
CORPORATION

FOR NATIONAL



SERVICE

**Office of the Inspector General
Report Number 97-09**

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

December 9, 1996


*Submitted by:
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**ARTHUR
ANDERSEN**

Office of the Inspector General

Report 97-09

December 9, 1996

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

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

The review was limited to 62 actions which CNS planned to implement by August 31, 1996. According to the Arthur Andersen LLP report, 28 of the sixty-two corrective actions were adequately designed and operating effectively to correct or mitigate the related internal controls deficiencies at the time of their review; 34 of the actions were not adequate to correct or mitigate the deficiencies. We have reviewed Arthur Andersen's report and the workpapers supporting its conclusions and agree with the findings and recommendations presented.

¹ These issues were first reported to Congress in March 1996; specifically --

In Report 96-36, OIG reported that the Corporation's FY 1994 financial statements could not be audited because of deficiencies in systems, lack of documentation supporting the statements, and material weaknesses in CNS' management control structure; and

In Report 96-38, a two volume report to OIG, Williams, Adley and Company, LLP and Arthur Andersen LLP made 99 recommendations for corrective actions necessary to produce auditable financial statements for the Corporation.

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During the course of the work, we informed CNS of their assessments of the adequacy of the corrective actions. Therefore, the Corporation's responses related to the 34 uncorrected conditions include descriptions of actions that CNS initiated after the assessment. OIG has contracted with Arthur Andersen LLP for a second review of the Corporation's corrective actions. That review, presently scheduled to begin in the second quarter of FY 1997, will evaluate the effectiveness of these newly implemented actions as well as those for which CNS had scheduled corrective actions in its original plan.

The Government Corporation Control Act, as amended, (Section 9105(a)(1)) provides for an annual audit of the financial statements of a Government corporation by its Inspector General. However, Arthur Andersen LLP has concluded that CNS' internal controls were not adequate to enable an independent auditor to perform an effective and efficient financial statement audit in accordance with generally accepted auditing standards for fiscal year 1995, and that an audit of CNS' fiscal year 1996 financial statements may not be possible because many significant deficiencies remained uncorrected throughout the year.² OIG concurs with Arthur Andersen's conclusion.

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



Luise S. Jordan
Inspector General
Corporation for National and Community Service

² As of November 30, 1996, CNS has not yet prepared and submitted to OIG for audit, financial statements for fiscal years 1995 or 1996.

In October 1996, CNS completed a financial statement for the National Service Trust Fund from its inception in FY 1994 through September 1995 and submitted the statement to OIG for audit. OIG has engaged an independent accounting firm to audit of the Trust Fund's statements and presently plans to issue the resulting report during the third quarter of FY 1997.

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December 9, 1996

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

At your request, we have performed the procedures set forth below with respect to the Corporation for National and Community Service's (CNS) actions to correct the deficiencies reported in the Report on the Results of the Auditability Survey (the "Auditability Survey"), dated March 29, 1996. Our procedures were limited to those corrective actions (62 in total) planned for implementation by CNS by August 31, 1996. We have been engaged by you to perform an assessment, and issue a report thereon, of the effectiveness of the remaining corrective actions in the future. At that time, we will also report to you on our assessment of any additional corrective actions CNS takes for items identified in this report as not corrected.

The objective of our procedures was to assess the effectiveness of the actions taken by CNS to correct or mitigate the internal control deficiencies reported in the Auditability Survey, which disclosed numerous material weaknesses and other reportable conditions in CNS's internal controls. Of the 62 corrective actions we assessed, 28 of CNS's corrective actions were adequately designed and operating effectively during the period we performed our assessment to correct or mitigate the related internal control deficiencies; 34 of CNS's corrective actions were not adequate to correct or mitigate the related internal control deficiencies. The following table depicts our assessment of the adequacy of CNS's corrective actions for the material weaknesses, other reportable conditions and other observations for improvement identified in the Auditability Survey.

	Total Assessed	Corrected	Not Corrected
Material Weaknesses	22	6	16
Other Reportable Conditions	29	15	14
Other Observations for Improvement	11	7	4
Total	62	28	34

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

material weaknesses and other reportable conditions continued to exist throughout fiscal year 1996; the nature and significance of these deficiencies are such that they would significantly impact the extent of audit procedures performed and potentially preclude an audit of the fiscal year 1996 financial statements. Also, the timeliness and effectiveness of actions to be taken by CNS to address the material weaknesses and other reportable conditions that have not been corrected as of the date of this report will impact the auditability of CNS's financial statements for fiscal year 1997.

