
Office of the Inspector General Corporation for National and Community Service

Semiannual Report to the Congress
for the period
October 1, 1999 - March 31, 2000

Fiscal Year 2000
Semiannual Report No. 1

As required by the Inspector General Act of 1978, as amended, this report describes our activities and accomplishments for the first half of the fiscal year. Section 5 of the Act requires that the Corporation's Chief Executive Officer submit this report to the Congress and the Corporation's Board of Directors within 30 days of its receipt.

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EXECUTIVE SUMMARY

AUDIT SECTION

During this semiannual reporting period, OIG issued fourteen audit reports, including the report on the audit of the Corporation's 1999 financial statements and our final report on the Corporation's Action Plan for financial management and improvement. We began efforts to audit the Corporation's state commissions and issued pre-audit survey reports for six. Summaries of all audit reports issued during this period are on pages 1 through 14.

Financial Management

Our audit of the Corporation's fiscal year 1999 financial statements resulted in an unqualified opinion on the Corporation's Statement of Financial Position at September 30, 1999; however, the auditors were not able to render an opinion on the Statement of Operations and Changes in Net Position or the Statement of Cash Flows for the fiscal year. Five areas of the Corporation's financial operations were cited as materially weak (*page 1*).

As requested by Congress, OIG reviewed the Corporation's "Action Plan" for improving its financial management operations. OIG's sixth and final report on the Action Plan (issued December 1, 1999) identified several areas in which the Corporation needs to improve its planned corrective actions, including its lack of a cost accounting system, which would allow it to track expenditures of earmarked appropriated funds. The report also noted that the Corporation was without a comprehensive set of Corporation-wide policies and procedures, and that the self-assessment component of its management control plan

needs to be more comprehensive and include all assessable units (*page 2*).

Procurement Management

OIG audited costs claimed by the contractor responsible for administering the Corporation's health care benefits program. The audit resulted in questioned costs in excess of \$7 million (*page 4*).

INVESTIGATIONS SECTION

During this semiannual reporting period we received and processed 48 Hotline calls, opened 21 investigative actions, and completed 25 investigative actions. We referred eight matters to the Department of Justice for prosecution or civil enforcement (*page 17*).

Guilty pleas in two investigations this period resulted in a prison sentence and restitution for a former AmeriCorps sponsor's Executive Director; and in probation, restitution and forced community service for a former AmeriCorps Member (*page 15*).

A referral to management involving Corporation employees backdating purchase requests in an attempt to obligate and ultimately expend fiscal year 1998 funds resulted in management suspending a supervisor for 5 days without pay (*page 16*).

A referral to a state commission following our discovery of various forms of misconduct by grant recipient staff resulted in termination of the AmeriCorps grant and the grant recipient not receiving reimbursement for \$50,000.00 in questionable claims (*page 16*).

IG ACT REPORTING REQUIREMENTS

This table cross-references the reporting requirements prescribed by the Inspector General Act of 1978, as amended, to the specific pages in the report where they are addressed.

Requirement	Page
Section 4 (a)(2) Review of legislation and regulations	18
Section 5 (a)(1) Significant problems, abuses, and deficiencies related to the administration of Corporation programs and operations	1 - 17
Section 5 (a)(2) Recommendations with respect to significant problems, abuses, and deficiencies found in the administration of Corporation programs and operations	1 - 17
Section 5 (a)(3) Prior significant recommendations on which corrective action has not been completed	22 and 24
Section 5 (a)(4) Matters referred to prosecutive authorities	17
Section 5 (a)(5) Summary of instances where information was refused	<i>None this period</i>
Section 5 (a)(6) List of audit reports by subject matter showing dollar value of questioned costs and recommendations that funds be put to better use	13
Section 5 (a)(7) Summary of each particularly significant report	1 and 15
Section 5 (a)(8) Statistical table showing number of reports and dollar value of questioned costs	19
Section 5 (a)(9) Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	20
Section 5 (a)(10) Summary of each audit issued before this reporting period for which no management decision was made by end of reporting period	21
Section 5 (a)(11) Significant revised management decisions	<i>None this period</i>
Section 5 (a)(12) Significant management decisions with which the Inspector General disagrees	11

AUDIT SECTION

The Office of the Inspector General Audit Section is responsible for reviewing financial, administrative, and program aspects of Corporation operations. It carries out these responsibilities by conducting the audit of the Corporation's annual financial statements, evaluating the Corporation's management controls, auditing Corporation operations, and auditing individual grants, contracts, and cooperative agreements funded by the Corporation. All OIG audit reports are referred to Corporation management for action or information. Additionally, the Audit Section advises the Corporation in resolving audit recommendations. A list of the reports issued by the Audit Section during this period can be found on page 13.

FINANCIAL MANAGEMENT

Audit of the Corporation for National and Community Service's Fiscal Year 1999 Financial Statements (OIG Audit Report Number 00-01)

The Government Corporation Control Act (31 U.S.C. 9101 *et seq.*) requires OIG to annually audit the financial statements of the Corporation. To fulfill this requirement, OIG engaged KPMG, LLP to audit the Corporation's fiscal year 1999 financial statements. The audit was conducted in accordance with government auditing standards and included extensive audit procedures to overcome known material weaknesses. As a result, KPMG was able to issue an unqualified opinion on the Corporation's Statement of Financial Position at September 30, 1999. However, KPMG was unable to render an opinion on the Statement of Operations and Changes in Net Position or the Statement of Cash Flows for the fiscal year.¹

The report noted that material weaknesses were reduced from eight in fiscal year 1998 to five in fiscal year 1999. Two of the eight former material weaknesses are now classified as reportable conditions. One has been corrected to the extent that it will be described only in our final report on this audit, the "management letter" (OIG Report 00-38²). These improvements, and the Corporation's new accounting system, implemented during the final months of FY 1999, indicate that the Corporation continues to make progress toward producing auditable financial reports.

