TESTIMONY OF J. RUSSELL GEORGE
INSPECTOR GENERAL
OF THE
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
BEFORE THE SUBCOMMITTEE ON VA, HUD, AND INDEPENDENT AGENCIES
OF THE SENATE COMMITTEE ON APPROPRIATIONS

APRIL 10, 2003

Mr. Chairman and members of the Subcommittee, thank you for inviting me here today. As you know, President Bush nominated me for the position of Inspector General of the Corporation for National and Community Service in February of 2002, and the Senate honored me by voting to confirm my nomination last July. This is my first appearance before this Subcommittee, and I appreciate the opportunity to discuss with you some of the major issues that have come to my attention since assuming my position.

Establishment of Evaluation Section

Before addressing the issue of the National Service Trust, I would like to point out that I am altering the structure of the Office of Inspector General (OIG) to expand its scope and to better enable it to serve its purposes. In that regard, I am in the process of establishing an Evaluation Section, and hope to have it fully operational in the coming months with an assistant inspector general and three evaluators. The mission of the unit will be to review the various functions of the Corporation and to make recommendations for improvement, hopefully before problems occur. It will also assist grantees and other beneficiaries of the Corporation's programs avoid pitfalls through proactive educational initiatives.

Review of the Corporation's Alternative Personnel System

When the Corporation was established in 1994, Congress permitted it to set up an "Alternative Personnel System," one that is different from the traditional Title 5 or General Schedule that exists in most Federal agencies.

Following complaints made by Corporation employees to their union, to Congress, the Corporation's Chief Executive Officer, and the Corporation's Chairman of the Board, the OIG engaged management specialists at Deloitte and Touche, LLP, to conduct a study of the system. DeLoitte and Touche was tasked to determine if the Corporation's personnel policies, procedures, and practices are able to accomplish and are achieving the Corporation's need to maintain adequate staffing and to administer in a fair and equitable manner the use of term appointments, performance bonuses, salary increases, and hiring actions under the policies created pursuant to the alternative personnel authority.

Based on this review, a final report will be issued in the coming weeks and it will make recommendations for improvement to the system that I believe will benefit all employees of the Corporation. Some of the recommendations will concern clarifying the roles and the authority of

Corporation managers in the system, making appointment and promotions procedures more clear, and ensuring that the budget process identifies the need for adequate funding for salary increases.

Audits of State Commissions

Approximately two-thirds of the Corporation's AmeriCorps grant funds go to State commissions, who are appointed by State Governors, who subgrant it to organizations in their States that perform AmeriCorps programs. We have been conducting audits of these commissions since 1999. In March we issued an audit report for the Indiana State Commission, and we plan to conduct audits of the State commissions in the States of Wisconsin, Ohio, Maine, Pennsylvania, and Connecticut in the coming year. As a result of past audits of State commissions, our auditors have made numerous questioned cost findings of the grantees. These costs were primarily due to inadequate record keeping on their part, and we have worked with commissions and Corporation management to resolve these findings.

We have also completed the annual audit of the Corporation's Financial Statement. KPMG, who completed the work, gave an unqualified opinion on the statements, but noted a reportable condition with respect to the situation that arose concerning the Trust. As I will discuss in greater detail shortly, we intend to review the Corporation's grant management procedures in the coming year.

Other audits that have been completed in the last six months include the Points of Light Foundation, Parents as Teachers, Navajo Nation Foster Grandparent Program, and RSVP of Bergen County, New Jersey. Work in progress includes the 2002 Fiscal Year Management Letter, and audits of congressionally earmarked funds to America's Promise - The Alliance for Youth, and Communities In Schools Inc.

National Service Trust Audit and Investigation

On November 11, 2002, Dr. Les Lenkowsky, the Corporation's Chief Executive Officer (CEO) informed me it had recently come to his attention that in the preceding months the Corporation had approved more AmeriCorps member positions as part of their grant awards to national service programs than the National Service Trust (Trust) could support.