Section I of this report identifies the deficiencies that were corrected. Section II discusses our findings and bases for conclusions relating to the deficiencies that were *not* corrected. We have described our assessment of the corrective actions as they existed during the period in which we conducted our assessment. During the course of our work, we periodically communicated our assessment of the adequacy of the corrective actions to management. In certain instances, management has indicated to us that it has taken additional corrective actions since the time that our assessment was brought to its attention.

Our procedures included obtaining an understanding of the corrective actions, evaluating their design and, if adequately designed to correct or mitigate the deficiencies, assessing their operating effectiveness. To gain an understanding of the corrective actions, we interviewed CNS personnel about the action plans, read CNS written policies and procedures relating to the action plans, and observed personnel in the performance of their duties. To evaluate the adequacy of the design of the corrective actions, we assessed the efficacy of the actions to correct or mitigate the related internal control deficiencies. For those corrective actions that we concluded were adequately designed, we tested their operating effectiveness through discussion, observation and limited tests of processed transactions. These procedures are hereinafter referred to collectively as the "Follow-up Study."

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

- CNS Headquarters in Washington, D. C.
- San Francisco Service Center
- Dallas Service Center
- California State Office in Los Angeles
- Florida State Office in Orlando
- San Diego National Civilian Community Corps (NCCC) campus.

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

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

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

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

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

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

Our procedures for the Follow-up Study were limited solely to assessing the effectiveness of the actions taken by CNS to correct or mitigate the internal control deficiencies identified in the Report on the Results of the Auditability Survey, dated March 29, 1996. Volume I of the Auditability Survey describes conditions that were identified through procedures performed jointly by Williams, Adley & Co., LLP and Arthur Andersen LLP. Volume II of the Auditability Survey describes conditions related to the VISTA Management and Trust Fund Systems that were identified through procedures performed solely by Williams, Adley & Co., LLP.

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

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controls, other matters might have come to our attention that would have been reported to you.

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

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

Arthur Andersen LLP

December 2, 1996

CORPORATION
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Memorandum

To: Luise Jordan, Inspector General
Office of the Inspector General

From: Donna H. Cunninghame, Chief Financial Officer *DHC*
Division of Chief Financial Officer

Subject: Response to OIG Draft Report 97-09 Follow-up to the Auditability Study

Attached are the responses from the Corporation for National Service to the draft report submitted to us by Arthur Andersen. We appreciate having the opportunity to respond to this report in its current form so that some of the positive changes which are underway at CNS as a result of this survey may be formally reported along with the current survey findings and recommendations.

I also wish to express my appreciation to your office, as well as the members of the staff of Arthur Andersen for the extensive amount of assistance which was provided to the members of my staff during the conduct of this review. The procedures which were established by the audit group during the course of the survey, to provide early notification to CNS of original survey recommendations which were identified as not being corrected have proven to be invaluable. We used the time from being notified of these results to the point of this response to work on correcting those findings. As a result, we have been able to correct some of these control problems in just the last several months and have made major steps to resolve the remainder. Here are some of the major changes that will be made to address control issues which were identified in the report:

1. We are in the process of revising the workflow and establishing new procedures in both the NCSA and DVSA grant processing areas to provide for appropriate segregation of duties.
2. New procedures are being installed to provide for the appropriate control and processing of cash in the Service Centers and also in Headquarters.