However, the five areas cited as material weaknesses in fiscal year 1999 were first reported as material weaknesses in 1996. They include: financial management and reporting, the Corporation's

¹ OIG Audit Report 00-01: "Audit of the Corporation for National and Community Service's Fiscal Year 1999 Financial Statements."

² OIG Audit Report 00-38: "Recommended Improvements to the Corporation's Internal Controls - Fiscal Year 1999 Financial Audit Management Letter" is expected to be issued within the third quarter of FY 2000.

general control environment,³ grants management, net position reporting, and fund balance with Treasury. The integrity of data in the National Service Trust and matters related to the Corporation's new accounting system's controls and reports were cited as reportable conditions. The report includes 30 recommendations for corrective action.

The Report on Compliance with Laws and Regulations repeats two areas of non-compliance with laws and regulations: the Corporation's substantial non-compliance with Federal financial systems requirements during the majority of fiscal year 1999; and the Corporation's practice to carry over grant funds when renewing grants that is not always in compliance with appropriation laws related to the use of National and Community Service Act funds.

We provided the Corporation management with a copy of the report for review and comment. In the Corporation's response, the Chief Executive Officer disagreed with nearly all of the audit findings, including the auditors' opinion.

Review of the Corporation for National and Community Service Action Plan (OIG Audit Report Number 00-13)

In our sixth and final report in compliance with requirements established in the House of Representatives Conference Committee Report accompanying PL 105-276 to review and comment on the Corporation's plan and progress in regard to the expenditure of the \$3,000,000 in funds earmarked for financial management reforms and urgent program administration needs, OIG reported that, as of August 21, 1999, several significant tasks have been achieved, such as the conversion to a new accounting system (Momentum) and the implementation of a document imaging capability for the National Service Trust. However, the report also identified several areas where the Corporation needs to improve its planned corrective actions. The most significant of these include:

- The Corporation lacks a cost accounting system to track actual expenditures against the funds allocated to Action Plan activities in accordance with the Corporation's fiscal year 1999 appropriation. A cost accounting system would also be beneficial to the Corporation in producing meaningful financial statements and to report on its performance by program activity as required under the Government Performance and Results Act.

³ Control environment factors include commitment to competence, management philosophy and operating style, organizational structure, and assignment of authority and responsibility. The control environment sets the tone of an organization, influences the level of control consciousness, and provides the discipline and structure of an organization.

- The system and users documentation for the National Service Trust imaging system is insufficient to enable the Corporation to effectively maximize the use of the imaging capability of the Trust.
- The documentation maintained by the Corporation for management accountability and control events, such as decisions made and actions taken to complete Action Plan tasks, is not always adequate to support task completion.
- A comprehensive set of Corporation-wide policies and procedures needs to be completed in order for Corporation personnel to effectively and efficiently perform their duties in accordance with management directives.
- The self-assessment component of the Corporation's management control plan needs to be more comprehensive and to be performed for all assessable units.
- A Chief Information Officer needs to be added to the Corporation management team to provide leadership in assessing Information Technology issues. ⁴

In its response to the report, the Corporation cited several of its findings and indicated general agreement with them. However, with respect to the report's 33 recommendations for management improvements, the Corporation responded:

“The draft report makes several recommendations, some of which have been previously identified in other audit reports. We agree with many of these recommendations, and disagree with others. In the FY 2000 Action Plan and as part of the audit resolution process, we will address those recommendations we agree with, and provide the Office of the Inspector General our rationale for those recommendations with which we disagree.”

OIG had not received information on the Corporation's rationale for those recommendations with which it disagrees. Further, as indicated in Table V of this report, 31 of the recommendations remain open as of March 31, 2000.

⁴ In January 2000, the Corporation appointed a Chief Information Officer.

PROCUREMENT MANAGEMENT

During fiscal year 1998 OIG audited the Corporation's procurement operations (OIG Audit Report 98-24, *Audit of the Corporation's Procurement and Contracting Processes and Procedures*). That audit revealed material weaknesses in the Corporation's award, monitoring, and oversight of its contracts and cooperative agreements. The number, nature, and significance of the audit's findings indicated that the Corporation's procurement process is vulnerable to fraud, waste, and abuse. Because of the nature of the reported deficiencies, OIG began a series of audits of the Corporation's individual contracts and cooperative agreements. These audits are intended to assess whether the costs are allowable, adequately supported, and charged in accordance with the terms of the contract or training and technical assistance agreements, and applicable laws and regulations. Audits performed during this reporting period reveal continuing issues with contract oversight and resulted in excess of \$7 million in questioned costs.

Audit of Corporation for National and Community Service Contract No. 95-743-1005 with Outsourced Administrative Systems, Inc. (OIG Audit Report Number 00-21, issued on January 6, 2000)

PricewaterhouseCoopers, LLP, under contract to the Office of Inspector General, audited \$20,232,535 in claimed costs for health care benefits paid on behalf of the Corporation for National Service and for administrative costs incurred during the period from October 1, 1994 through September 30, 1998, by Outsourced Administrative Systems, Inc. under CNS Contract No. 95-743-1005. The audit included tests to determine whether costs reported to the Corporation were documented and allowable in accordance with the terms and conditions of the contract.

Health Care Claims Audit Results

PricewaterhouseCoopers' statistical sampling and other tests revealed, among other things, that OASYS:

- did not perform coordination of benefits investigations as required by the contract;
- did not perform third party liability investigations as required by the contract;
- inconsistently and inaccurately applied pre-certification penalties;
- paid for medical procedures related to pre-existing conditions that should not have been paid;
- paid claims for ineligible members; and

- did not have adequate inventory controls for claims documentation.

PwC identified \$3,820,799 of extrapolated overpayment monetary errors and \$1,349,612 of extrapolated underpayment monetary errors resulting from these deficiencies.