The National and Community Service Trust Act of 1993 established the Trust to fund education awards and to pay interest that accrues on qualified student loans while an individual is serving as an AmeriCorps member. The Trust does not pay member benefits such as living allowances or health benefits, only education awards, interest forbearance, and Presidential scholarships. Education awards are for AmeriCorps members who successfully complete their term of service and request the award. After the award is approved it can be used to pay back the member's student loan, current education expenses or approved school-to-work programs through the member's qualified institution of higher learning defined under a Title IV Program Participation Agreement with the U.S. Department of Education. AmeriCorps members, in accordance with the National and Community Service Trust Act, have seven years to use their approved award. If a member does not use the award within seven years, the right to the award is forfeited.

In fiscal year 1994, the first year of the Corporation's operations, Congress appropriated $93,250,000 for the Trust. For all subsequent years, except fiscal year 2002, Congress has appropriated between $59,000,000 and $115,070,000 for the Trust. The Trust receives these funds under a "no year" appropriation, i.e., funds that are available until expended. The funds for the Trust are kept in an account in the U.S. Treasury and are invested in Treasury securities. The National and Community Service Trust Act requires that the Corporation ensure that there will be sufficient funds available in the National Service Trust to pay for education awards.

The CEO informed me that to prevent excessive Trust liability from occurring he had directed that program grantees cease enrolling members for their coming program year until the fiscal situation was resolved. The CEO also informed me that he had earlier reported the situation to this Subcommittee. On November 20, 2002, I received a letter from Chairman Bond requesting that my office investigate and audit the Corporation's management and oversight of the National Service Trust. Part of our review included the audit of the Corporation's financial statements being performed at the time by KPMG. I directed the OIG investigative staff to identify persons responsible for the situation, and to determine if the Anti-Deficiency Act had been violated. [1]

Audit of the Trust

We initially turned to the Corporation's financial statement for the year ending September 30, 2002, to determine whether the grant recipients had enrolled so many AmeriCorps volunteers that the Trust's liabilities had exceeded assets. The Corporation's financial statements indicated that the Trust was still solvent. As of September 30, 2002, the Trust's assets exceeded its liabilities by $1,851,000. The audit firm, KPMG, working under contract to conduct the financial statement audit, concurred in this judgment. An unqualified opinion on the Corporation's financial statements report was issued by the OIG on February 4, 2003, a copy of which is attached to my testimony.

However, KPMG auditors confirmed that the Corporation had not complied with the National and Community Service Trust Act when it approved, although not enrolled, more AmeriCorps positions in grant awards over the course of fiscal year 2002, than the Trust would have been able to financially support in the future. KPMG characterized this as a reportable condition but did not consider the matter a material weakness.

Section 129(f) of the National Service and Community Trust Act, 42 U.S.C. § 12581(f), requires that the Corporation approve national service positions in its grants to AmeriCorps programs by "taking into consideration funding needs for [education awards] based on

[1] One of the items requested in Chairman Bond's letter was to identify the Corporation staff responsible for managing, administering, and monitoring AmeriCorps member enrollment and Trust operations. I am not able to address this aspect of the request in my testimony, as this matter is still under review.

completed service." The Corporation concedes that it did not comply with its own authorizing legislation.

The reasons found by the auditors for the Corporation's approval of positions in excess of what the Trust could reasonably support were:

- The Corporation did not have effective internal controls to assess the impact of enrollments on the Trust prior to authorizing new national service positions.
- Corporation staff focused exclusively on appropriations made available for AmeriCorps grants, and did not adequately consider the impact of education awards when making grant decisions to support new national service positions.
- There was a lack of coordination between senior Corporation officials, AmeriCorps staff, Office of Grants Management staff, and Trust staff as to how many new national service positions could be allocated annually to the programs.

KPMG noted that under the grant award process in place during fiscal year 2002, the Corporation published Notices of Funds Availability based on its approved priorities and guidelines and appropriations level. KPMG found that AmeriCorps staff, in consultation with other senior staff, decided the funding level and the numbers of positions to be awarded to each program. These awards were made with regard to funds available for member living allowances and the grantee's administrative costs, but not with regard to education awards that could be funded by the Trust when members completed service. The AmeriCorps staff prepared a certification form that specified the grant budget and the number of positions allocated to that grantee's program.

Based on the certification prepared by the AmeriCorps staff, the staff of the Office of Grants Management issued a Notice of Grant award to the grantee. This document includes the grant number, and specifies the project period, award amount and number of approved national service positions for the program. Grants management staff sent the number of approved national service positions to the staff of the Trust. The information was entered into two distinct databases, the System for Programs, Agreements, and National Service Participants (now known as eSPAN)[2], and the Web Based Reporting System (known as WBRS)[3].