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3. We have designed and implemented a complete revision to the reconciliation process for NCSA grants which will allow us to balance the Federal Success system to the Payment Management System at Health and Human Services.
4. Our Personnel systems have been revised to provide for the segregation of duties recommended by the survey.
5. Reconciliation procedures have been established in the payroll system to ensure that time cards are posted properly and that accurate leave balances are maintained.
6. We have initiated a project to improve the open obligation reporting system to our Budget Holders. This involved correcting over 2000 entries before the reports were brought to a level of accuracy consistent with the requirements of a well controlled and accurate budget system.
7. Procedures have been established to ensure that the receipt of Financial Status Reports at the Service Centers is monitored properly and appropriate follow-up to secure delinquent reports is in place.
8. We have begun the process for the establishment of a central receiving function to ensure that all goods and services acquired by CNS at its Headquarters location are handled in a controlled environment in which segregation of duties is effectively maintained.
9. We have significantly enhanced our security procedures for the Payroll system, the Vista Management system, and the general ledger.
10. We have established projects to correct documentation deficiencies in the DVSA function at each of the Service Centers, as well as in the NCSA function at Headquarters.
11. All Budget Holders are in the process of providing evidence of reconciliation of their cuff records to ensure continued compliance with requirements of the survey.
12. We have initiated a project to improve the accuracy of accounting for Cost-Share agreements which includes a complete reconciliation of all of 1996 activity.

Each of the changes outlined above has been initiated in only the last few weeks. We would expect that some level of experience and follow-up will be required before these changes will be ready for a subsequent review by the survey team.

We are also moving rapidly to resolve issues associated with cash reconciliations, financial monitoring of grants, and the establishment of performance standards for all operational areas within CNS. We expect to have substantive progress on each of these items over the next several months.

One of the most significant problems which CNS encountered in attempting to implement the recommendations of the original review was the absence of follow-up on changes which were made to correct those identified control deficiencies. That lesson will not be lost on future implementation efforts. To ensure that this does not happen in the future, CNS will be establishing two oversight mechanisms to verify continued compliance with the survey recommendations and other oversight controls which are required in a routine financial operation.

The first control process will be a monthly checklist which will be maintained on behalf of the CFO. This document will detail the various reporting elements from around the organization which are being initiated as a result of this review and for additional requirements of the financial management process. Examples of items to be tracked by this process are detailed reports on FSR delinquency by Service Center; reports on open obligations certified by Budget Holders; and grant files which have been audited for the period.

In addition, we will be initiating a series of Compliance Reviews at Headquarters and the Service Centers to begin verifying the status of implementation efforts associated with this survey and other changes which have been or will be made in the near term within our financial operations. As noted above, this new program's primary focus will be to ensure that new controls and revised procedures are implemented properly and stay implemented.

The last issue which is appropriate for comment is the overall Management Controls environment at CNS. I believe that the effort that is being put into correcting the control issues raised in the survey and the outline for future efforts clearly demonstrate that this organization is focused on creating an improved management control environment. However, much remains to be accomplished and continued adherence and attention to the control requirements outlined in this review will be necessary.

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I. RECOMMENDATIONS FOR WHICH CNS ACTIONS CORRECTED THE DEFICIENCIES

For the following recommendations made in the Auditability Survey, the actions taken by CNS were adequately designed and operating effectively during the period we performed our assessment and at the CNS locations at which we performed our assessment to correct or mitigate the related internal control deficiencies. For certain of these conditions, we present additional recommendations to help further enhance the effectiveness of CNS internal controls. These additional recommendations are intended to improve operations and do *not* relate to conditions that constitute significant internal control deficiencies.

A. Material Weaknesses That Were Corrected

1. **Substantiate Balances in Accounts Payable (Auditability Survey, Vol. I, No. 11).**

CNS originally reported \$1.4 million of grant-related payables in the accounts payable line-item in its 1994 financial statements. CNS had no procedures to periodically substantiate its accounts payable balance.

Status: Corrected. CNS implemented procedures that require Headquarters and Service Centers to review monthly accounts payable subsidiary ledgers and substantiate balances. CNS reported that the procedures were implemented as of July 31, 1996.

CNS has not yet issued its 1995 financial statements; as part of the second phase of the Follow-Up Study, we will review the statements to ensure that the accounts payable line-item does not include grant-related payables.

2. **Record NCSA Grant Advances in the Proper Period (Auditability Survey, Vol. I, No. 14).** Transaction dates for National and Community Service Act (NCSA) grant advances were not always recorded correctly in the general ledger.

Status: Corrected. CNS implemented procedures to ensure that NCSA grant advances are recorded in the proper period. CNS also provided training related to such procedures. CNS reported that the procedures were implemented and that the training was provided by May 31, 1996.