Administrative Costs Audit Results

The firm also audited the administrative invoices submitted and paid under the contract and questioned \$2,209,436 of administrative costs billed, primarily because OASYS lacked adequate records to support administrative costs claimed. As a result of this work, PwC identified several internal control deficiencies including:

- OASYS did not have formal policies and procedures related to its cost accounting practices or controls in place to ensure the proper recording of labor to cost objectives;
- OASYS did not adjust submissions for final overhead rates that differ from the billed overhead rate; and
- OASYS did not have accounting staff trained in the Federal Acquisition Regulation or Federal Cost Accounting Standards requirements.

OASYS Computer Systems Review Results and Other Internal Control Matters

PwC's audit procedures included review of the three main systems for processing and recording data related to the contract. As a result of this work, PwC identified additional internal control deficiencies, including:

- OASYS did not have adequate procedures in place to ensure the security of its data center; and
- OASYS did not have adequate segregation of duties within both OASYS's core claims processing systems and its accounting system.

We provided a draft report to OASYS and the Corporation for review and comment. OASYS, through its attorneys, responded to the draft and disagreed with a majority of the findings and questioned costs. In its response the Corporation stated that it had reviewed the draft but did not have specific comments.

Evaluation of the Corporation's Oversight and Monitoring of the Cooperative Agreement with the National Association of Child Care Resource Referral Associations (OIG Audit Report Number 00-04)

OIG engaged Ernst & Young, LLP to evaluate and report on the Corporation's oversight and monitoring of its child care benefits program, which is administered by the National Association of Child Care Resource Referral Associations under a cooperative agreement (CA94TTPDC001). The review covered the Corporation's oversight and monitoring practices during the period June 1994 through September 1999.

The auditors concluded that the Corporation must strengthen the oversight and monitoring of the child care benefits program. The conditions leading to this conclusion included:

- the Corporation has not established comprehensive policies or performed sufficient procedures necessary to oversee and monitor its cooperative agreement with NACCRRRA;
- the Corporation does not obtain and maintain sufficient information to analyze the costs of child care; and
- the Corporation has not required NACCRRRA to provide all financial and performance reports required by the cooperative agreement.

The report discusses these conditions in detail and provides other information related to the child care benefits program. In responding to a draft of this report, the Corporation stated that it had reviewed the draft but did not have specific comments.

Audit of Corporation for National and Community Service Contracts No. CNCS-94-004 and 97-743-1006 with Aguirre International (OIG Audit Report Number 00-02)

Cotton & Company, LLP, under contract to the Office of the Inspector General, audited the amounts claimed by Aguirre International under Contract No. CNCS-94-004 and 97-743-1006. The audit covered the costs claimed during the period from October 1, 1994 to May 31, 1999. The Corporation awarded Contract No. CNCS-94-004 for the period October 1, 1994, to November 30, 1998. The Corporation awarded Contract No. 97-743-1006 for the period September 26, 1997, to September 30, 2002. The audit included tests to determine whether costs reported to the Corporation were documented and allowable in accordance with the terms and conditions of the respective contracts.

The auditors questioned \$7,279 (less than one percent) of costs claimed under the two contracts. However, \$293,010 of indirect costs for 1997 and 1998 are unresolved. Aguirre International claimed indirect costs based on the provisional indirect cost rates in its negotiated indirect cost rate

agreement, dated November 19, 1998, with the U.S. Agency for International Development (AID), its cognizant Federal agency. These rates are not finalized and, as a result, the claimed indirect costs are subject to revision.

The auditors also found a material weakness in Aguirre International's internal control structure related to training costs. Aguirre International bills costs related to some software training courses attended by its employees directly to Corporation and other Government contracts. Aguirre International uses these software packages on other contracts and to perform indirect functions, and its employees can reasonably be expected to use the software on other direct or indirect activities. Accordingly, employee training costs related to the use of these software packages should be treated as indirect costs.

In its response to a draft of the audit report, Aguirre International disagreed with the questioned costs. The Corporation's response stated that it had reviewed the draft but did not have specific comments.

Audit of Corporation for National and Community Service Cooperative Agreement No. 96CA000001 with Walker & Company, LLP (OIG Audit Report Number 00-03)

Cotton & Company, LLP under contract to the Office of the Inspector General, audited the amounts claimed by Walker & Company, LLP under Cooperative Agreement No. 96CA000001. The audit covered the costs claimed during the period from May 28, 1996 to April 30, 1998, the period of the agreement. The audit included tests to determine whether costs reported to the Corporation were documented and allowable in accordance with the terms and conditions of the agreement.

The auditors questioned \$276 per diem amounts claimed under the cooperative agreement that were above the allowable Federal Travel Regulation limits. The auditors also found that Walker & Company, LLP did not limit requests for cash advances to its immediate cash needs.

The auditors cited two material weaknesses in Walker & Company, LLP's internal control structure. First, Walker & Company, LLP does not have adequate timekeeping procedures. In their review of 140 employee time sheets, the auditors noted that nine did not contain supervisory approval; seven were not signed by the employees; and corrections on 26 of the reports were not initialed by the employee or supervisor. Second, Walker & Company, LLP does not have adequate procedures related to travel expense reports. In their review of 32 employee travel expense reports, the auditors noted that six did not contain supervisory approval, corrections on four of the reports were not initialed by the employee or supervisor; and one was not signed by the employee.

In its response to a draft of the report Walker & Company, LLP disagreed with the findings. In its response, the Corporation stated that it had reviewed the draft but did not have specific comments at this time.

GRANT MANAGEMENT AND OVERSIGHT

The Corporation awards National and Community Service Act (NCSA) and Domestic Volunteer Service Act (DVSA) grants to state and local governments, state commissions, institutions of higher education, and other not-for-profit organizations. Grantees are required, among other things, to expend funds only for allowable costs and to provide periodic reports to the Corporation to demonstrate programmatic and financial compliance with the terms of the respective grant agreements. The Corporation is responsible for ensuring that grantees comply with applicable laws and regulations related to the administration of grant awards, including those related to Federal cash management requirements.

The Audit Section performs both audits of the Corporation's oversight of grantees and audits of specific grants to assess whether reported costs were allowable under Federal regulations and whether grantees complied with the terms and conditions of the award. Each of our reports on Corporation grants contains recommendations for correcting the deficiencies identified in the reports. Typically, the recommendations are for the grantees to reimburse questioned costs and to establish and implement policies and procedures to prevent future instances of non-compliance and improve internal controls.

