence of documented internal control procedures increases the possibility that an individual hired to replace or substitute for the current portfolio manager may not be made aware of the

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required procedures, and therefore may not properly submit the purchase request to the Senior Director of Budget and Trust for review and approval prior to notifying Treasury.

We recommend that the Corporation periodically update and distribute to key personnel its investments policies and procedures to ensure all significant policies and procedures are documented and communicated.

Accounts Receivable

The Corporation has established general ledger accounts 1311, 1312, 1313, 1314, and 1315 for accounts receivable. Although the sum of these five accounts agrees to the sum of the Corporation's subsidiary accounts receivable ledgers, the individual account balances do not agree to the corresponding subsidiary ledgers and three of them had credit balances as of September 30, 1997. Because Federal Success does not have a code to enable the accounting department to properly write-off reimbursable agreement receivables, fiscal year 1997 write-offs were erroneously posted against general ledger accounts different than the accounts in which the related receivables were established. As a result, the Corporation is unable to properly account for receivable activity in each account, the individual balances are inaccurate, and individual accounts are not properly functioning as control accounts for the subsidiary ledgers.

We recommend that the Corporation determine the appropriate balance for each accounts receivable general ledger account and record adjustments to reflect these balances. The Corporation should also establish a code in Federal Success to properly write-off reimbursable agreement receivables so that such activity is recorded in the correct general ledger account. Implementing this recommendation will help ensure that the general ledger has accurate control accounts to which the subsidiary ledgers can be reconciled.

Property and Equipment

Office managers are responsible for maintaining tag lists of all capital equipment within their areas of responsibility. Tag lists should include tag numbers, item costs, purchase dates, asset locations, and other related information. During our test work, we noted some managers are not maintaining and updating tag lists, and information on the tag lists is incomplete or incorrect. For example, we noted that purchase order dates or payment dates are sometimes used as the acquisition date, as opposed to the date the item is received or placed into service. In addition, a physical inventory has not been performed in several years, and several Service Center assets were not included in the property and equipment listing originally provided to support the year-end balance.

The Corporation also lacks sufficient controls to ensure (a) adherence to its useful life policy for computer equipment, and (b) the return of all equipment assigned to employees and contractors before they leave the Corporation.

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These control weaknesses can result in the misappropriation of Corporation assets and the inaccurate reporting of assets and related depreciation expense in the financial statements.

We recommend that the Corporation develop and implement procedures to:

- tag property and equipment upon receipt;
- maintain a tag listing which details the proper acquisition date, cost, estimated useful life, asset location, and other relevant information;
- perform an annual property and equipment inventory, including those items at the Service Centers and other locations; and
- require employees and contractors to sign for property and equipment they receive and return such items before leaving the Corporation (e.g., through exit checklists).

In addition, we recommend that the Corporation follow its estimated useful life policy when calculating depreciation. A supervisor should review this calculation to ensure adherence to stated policy.

Health Insurance Claims

Generally accepted accounting principles require self-insured organizations to estimate claims incurred but not yet reported (IBNR) to insurance administrators based on historical data. The Corporation maintains a health care self-insurance program for VISTA and National Civilian Community Corps members, AmeriCorps leaders, and National Service fellows. This program covered approximately 5,000 individuals during fiscal year 1997. Currently, the Corporation accounts for the insurance expense when payment is made on a claim as opposed to when a claim is submitted for payment. This practice causes the inaccurate reporting of related liabilities and expense.

We recommend that the Corporation develop and implement procedures to properly accrue claims when submitted for payment and to record an IBNR estimate, based on historical data, at year-end.

Accrued Liabilities

Certain VISTA Management System (VMS) stipend liabilities were misstated by approximately \$41,000 in the general ledger at year-end. This situation occurred because relevant information stored in VMS did not transfer to Federal Success during the interface process.

We recommend that the Corporation determine the cause of the interface problem and correct it. In addition, the Corporation should periodically review the VMS stipend liabilities to ensure they are accurately reported.

Grant Advances and Payables Schedules

The Corporation prepared grant advances and payables spreadsheets by downloading relevant grant information from the U.S. Department of Health and Human Services (HHS) grants management system. When the information was downloaded, decimal points were excluded from the data. As a result, Corporation personnel had to review the information and manually insert decimal points at the appropriate places. Upon our initial review of these spreadsheets, we found approximately \$30 million in decimal point related errors.