3. **Segregate Purchase Approval and Payment Certification Functions (Auditability Survey, Vol. I, No. 20).** There were two employees who exercised contracting authority and were also certifying officers which resulted in inadequate segregation of duties.

Status: Corrected. CNS segregated the duties of the two employees such that neither employee is both a contracting officer and a certifying officer. CNS reported that it had segregated the duties as of April 30, 1996.

4. Improve Procedures over Advances to NCCC Members (Auditability Survey, Vol. I, No. 25). CNS provided advances on stipends to National Civilian Community Corps (NCCC) members at the beginning of their term of service. The Accounting Division recorded these advance checks as payroll expenses, instead of properly recording the amounts as advances. The advance process was not subject to supervisory review. In addition, the process included incompatible duties which had not been adequately segregated.

Status: Corrected. CNS implemented a policy that prohibits the issuance of advances to NCCC members. CNS issued the policy on July 31, 1996.

5. Record Returned Payroll Checks in VMS (Auditability Survey, Vol. II, No. 4). Returned payroll checks for Volunteers in Service to America (VISTA) members were not being recorded in the VISTA Management System (VMS) due to system limitations.

Status: Corrected. CNS modified VMS to permit recording returned payroll checks and implemented procedures to record such checks in VMS. CNS reported that the corrective actions were implemented as of July 31, 1996.

To further enhance its internal controls, CNS should establish procedures to stamp returned checks as nonnegotiable immediately upon receipt (i.e., at the first rather than second point of intake). Also, CNS should consider recording returned checks in VMS upon receipt (i.e., prior to receiving the confirmation from Treasury).

6. Record Current Enrollee Data in the Trust Fund System (Auditability Survey, Vol. II, No. 5). For fiscal year 1995, data for 20,000 enrollees was not entered into the Trust Fund System (TFS). The interface software which updates the information from the scanner equipment to the TFS was not completely developed.

Status: Corrected. CNS completed the development of the interface software which enabled CNS to enter data for the fiscal year 1995 enrollees into TFS. CNS reported that the corrective actions were implemented as of March 29, 1996.

B. Other Reportable Conditions That Were Corrected

7. Reconcile Payments Generated through ECS (Auditability Survey, Vol. I, No. 30). CNS did not have procedures in place to ensure that all payments made through Electronic Certification System (ECS) of the U.S. Department of the Treasury were recorded in the general ledger.

Status: Corrected. CNS implemented procedures to ensure ECS transactions are properly recorded in the general ledger. CNS reported that the corrective actions were implemented as of March 29, 1996.

CNS should design procedures to ensure that VISTA Management System (VMS) reissued checks are also entered into the general ledger.

8. Record Returned Checks in the General Ledger (Auditability Survey, Vol. I, No. 31). In fiscal years 1994 and 1995, CNS did not record returned checks related to Volunteers in Service to America (VISTA) members in the general ledger or in the VISTA Management System (VMS).

Status: Corrected. CNS implemented procedures to record returned checks in the general ledger and VMS. CNS reported that the corrective action was implemented as of July 31, 1996.

To further enhance its internal controls, CNS should establish procedures to stamp returned checks as nonnegotiable upon receipt (i.e., at the first rather than second point of intake). Also, CNS should consider recording the returned checks in the general ledger upon receipt (i.e., prior to receiving the confirmation from Treasury).

9. Record Gift Expenses in the General Ledger (Auditability Survey, Vol. I, No. 37). CNS recorded gift revenue in the general ledger; however, in fiscal year 1994, CNS did not account for the related expenses in the general ledger.

Status: Corrected. CNS modified the general ledger to permit recording gift-related expenses and implemented procedures to record such expenses in the general ledger. CNS reported that the corrective actions were implemented as of March 31, 1996.

As recommended in the Auditability Survey, we continue to suggest that CNS seek to resolve the ambiguities of provisions of the National and Community Service Act of 1990 related to the deposit and use of donations.

10. Enforce Procedures to Reduce Ratifications (Auditability Survey, Vol. I, No. 39). CNS ratified numerous purchases in fiscal years 1994 and 1995.

Status: Corrected. CNS issued a policy on April 23, 1996 relating to the appropriate use of ratifications and effectively enforced procedures to reduce them.

11. Ensure Certification of Funds Availability for All Purchases (Auditability Survey, Vol. I, No. 41). There were instances in which a procurement official had approved a purchase order without first certifying funds availability.