State Commission Pre-Audit Surveys

The Corporation for National and Community Service awards grants and cooperative agreements to state commissions, nonprofit entities, tribes and territories to assist in the creation of full and part time national and community service programs. Currently, in accordance with the requirements of the National and Community Service Act, the Corporation awards approximately two-thirds of its AmeriCorps State/National funds to state commissions. The state commissions in turn fund, and are responsible for the oversight of, subgrantees that execute the programs.

State commissions play an important role in the oversight of AmeriCorps State/National programs and expenditures, and the Corporation has indicated that it intends to give state commissions even greater responsibility. However, the Corporation lacks a management information system that maintains comprehensive information on its grants, including those to state commissions and their subgrantees. Moreover, although the Corporation began state commission administrative reviews in 1999, the Corporation has not carried out a comprehensive, risk-based program of programmatic oversight and monitoring of state commissions or their subgrantees. It is also unlikely that AmeriCorps programs are subject to compliance testing as part of state-wide audits under the Single Audit Act due to their size relative to other state programs.

Therefore, CNS OIG has initiated a series of pre-audit surveys intended to provide basic information on the state commissions' operations and funding. The pre-audit surveys are designed to provide

a preliminary assessment of the commissions' pre-award and grant selection procedures, fiscal administration, monitoring of subgrantees (including AmeriCorps Member activities and service hour reporting), and the use of training and technical assistance funds.

OIG will use the pre-audit survey information to select state commissions for audits over the next several years. For each survey, OIG issues a report communicating the results and making recommendations for improvement at the commission. In each report OIG has also recommended that the Corporation follow up with the commission to determine that appropriate corrective actions are put into place to address the conditions reported and that the Corporation consider the conditions in its oversight and monitoring. OIG will issue a report to Congress and the Corporation summarizing pre-audit survey results and findings after issuance of final reports for the first 18 state commission pre-audit surveys.

Field work has been completed at 24 state commissions, and as of March 31, 2000, OIG had issued final pre-audit survey reports for six state commissions including Tennessee, Pennsylvania, West Virginia, Missouri, Virginia and New Hampshire. Recommendations directed toward improvement at state commissions occur most often in the categories of fiscal administration and monitoring and evaluation of subgrantees.

Audit of the Corporation for National and Community Service Grant Numbers 340A167/01 & 02; 339A041/16 & 17; and 336A015/17 & 18 With the Health Association of Niagra County, Inc. (OIG Audit Report Number 00-05)

We engaged Leonard G. Birnbaum and Company to audit the Corporation's grants to Health Association of Niagra County, Inc. Under these grants, HANCI established a Retired and Senior Volunteer Program and a Senior Companion Program. The audit covered costs claimed during the period from April 1, 1997, to June 30, 1999. The audit disclosed several compliance issues, including:

- HANCI did not obtain the necessary prior approval from the Corporation before making budget revisions on the Retired and Senior Volunteer Program;
- Federal Cash Transactions Reports for the Senior Companion Program were not always submitted on a timely basis; and
- HANCI did not submit all progress reports for the RSVP program on a timely basis.

We also questioned costs totaling \$22,085 (less than two percent of total claimed costs), primarily because HANCI did not have an after-the-fact labor distribution system to charge an employee's time who worked on two separate programs.

In addition to the audit of claimed costs, Leonard G. Birnbaum and Company evaluated the monitoring and oversight of these grants by the Corporation. The auditors reported that oversight and monitoring procedures performed by Corporation staff included:

- reviewing and analyzing financial information and progress reports submitted by HANCI;
- providing periodic training sessions to HANCI staff during statewide and regional conferences; and
- performing periodic site visits.

However, the auditors found that improvements should be made in the Corporation's guidance regarding documenting the procedures performed and areas addressed during a site visit to a grantee, and in the Corporation's policies for ensuring that program personnel are complying with grant monitoring guidance.

In its response, the Corporation stated that it had reviewed the report but did not have specific comments. HANCI, in responding to the report, did not disagree with the report's findings, and outlined corrective actions it intended to take.

Audit of Corporation for National and Community Service Grant Award No. 95LSGVA013 to Close Up Foundation (OIG Audit Report 00-20)

We audited the funds awarded by the Corporation to the Close Up Foundation under Grant No. 95LSGVA013. The audit covered costs (\$368,890) claimed during the grant period from October 1, 1995 through December 31, 1998.

We questioned \$9,129 of the costs claimed under the award. The majority of these costs, \$8,187, was questioned because Close Up Foundation charged textbooks to the grant at a "discounted retail" unit price in lieu of actual costs. Further, related to the textbooks, we found that Close Up Foundation did not comply with OMB Circular A-122, *Cost Principles of Nonprofit Organizations*, which requires that costs be adequately supported. We recommended that Close Up Foundation establish a procedure to identify and document all costs, including the costs of textbooks, in accordance with applicable cost principles and award provisions.

In its response to the report the Close Up Foundation disagreed and stated that the textbooks in questioned were not developed under the terms of this grant. In addition, the Close Up Foundation stated that the Corporation agreed to purchase the textbooks at the discounted retail unit price.

AUDIT RESOLUTION

During the period October 1, 1999 through March 31, 2000 management issued final management decisions on four audit reports with questioned costs: Audit of Corporation Contracts with Ogilvy, Adams and Rinehart, OIG Report No. 99-07; Audit of Corporation Contract with R.O.W. Sciences, OIG Report No. 99-08; Audit of Corporation for National Service Contracts No. 96-743-1002 and No. 97-743-1005 With Advanced Systems Technology Corporation, OIG Report No. 99-11; Audit of Corporation for National and Community Service Grant Award No. 95LSGVA013 to Close Up Foundation, OIG Report No. 00-20. The table below summarizes the Corporation's management decisions in terms of allowed and disallowed costs.