We recommend the Corporation improve the preparation and review process for the grant advances and payables schedules to ensure they include the same dollar values that are stored in the HHS grant management system.

Net Position

The Corporation cannot rely on the balances in its net position-related general ledger accounts to prepare accurate financial statements. For the September 30, 1997, Statement of Financial Position, the Corporation “backed into” the components of net position using “total” net position per the adjusted trial balance rather than individual general ledger account balances. For example, for the unexpended appropriations component, the post-closing appropriated capital (account 3100) at September 30, 1997, totaled \$1.6 billion, more than double the amount reported on the original draft of the fiscal year 1997 financial statements for unexpended appropriations (\$526 million).

In addition, the usual relationships between budgetary and proprietary accounts in the general ledger do not exist. For example, while the post-closing appropriated capital totaled \$1.6 billion, the Corporation’s related unexpended budgetary accounts (4450 through 4800) totaled \$1.2 billion.

We recommend that the Corporation determine the appropriate balance for each component of net position, taking the revenue recognition policies of each fund (i.e., appropriated, trust, and gift) into consideration, and record adjustments to reflect these balances. The Corporation should also review all standard general ledger entries affecting the net position components to ensure they have the appropriate effect on the balances. These actions will help reduce the amount of manual intervention necessary to produce financial statements and will increase the reliability of those statements.

Obligated Unexpended Appropriations

During our test work, we noted the following exceptions to the Corporation's controls related to obligated unexpended appropriations:

- the Corporation was unable to provide readily available information to support 11 of the 78 (14%) sampled obligations;
- the supporting documentation for six of the 78 (7.7%) sampled obligations did not agree to the amounts posted in Federal Success;
- the supporting documentation for three of the 78 (3.8%) sampled obligations did not have proper approval; and
- the grant period had expired prior to fiscal year 1997 for six of the 30 (20%) sampled grant obligations.

As a result of these conditions, the Corporation can potentially obligate funds for unauthorized financial transactions or report obligations that are no longer valid. Also, the Corporation may not be able to detect the entry of erroneous information into its financial management system because supporting documentation is not readily available.

We recommend that the Corporation:

- improve its filing system to ensure that supporting documentation is readily available;
- enforce procedures to ensure that the supporting documentation for obligations is properly approved before being processed; and
- close-out expired grants, including the de-obligation of remaining award balances, on a timely basis.

Government Corporation Control Act

The Government Corporation Control Act (GCCA) requires that the financial statements of government corporations be audited by the Inspector General or by an independent external auditor. Because of the Corporation's known internal control weaknesses, an audit of its fiscal year 1997 statement of operations and statement of cash flows was not feasible. Therefore, the complete set of financial statements was not audited.

The GCCA also requires government corporations to submit an annual management report to Congress no later than 180 days after the corporation's fiscal year-end. The Corporation presently plans to provide the fiscal year 1997 annual management report to Congress in November 1998, at the earliest, which is eight months after the prescribed deadline.

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We recommend the Corporation correct known internal control weaknesses, so that it can prepare and submit a full set of audited financial statements and a corresponding management report to Congress within the prescribed period of time.

Complete and Accurate Preparation of SF-133, Report on Budget Execution

Based upon review of the September 30, 1997, SF-133, *Report on Budget Execution* for the National & Community Service, 95X8267 (the Trust Fund), we noted that interest revenue was excluded from the form. In addition, the Corporation could not provide adequate supporting documentation for the amount reported on the "Transfers from Trust Funds - Collected" line.

We also noted several fiscal year 1997 SF-133s included information which did not agree to the Corporation's fiscal year 1997 trial balance. Trial balance accounts that did not agree to the corresponding entry on the SF-133s include accounts receivable, accounts payable, and undelivered orders.

We recommend the Corporation implement more effective review procedures for its SF-133 process to ensure the forms are properly prepared, are supported with sufficient documentation and agree to the appropriate trial balance.

Timely Submission of SF-132, Apportionment and Reapportionment Schedule

OMB Circular A-34 requires the Corporation to submit SF-132, *Apportionment and Reapportionment Schedule*, to the President no later than (1) 40 days before the beginning of the fiscal year for which the appropriation is available or (2) 15 days after the date of enactment of the law by which the appropriation is made available. Based upon review of the Corporation's SF-132s, we noted the Corporation submitted all five required fiscal year 1997 SF-132 forms between 8 and 94 days late.

We recommend the Corporation develop and implement procedures to submit the SF-132s in accordance with OMB Circular A-34.