The auditors noted that AmeriCorps program officers and grant officers had access to the WBRS database and could approve additional AmeriCorps member enrollments in excess of what had been originally approved in the Notice of Grant Award, contrary to the rule specified in the Program Director's Handbook, which allows approval only by a grants officer. In addition, there were no controls in WBRS to prevent grantees from enrolling members after their program year had officially ended.

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[2] eSPAN is a database used principally by Trust personnel for the tracking and reporting of AmeriCorps members and their education award use. AmeriCorps member's ultimate approval and payment of their education award is initiated from this database.

[3] WBRS is a database established to facilitate program and member data input from the field. Grant recipients are responsible for inputting data for each new AmeriCorps member they enroll.

The number of approved national service positions uploaded into eSPAN and WBRS for program years 2000, 2001, and 2002, were approximately 59,000, 61,000, and 67,000 respectively, yet an inquiry by the OIG's investigative staff found that the Corporation based its budget estimates for the Trust on anticipated enrollments in the Trust that ranged from 49,717 to 51,717 for these years. The Corporation, as a matter of practice, previously approved more positions than it budgeted because historically many AmeriCorps members do not complete a term of service, and of those that do complete their term of service, some may not earn a full education award or do not use the education award.

Our investigation has determined that the Corporation successfully suspended enrollments of AmeriCorps volunteers into the National Service Trust before the liabilities created by new enrollees exceeded the Trust's assets.[4] KPMG noted that the Corporation gives grants to AmeriCorps programs for specific budget periods, and for approved national service positions documented on the Notice of Grant Award. Once a program receives an award it has one year to recruit AmeriCorps members for their particular projects and enroll them into the Trust. The beginning date for a program may start at anytime during the grantee's budget period. Even when the program's beginning date is the last month of the grantee's budget period, the program still has one year from that date to enroll all their approved members for that particular program year. This time lag allowed the Corporation to successfully pause enrollments of prospective AmeriCorps members before the Trust became insolvent.

Investigation of the Trust

Following up on Chairman's Bond's November 20, 2002, request the OIG initiated an investigation into whether the Anti-Deficiency Act had been violated with regard to the funding of the number of AmeriCorps members enrolled in the Trust. No evidence of a violation of the Anti-Deficiency Act was found. The inquiry confirmed KPMG's findings that conditions existed that contributed to a breakdown in communication and coordination between the Corporation's budget development function, the AmeriCorps Program staff and the Trust staff.

Our inquiry found that in the first years of the Corporation's existence, specifically 1994 and 1995, the Director of the National Service Trust at that time expected no more than 24,000 AmeriCorps members to enroll in the Trust, but this number was no more than a guess as there was no historical data to draw upon. During these first years, the Trust's liability was based on the number of enrollee's multiplied by the actual amount of the education awards.

Toward the end of 1995, it became evident to Corporation officials that actual AmeriCorps enrollment never reached the expected enrollment number and it was clear that not all enrollees were successfully completing their service. The pattern became clearer over subsequent years. For example, from program year 1994 through program year 2000, the actual number of AmeriCorps enrollments ranged from 25,149 in program year 1994 to a high of 52,891 for program year 2000, but the number of AmeriCorps members who actually earned an award ranged from 18,778 in program year 1994 to 36,353 for program year 2000.

[4] During the enrollment pause, the Chief Financial Officer's office performed an analysis of the Trust. This analysis assumed that if the Corporation ceased to exist and no new additional appropriations were received, the Trust's assets were sufficient to pay out awards for enrolled members.

Moreover, it later became evident to Corporation officials that many AmeriCorps members, who successfully completed a term of service and earned an education award, never used the award. OIG staff calculates that had the Corporation continued to base the Trust's liability along a straight line computation of one award per one enrolled AmeriCorps member, the Corporation would have had to commit a cumulative amount in excess of over $1 billion dollars from fiscal year 1994 through fiscal year 2002.