Management Decisions on OIG Reports With Questioned Costs During the period October 1, 1999 - March 31, 2000					
Federal Questioned Costs*					
	Allowed		Disallowed		Total
	<i>(Dollars in thousands)</i>				
<i>Overall</i>	\$813	79%	\$220	21%	\$1,033
<i>Unsupported</i>	\$0	0%	\$97	100%	\$97

*The amount allowed represents costs claimed by a grantee and questioned in an audit that management subsequently determined were allowable. The amount disallowed represents questioned costs sustained by management.

Other Pending Management Decisions

In November 1999, OIG held an audit resolution meeting with Corporation officials. Discussions included the Corporation's draft proposed management decision for OIG Report No. 99-09, *Audit of the Corporation for National and Community Service Contract No. 95-743-1009 With Biospherics, Inc.* The Corporation proposed to allow \$737,919 of the \$739,458 of questioned costs

in the report, through ratification based on documentation provided by the auditee after the audit fieldwork and comment period for the draft report had concluded. OIG analyzed the documentation proposed by the auditee and proposed by the Corporation as support for costs questioned in the OIG audit. OIG found that problems with the documentation were numerous and varied. In one instance, the Corporation proposed to accept purchase orders instead of invoices as support to accept a questioned cost. In another instance, the Corporation proposed to accept price quotes to support a questioned cost of over \$100,000, pending receipt of other documentation. Finally, the Corporation was ready to accept a lease schedule (not an invoice) in support of a questioned cost of some \$96,000. The Corporation has been reviewing the matter since November.

In January 2000, OIG received the Corporation's proposed management decision for OIG Audit Report No. 99-08, *Audit of Corporation for National and Community Service Contract No. 97-743-1002 With R.O.W. Sciences, Inc.* The audited contract required advance approval from the Corporation for the use of subcontractors. R.O.W. billed \$97,000 to the Corporation for work performed by individuals employed by temporary employment agencies. The auditors determined that these costs constituted the use of subcontractors and lacked the necessary prior approval. Therefore, the \$97,000 was questioned in the audit report. OIG disagreed with the Corporation's decision to subsequently allow the \$97,000 in questioned costs. OIG concurred with the management decision only to the extent that it disallowed \$64,000 in other questioned costs.

In March 2000, the OIG received the Corporation's proposed management decision for OIG Audit Report No. 99-04, *Audit of the Congressional Hunger Center Cooperative Agreement No. 96ADNDC099.* OIG specifically disagrees with the Corporation's decision to allow \$95,999 of questioned costs based on the provision of documentation provided by the auditee. Per the Corporation's proposed management decision, the documentation had been warehoused during the time of the audit and had not been reviewed by the auditors. OIG remains skeptical of documentation that emerges under such circumstances. The auditees were notified in advance of the audit. Auditors were on site for an extended period of time, and shared their findings with the auditee during an exit conference. The auditee had a 30-day period in which to respond to the draft audit report, and did in fact make a response that was appended to the report. At no time were the above-noted documents produced to OIG or its auditors, nor was there ever a mention of their existence or possible existence.

**AUDIT REPORTS ISSUED DURING THE PERIOD
OCTOBER 1, 1999 THROUGH MARCH 31, 2000**

Report Number	Issue Date	Report Name	Federal Dollars Questioned	Federal Dollars Unsupported
<i>(Dollars in thousands)</i>				
00-01	3/31/00	Audit of the Corporation for National and Community Service's Fiscal Year 1999 Financial Statements	--	--
00-02	11/30/99	Audit of Corporation for National and Community Service Contract No. CNCS-94-004 and 97-743-1006 with Aguirre International	\$7	\$0
00-03	11/30/99	Audit of Corporation for National and Community Service Cooperative Agreement No. 96CA000001 with Walker & Company, LLP	*	--
00-04	12/14/99	Evaluation of the Corporation's Oversight and Monitoring of the Cooperative Agreement with the National Association of Child Care Resources Referral Associations	--	--
00-05	12/6/99	Audit of Corporation for National and Community Service Grant Numbers 340A167/01 & 02; 339A041/16 & 17; 336A015/17 & 18 with the Health Association of Niagra County, Inc.	22	21
00-09	2/9/00	Pre-Audit Survey of the Tennessee Commission on National and Community Service	--	--
00-13	12/1/99	Review of the Corporation for National and Community Service Action Plan	--	--
00-14	3/28/00	Pre-Audit Survey of the Pennsylvania Commission on National and Community Service	--	--
00-16	3/27/00	Pre-Audit Survey of the West Virginia Commission on National and Community	--	--
00-17	3/28/00	Pre-Audit Survey of the Missouri Community Service Commission	--	--
00-18	3/24/00	Pre-Audit Survey of the Virginia Commission on National and Community Service	--	--

**AUDIT REPORTS ISSUED DURING THE PERIOD
OCTOBER 1, 1999 THROUGH MARCH 31, 2000 – CONTINUED**

Report Number	Issue Date	Report Name	Federal Dollars Questioned	Federal Dollars Unsupported
<i>(Dollars in thousands)</i>				
00-19	2/9/00	Pre-Audit Survey of the New Hampshire Commission on National and Community Service	--	--
00-20	11/29/99	Audit of Corporation for National and Community Service Grant Award No. 95LSGVA013 to Close Up Foundation	9	8
00-21	1/6/00	Audit of the Corporation for National and Community Service Contract No. 95-743-1005 with Outsourced Administrative Systems, Inc.	<u>7,380</u>	<u>1,829</u>
TOTAL			<u>\$ 7,418</u>	<u>\$ 1,858</u>

* Less than \$1,000 in questioned costs.

INVESTIGATIONS SECTION

We began this reporting period with 29 previously opened investigative actions. During the reporting period we opened 21 new investigative actions and closed 25. We had 25 investigative actions pending at the end of this reporting period.