In 1996, based on the experience of these early years, the then National Service Trust director developed a series of formulas to estimate the number of enrollees who would successfully complete their service, when during their enrollment they would complete their service, and when, after completing their service, they would claim their education award. In addition to estimating raw numbers of AmeriCorps members, the formulas also estimated dollar amounts associated with the estimated education awards. These early formulas were also used to forecast estimated future funding requirements for the Trust, and became known as the Service Award Liability Model. The goal of the model was to provide better management of the Trust funds and to provide more realistic liability data for the Corporation's financial statements versus a strict liability of one award per one AmeriCorps member.

Despite the liability forecasts derived from the Service Award Liability Model, the yearly Congressional appropriations and Trust investment combined to create Trust fund surpluses that grew at a rapid rate. By 2000, the surplus in the Trust was at such a level that Congress rescinded $81 million from amounts in the Trust. In 2001, the surplus in the Trust was still considered to be in excess to the Trust's needs, and Congress rescinded an additional $30 million from amounts in the Trust.

In 2001, PriceWaterhouseCoopers was engaged to assess the Corporation's model. PriceWaterhouseCoopers found that the model produced reliable estimates and made recommendations for enhancements to it. Some of these enhancements included a fiscal versus program year approach, weighted average outlays to reflect changes in program year award amounts, a standardized discount and Treasury rate assumption, a centralized input worksheet, and a quarterly-basis approach versus yearly. The Corporation adopted these changes.

During discussions with the Office of Management and Budget and Congressional staff, in this same year (2001), Corporation management was informed that the Corporation's budget was going to be reduced. In an effort to prevent the perception that the Corporation's budget was going to be cut, Corporation management decided they could meet the administration's budget reduction by not requesting appropriations for the Trust. Corporation management, based on model forecasts, believed that there were sufficient funds in the Trust to cover the estimated liabilities, even with no appropriations. This belief led Corporation management to request no appropriations for the Trust in the Corporation's fiscal year 2002 budget request. In the Fiscal 2002 Budget Estimate and Performance Plan, dated April 2001, page 17, the Corporation stated:

> We have calculated the requirements for the Trust and have determined that no new authority is required in fiscal 2002 for the Trust Fund costs associated with new AmeriCorps members. This determination reflects several changes to

policies and estimating procedures when compared to prior year Trust Fund requests, including:

- The explicit recognition that future interest earnings in the Trust lower the requirements for new authority in the current year's budget request. We have made this change as a result of the review of the estimating model. In the past, the assumption was that future interest earnings would affect budget authority needs in the out years.
- A program budget that is based on no growth in the number of AmeriCorps members in 2002.
- An assumption that AmeriCorps will remain at 48,000 members beyond 2002.

There are sufficient balances in the Trust to cover the estimated education award liability associated with the members supported in the fiscal year 2002 program budget.

In May 2001, Chairman Bond requested that the OIG review the methodology used by the Corporation to determine that no additional Trust appropriations were necessary for fiscal year 2002. The OIG contracted with KPMG to perform this review. KPMG found adequate support for the Corporation's decision to request no additional Trust funding for fiscal year 2002:

> The Corporation's decision not to request additional funding for the Trust Fund for fiscal year 2002 is supported by the documentation and analysis reviewed. It indicates that sufficient Trust Fund assets will be available to fund educational awards, Presidential scholarships, and interest forbearance earned and expected to be paid for all service performed by Members through program year 2002.

KPMG noted that it was likely that Congress would need to appropriate approximately $75 million in fiscal year 2003 to fund the additional awards for the 2003 program year, assuming Congress elected to continue the AmeriCorps member levels consistent with historical experience over the past several years.

My investigation found that Trust liability projections were not being made by Trust staff, but by a senior-level official in the Corporation's Executive Office. The Trust Director's position description states that the person holding that position is solely responsible for all aspects of Trust operations, yet in actual practice, the Trust Director managed only day-to-day operations. Although Trust staff were aware of the liability projections, they did not have ownership of this process.

We also found that neither the WBRS nor eSPAN systems contained any automatic programming to alert Grants officers, AmeriCorps Program officers or Trust Office staff when AmeriCorps member enrollments reached a predetermined level. No safeguards were built in to prevent additional enrollments until reviewed and approved by Corporation staff. Although certain Corporation managers were aware that enrollments were increasing, the reporting and tracking of these enrollments were not timely. This lack of automated alerts and safeguards allowed AmeriCorps enrollees to exceed expectations, which resulted in a freeze on further enrollments.