HIGHLIGHTS OF INVESTIGATIONS CLOSED DURING THIS REPORTING PERIOD

False Certifications for AmeriCorps Members Nets Prison Sentence and Restitution

We finalized an investigation we opened after receiving allegations that AmeriCorps Members at the Kenosha Volunteer Action Center, Kenosha, Wisconsin, at the direction of an AmeriCorps sponsor's executive director, falsified documents to reflect they had accumulated enough service hours to qualify for the AmeriCorps end-of-service award.

The executive director was indicted by a Federal Grand Jury in Milwaukee, Wisconsin, on six counts of violating Title 18, Section 1001, United States Code (False Statements). The indictment came after the Grand Jury heard evidence that the executive director falsely certified that AmeriCorps Members in the program she supervised had completed 1,700 service hours when in fact they had not. The executive director later pled guilty in Federal District Court to one count of violating Title 18, Section 1001, United States Code (False Statements), and was sentenced to serve four months in a federal penitentiary, followed by a period of home detention not to exceed six months, and three years of supervised probation. She was also ordered to pay restitution of \$14,868.00, to pay a fine of \$2,000.00, and to pay a special assessment of \$50.00. (96-024)

False Service Log & Forgery Result in Probation, Restitution, and Forced Community Service

We finalized an investigation we opened after receiving information indicating an AmeriCorps Member falsified her time sheets. Our investigation found evidence that the AmeriCorps Member, while assigned to provide "respite" services for a caregiver to the elderly and ill, falsified her Client Service Log by recording service hours that she did not serve. We also found evidence that the AmeriCorps Member forged the signature of the primary caregiver on one occasion and the signature of a secondary caregiver on two occasions.

The United States Attorney declined to prosecute due to the low dollar amount. The Florida State's Attorney accepted this matter for prosecution and the AmeriCorps Member was

subsequently arrested. The AmeriCorps Member was offered and accepted Pre-Trial Intervention. The AmeriCorps Member was ordered to serve a six-month probation period, to perform 50 hours of community service that cannot be associated with elderly or ill individuals, to pay restitution of \$417.96, to pay \$240.00 for costs of supervision, and to meet other requisites established by the Florida Department of Corrections. If the AmeriCorps Member meets all of the conditions of the Pre-Trial Intervention by the conclusion of the six-month probationary period, the Florida State's Attorney will dismiss the forgery charge. (99-020)

Reimbursement Disallowed and Grant Terminated

We finalized an investigation we began after receiving allegations that staff at an AmeriCorps program funded by the New York State Commission, and administered by the Health Association of Niagara County, Inc., had engaged in various forms of misconduct. The information we developed indicated that the program may have submitted false reports concerning AmeriCorps Member hours, activities, and other matters to the New York State Commission, and may have misused grant-funded assets. While we found no conduct that was accepted for prosecution, we did find questionable management and financial practices. As a result of our investigation and a review of the Health Association of Niagara County, Inc.'s expenditures, the New York State Commission and the Health Association of Niagara County, Inc., reached a written agreement which included the Health Association of Niagara County, Inc., not being reimbursed for over \$50,000.00 in questionable claims and termination of the AmeriCorps grant. (97-029)

Documents Backdated – Prosecution Declined – Management Suspends Director

We finalized an investigation where we found evidence that a Director of a Corporation Service Center, a Budget Analyst at the Service Center, and a Training Coordinator at the Service Center, backdated three separate purchase requests. This was apparently done in an attempt to enable them to obligate and ultimately expend fiscal year 1998 funds beyond the date the funds were available for obligation.

An Assistant United States Attorney with the United States Attorney's Office having prosecutive jurisdiction reviewed this matter and opined that a criminal violation of Title 18, Section 1001, United States Code (False Statements), may have occurred. Although he felt a criminal violation occurred, he declined to prosecute in lieu of administrative action by the Corporation.

We referred the matter to Corporation management and they suspended the Director from duty for 5 days without pay because of his involvement in backdating the procurement documents and directing subordinate employees to backdate procurement documents. (99-004)

INVESTIGATIONS

STATISTICAL SUMMARY OF INVESTIGATIONS	
Opened and Closed	
Number of Cases Open at Beginning of Reporting Period.....	29
Number of New Cases Opened During This Reporting Period.....	21
Number of Cases Closed During This Period With Significant Findings.....	3
Number of Cases Closed During This Period With No Significant Findings.....	22
Total Cases Closed This Reporting Period.....	25
Number of Cases Open at End of Reporting Period.....	25
Referred	
Number of Cases Referred for Prosecution During This Reporting Period.....	8
Number of Cases Accepted for Prosecution During This Reporting Period.....	4
Number of Cases Declined for Prosecution During This Reporting Period.....	4
Number of Cases Pending Prosecutive Review.....	0

REVIEW OF LEGISLATION & REGULATIONS

Section 4(a)(2) of the Inspector General Act requires the Office of the Inspector General to review and make recommendations about existing or proposed legislation and regulations relating to the Corporation's programs and operations. OIG recommendations are to address the impact of legislation and regulations on the economy and efficiency of the administration of the Corporation's programs and operations. OIG is also to make recommendations concerning the impact of legislation and regulations on the prevention and detection of fraud and abuse in programs and operations administered or financed by the Corporation.

REVIEW OF CORPORATION-PROPOSED REGULATIONS

The Government in the Sunshine Act requires Federal agencies to conduct certain business meetings in a manner that is open to the public. There are specific exceptions to this requirement, and particular procedures to follow for closing and documenting a meeting pursuant to an exception. Under the terms of the Sunshine Act, the Corporation is required to promulgate regulations implementing the Sunshine Act. During a prior reporting period, OIG advised the Corporation of this requirement. During the current reporting period, the Corporation promulgated a final rule implementing the Sunshine Act.