In the summer of 2002, Corporation senior staff were aware that actual enrollments of AmeriCorps members in the Trust had exceeded the model forecasts, but it was not until late in the year that Corporation management realized that Trust liabilities could exceed assets. Congress passed a series of continuing resolutions to allow the Corporation and other Federal agencies to re-budget based on the prior year's authorizations. Since the Corporation had not requested or received fiscal year 2002 appropriations for the Trust, they were unable to budget any funds for the Trust from the continuing resolutions.

On July 11, 2002, the senior Corporation manager who had been tracking Trust enrollments sent an e-mail message to the CEO, the CEO's senior aide, the Chief Operating Officer, and the Director of AmeriCorps. This message informed the recipients that AmeriCorps member enrollment had reached 56,500 for program year 2001, that the estimated enrollment could reach 58,000 by year end, and that "down the line" the Corporation would have to be sure the Trust had sufficient funds to handle the increased enrollment.

On August 28, 2002, this official sent another message to the same addressees as his July 11, 2002, e-mail and also included the Director of Research and Policy Development, the Director of the Office of Public Affairs, and the Deputy Chief Financial Officer who at the time was serving as the acting CFO. This message stated that AmeriCorps enrollments had hit 60,000, an all time high and that the Trust budget funding estimates need to be updated "as we go forward."

Subsequent OIG interviews with the Corporation officials who received the messages found that most failed to make the connections between increased enrollments and Trust funding levels. One official stated he responded to the e-mail saying he would be careful about publicizing the good news because readers may question how the Corporation could exceed their target goal and still pay the additional amounts. Another official said that it did not become an issue until they realized that the fiscal year 2003 continuing resolutions prevented them from budgeting any funds for the Trust since no appropriations for the Trust had been requested in the prior year.

We found that during early November the Chief Financial Officer's staff informed her that there might not be enough funds in the Trust to cover future education awards due to the continuing resolutions. Shortly after this, she and other Corporation senior staff reviewed the situation and determined that the Trust's funding could be in a precarious position if the continuing resolutions did not end soon. The next day the CFO notified the CEO of the potential problem.

We determined that the Corporation could generate eSPAN reports showing numbers of AmeriCorps enrollments for any given time. Further, through interviews with the former Director of the National Service Trust and her staff, we discovered that the Corporation generated other reports showing the financial status of the Trust on a monthly basis. These reports were forwarded to senior Corporation management; however, there was no known reconciliation of the number of AmeriCorps enrollees to future Trust liabilities. Additionally, quarterly National Service Trust status/financial reports were sent to Congress detailing the Trust's assets, model calculated liabilities, revenues, expenses, and net position. The quarterly reports to Congress also contained AmeriCorps member enrollment data, but it appears that the AmeriCorps member enrollment data was never reconciled to the Trust status/financial reports.

Recommendations

At this stage of our review, the OIG is in a position to make some preliminary recommendations based upon the findings from our investigation, as well as conclusions reached by our auditors:

- Policies and procedures should be revised to ensure that the AmeriCorps Program Office staff, the Office of Grants Management staff and the Trust Office staff are involved in the budgeting process, national service position approval and amendment process. The Trust Office staff should ensure that funds are available in the Trust to meet the estimated liability to be incurred prior to national service position approval.
- Reports should be generated on a monthly basis to compare the number of approved national service positions to the actual members enrolled. Senior management should review these reports on a timely basis to ensure that enrollments do not exceed the Corporation's estimates.
- Automated controls should be implemented in WBRS to limit approval of additional enrollments to authorized officers in the Grants Management Office, and to prevent grantees from enrolling members after the program year enrollment period ends.

On January 7, 2003, the CEO directed that new procedures be implemented regarding AmeriCorps enrollment. My office has initiated work to assess these procedures and will issue a report on the matter. Initial meetings have been held with senior management. We are in the process of gathering and reviewing procedures that have been developed and are currently being implemented. Every two weeks, Trust enrollment Summary Reports are now being provided to senior management. These reports show the number of positions awarded and enrolled.

Mr. Chairman, this concludes my prepared statement. I will be pleased to answer any questions you might have.