TABLE I
INSPECTOR GENERAL REPORTS WITH QUESTIONED COSTS

	Number	Federal Costs	
		Questioned	Unsupported
<i>(Dollars in thousands)</i>			
1. For which no management decision had been made by the commencement of the reporting period	8 *	\$2,890	\$558
2. Which were issued during the reporting period	<u>5</u>	<u>7,418</u>	<u>1,858</u>
3. Subtotals (1 plus 2)	13	10,308	2,416
4. For which a management decision was made during the reporting period	5 **	1,033	97
(i) dollar value of disallowed costs		220	97
(ii) dollar value of costs not disallowed	<u>—</u>	<u>813</u>	<u>0</u>
5. For which no management decision had been made by the end of the reporting period (3 minus 4)	<u>8</u>	<u>\$9,275</u>	<u>\$2,319</u>
6. Reports with questioned costs for which no management decision was made within six months of issuance	5	\$1,482	

*In OIG Audit Report 98-24, *Audit of the Corporation's Procurement and Contracting Operations*, we questioned \$547 thousand in costs claimed under Corporation contracts. However, as requested by OIG, the Corporation's Management Decision on this audit did not address \$539 thousand of the questioned costs due to a pending civil recovery action under the False Claims Act by the cognizant U.S. Attorney's Office.

**As discussed in the audit resolution section, a Management Decision was received on February 3, 2000 for OIG Audit Report 99-08, *Audit of Corporation Contract No. 95-743-1009 with R.O.W. Sciences, Inc.* OIG does not concur with the Corporation's allowance, by ratification, of \$97 thousand of the total of nearly \$162 thousand in Federal questioned costs.

**TABLE II
INSPECTOR GENERAL REPORTS WITH RECOMMENDATIONS
THAT FUNDS BE PUT TO BETTER USE**

	Number	Dollar Value
	<i>(Dollars in thousands)</i>	
A. For which no management decision had been made by the commencement of the reporting period	0	\$0
B. Which were issued during the reporting period	0	\$0
C. For which a management decision was made during the reporting period	0	\$0
(i) dollar value of recommendations that were agreed to by management		
based on proposed management action	0	\$0
based on proposed legislative action	0	\$0
(ii) dollar value of recommendations that were not agreed to by management	0	\$0
D. For which no management decision has been made by the end of the reporting period	0	\$0
Reports for which no management decision was made within six months of issuance	0	\$0

TABLE III
SUMMARY OF AUDITS WITH OVERDUE MANAGEMENT DECISIONS

Report Number	Title	Federal Dollars Questioned	Mgmt Decision Due*	Status as of March 31, 2000
<i>(Dollars in thousands)</i>				
99-04	Audit of Congressional Hunger Center Cooperative Agreement No. 96ADNDC099	\$ 233	7/21/99	3
99-08	Audit of Corporation Contract No. 97-743-1002 with R.O.W. Sciences, Inc.	162	11/29/99	2
99-09	Audit of Corporation Contract No. 95-743-1009 with Biospherics, Inc.	739	11/2/99	1
99-10	Audit of Corporation Contract No. 95-001 with TvT Associates, Inc.	297	1/29/00	1
99-15	Audit of the Corporation's Oversight and Monitoring of the Health Benefits Program	N/A	3/13/00	1
99-18	Audit of Corporation Contract with GS Tech, Inc.	<u>51</u>	2/23/00	1
	Total	<u>\$1,482</u>		

* Under section 6009 of the Federal Acquisition Streamlining Act of 1994, as amended, a final Management Decision must be made within six months of the final report issuance.

Status

- 1 – Management Decision is overdue.
- 2 – A Management Decision was received on February 3, 2000 for OIG Audit Report 99-08. However, OIG did not concur with the Corporation's allowance, \$97 thousand, of the Federal questioned costs.
- 3 – A Management Decision was received for OIG Audit Report 99-04. OIG concurs to the extent that the management decision disallows costs questioned in the audit. However, the management decision allows questioned costs based on the provision of additional documentation by the auditee, and OIG disagrees with this portion of the management decision.

**TABLE IV
REPORTS DESCRIBED IN PRIOR SEMIANNUAL
REPORTS WITHOUT FINAL ACTION**

Report Number	Title	Date Issued	Final Action Due*	Status Of Final Action
97-02	Audit of Oregon Youth Conservation Corps	12/23/96	12/23/97	<i>Overdue – Final action has not been reported to OIG</i>
97-12	Review of the National Alliance for Veteran Family Service Organizations	4/11/97	4/11/98	" "
98-02	Review of Pre-award Financial Assessment of Grant Applicants	4/27/98	4/27/99	" "
98-15	Audit of the Navajo Nation	6/29/98	6/29/99	" "
98-16	Audit of the Youth Volunteer Corps of America	6/30/98	6/30/99	" "
98-23	Auditability Assessment of the Corporation's FY97 Statement of Financial Position**	7/8/98	7/8/99	" "
99-01	Audit of the Corporation's FY97 Statement of Financial Position**	10/9/98	10/9/99	" "
99-02	Recommended Improvements to the Corporation's Internal Controls (Management Letter)**	11/17/98	11/17/99	" "
99-04	Audit of Congressional Hunger Center Cooperative Agreement No. 96ADNDC099	1/22/99	1/22/00	" "
99-05	Evaluation of the Corporation's Monitoring and Oversight of Cooperative Agreement Awarded to Congressional Hunger Center	2/26/99	2/26/00	" "

**TABLE IV – CONTINUED
REPORTS DESCRIBED IN PRIOR SEMIANNUAL
REPORTS WITHOUT FINAL ACTION**

Report Number	Title	Date Issued	Final Action Due*	Status Of Final Action
99-06	Review of the Corporation's Liability for Post-service Benefits Related to Former Commission on National and Community Service Grants	12/23/98	12/23/99	<i>Overdue – Final action has not been reported to OIG</i>
99-11	Audit of Corporation for National Service Contracts with Advanced Systems Technology Corporation	3/19/99	3/19/00	" "

* Under section 6009 of the Federal Acquisition Streamlining Act of 1994, as amended, a final action must be completed within 12 months of the report's issuance.

** The Corporation has incorporated its corrective action on these auditability and financial statement audit reports into its "Action Plan," its primary guide for corrective action. OIG agreed with this approach but noted that, because these findings and recommendations were first reported in fiscal year 1996, corrective actions should already have been implemented, and are, in fact, overdue.

**TABLE V
STATUS OF RECOMMENDATIONS ON
CORPORATION MANAGEMENT ISSUES**

	Number of Recommendations in Reports*	Corrective Action Completed**	Open Recommendations
<i>Corporation Financial Management</i>			
Audit of the Corporation's Fiscal Year 1999 Financial Statements (OIG Audit Report 00-01, issued March 31, 2000)	30	0	30
Review of the Corporation Action Plan (OIG Audit Report 00-13, issued December 1, 1999)	33	2	31
Audit of the Corporation's Fiscal Year 1998 Financial Statements and Management Letter (OIG Audit Reports 99-12 and 99-24 issued April 9, 1999 and June 30, 1999, respectively)	56	13	43
Audit of the Corporation's Procurement and Contracting Operations (OIG Audit Report 98-24, issued September 30, 1998)	26	9	17
Audit of the Corporation for National and Community Service Statement of Financial Position, September 30, 1997 (OIG Audit Report 99-01, issued October 9, 1998)	2	0	2
Recommended Improvements to the Corporation's Internal Controls (OIG Audit Report 99-02, issued November 17, 1998)	12	9	3
Auditability Survey & Follow-up Reports (OIG Audit Reports 96-38, 97-09, 97-29, and 98-23)	141	117	24
<i>Contract Oversight and Monitoring***</i>			
Audit of Corporation Contract No. 95-43-1005 with Outsourced Administrative Systems, Inc. (OIG Audit Report 00-21, issued January 6, 2000)	18	0	18

**TABLE V - CONTINUED
STATUS OF RECOMMENDATIONS ON
CORPORATION MANAGEMENT ISSUES**

	Number of Recommendations in Reports*	Corrective Action Completed**	Open Recommendations
Audit of Corporation for National and Community Services Contract No. CNCS-94-004 and 97-743-1006 with Aguirre International (OIG Audit Report 00-02, issued November 30,1999)	2	0	2
Letter Report on Review of ETR Audits that Cover Corporation for National Service Cooperative Agreement Number CA95-06 (OIG Audit Report 99-19, issued May 25, 1999)	1	0	1
Audit of Corporation for National and Community Service Contract No. 97-743-1001 with GS Tech, Inc. (OIG Audit Report 99-18, issued August 27, 1999)	3	0	3
Audit of Corporation for National Service Contracts No. 96-743-1002 and No. 97-743-1005 with Advanced Systems Technology Corporation (OIG Audit Report 99-11, issued March 19, 1999)	2	0	2
Audit of Corporation for National and Community Service Contract No. 95-001 with TvT Associates, Inc. (OIG Audit Report 99-10, issued August 2, 1999)	2	0	2
Audit of Corporation for National and Community Service Contract No. 95-743-1009 with Biospherics, Inc. (OIG Audit Report 99-09, issued May 6, 1999)	3	0	3
Audit of Corporation for National and Community Service Contract No. 97-743-1002 with R.O.W. Sciences, Inc. (OIG Audit Report 99-08, issued June 2, 1999)	3	0	3

TABLE V - CONTINUED
STATUS OF RECOMMENDATIONS ON
CORPORATION MANAGEMENT ISSUES

	Number of Recommendations in Reports*	Corrective Action Completed**	Open Recommendations
Audit of Corporation for National and Community Service Contracts No. 93-743-1005 and No. 96-743-1008 with Ogilvy Adams & Rinehart (OIG Audit Report 99-07, issued July 22, 1999)	4	0	4
Audit of Corporation's Oversight and Monitoring of the Health Benefits Program (OIG Audit Report 99-15, issued September 14, 1999)	11	0	11
<i>Grant Oversight and Monitoring</i>			
State Commission Pre-Audit Surveys issued during this SAR period	6	0	6
Corporation Grant Numbers 340A167/01 & 02; 339A041/16 & 17; 336A015/17 & 18 with the Health Association of Niagra County, Inc. (OIG Audit Report 00-05, issued December 6, 1999)	2	0	2
Evaluation of the Corporation's Oversight and Monitoring of the National Association of Child Care Resource Referral Associations (OIG Audit Report 00-04, issued December 14, 1999)	17	0	17
Audit of Corporation Cooperative Agreement No. 96CA000001 with Walker & Company, LLP (OIG Audit Report 00-03, issued November 30, 1999)	4	0	4
Review of the Corporation's Liability for Post-Service Benefits Related to Former Commission on National and Community Service Grants (OIG Audit Report 99-06, issued December 23, 1998)	4	2	2

**TABLE V - CONTINUED
STATUS OF RECOMMENDATIONS ON
CORPORATION MANAGEMENT ISSUES**

	Number of Recommendations in Reports*	Corrective Action Completed**	Open Recommendations
Assessment of AmeriCorps Service Hour Reporting (OIG Audit Report 98-19, issued August 27, 1998)	18	14	4
Review of Corporation Pre-Award Financial Assessment of Grant Applicants (OIG Audit Report 98-02, issued April 27, 1998)	3	1	2
<i>Audit Resolution</i>			
OIG FY97 Semiannual Report 1 (issued April 30, 1997)	<u>5</u>	<u>1</u>	<u>4</u>
Total	<u>408</u>	<u>168</u>	<u>240</u>

*Under section 6009 of the Federal Acquisition Streamlining Act of 1994, as amended, a final Management Decision must be made within six months of the final report issuance and corrective actions completed within one year.

**The Corporation has not implemented an audit resolution system as required by OMB Circular A-50, *Audit Resolution*. Therefore, OIG assessed whether corrective actions were completed based on its knowledge of the Corporation's operations, OIG records, and the results of OIG follow-up audits when available.

***OIG contract oversight and monitoring audit reports repeatedly recommended that the Corporation direct the contractor to limit its claimed costs to those allowable under the contract and under applicable cost principles, use only labor categories identified in the contract, and follow appropriate procedures for completing time sheets.