Status: Corrected. CNS implemented procedures that require procurement officials to obtain certification of funds availability from Budget Officers prior to approving purchase orders. CNS reported the procedures were implemented as of March 29, 1996.

12. Require Approval of Changes to Grant Documents (Auditability Survey, Vol. I, No. 44). There were instances in which the justification and approval of changes made to procurement requests, grant applications, and budgets had not been documented.

Status: Corrected. CNS implemented procedures to require approval of changes to grant documents. CNS reported the procedures were implemented as of March 29, 1996.

13. Require Approval of Changes to Procurement Documents (Auditability Survey, Vol. I, No. 52). There were instances in which the justification and approval of changes to procurement requests and purchase orders had not been documented.

Status: Corrected. CNS implemented procedures to require approval of changes to procurement documents. CNS reported the procedures were implemented as of March 29, 1996.

14. Allow Only Properly Authorized Personnel to Approve Procurement Actions (Auditability Survey, Vol. I, No. 53). There were instances in which purchase orders had been signed by a CNS official who had not been delegated the authority to approve procurements.

Status: Corrected. CNS implemented procedures to ensure that purchase orders are only approved by Contracting Officers with Certificates of Appointment. CNS reported the procedures were implemented as of March 29, 1996.

15. Comply with Prompt Payment Act Reporting Requirements (Auditability Survey, Vol. I, No. 58). CNS did not submit payment performance data to Office of Management and Budget (OMB) as required by the Prompt Payment Act. The report which CNS submitted for fiscal year 1995 contained incomplete and inaccurate data.

Status: Corrected. On March 29, 1996, CNS submitted a revised report to OMB.

16. Resolve NFC Payroll Suspense Items on A Timely Basis (Auditability Survey, Vol. I, No. 60). CNS payroll processing is performed by the U.S. Department of Agriculture National Finance Center. CNS did not have procedures in place to ensure the timely resolution of items in a suspense file created during the upload of NFC payroll information into the general ledger.

Status: Corrected. CNS implemented procedures to resolve payroll suspense items after each upload of NFC payroll information into the general ledger. CNS reported the procedures were implemented as of March 29, 1996.

17. Strengthen Procedures Related to Investment Decisions (Auditability Survey, Vol. I, No. 61). The sole authority to make all decisions related to the investments of the National Service Trust resided with one CNS official. This authority included decisions over what type of investment, how much to invest and the time period of investment. Because the authority for initiating and approving transactions resided with only one employee, the risk existed that errors or irregularities could occur and not be detected.

Status: Corrected. CNS implemented procedures that require two officials in the Department of the Chief Financial Officer to approve all investment decisions related to the National Service Trust. In addition, only designated employees in the Accounting Division (other than the approving officials) have the authority to communicate the investment decisions to the U.S. Department of the Treasury. CNS reported that the corrective actions were implemented as of March 29, 1996.

18. Address Access Delays Experienced by VMS Users at State Offices (Auditability Survey, Vol. II, No. 9). In both the California and Florida State Offices, users had to wait up to an hour to access the VISTA Management System (VMS). The Department of Automation Services at Headquarters was not notified of this problem.

Status: Corrected. CNS decreased the time required by VMS users to access the system. VMS Users are familiar with the proper log on procedures. If any delays are experienced, the VMS Users notify the help desk immediately. CNS reported that the corrective actions were implemented as of March 29, 1996.

19. Do Not Perform VMS Test Work in the Production Environment (Auditability Survey, Vol. II, No. 11). Volunteers in Service to America (VISTA) payroll test work was performed in the VISTA Management System (VMS) production system environment. This test work involved verification of processing after software changes and modifications had been made.

Status: Corrected. CNS no longer performs VMS test work in the production environment; CNS created a simulated off-line test environment in which it performs such testing. CNS reported that the off-line test environment was created as of March 29, 1996.

20. Review the VMS/Trust Fund Electronic Link (Auditability Survey, Vol. II, No. 12). A review of the information flow between VISTA Management System (VMS) and the Trust Fund System had not been performed since the Trust Fund System was implemented in September 1995.

Status: Corrected. CNS contracted an outside consultant to perform a review of the link between VMS and the Trust Fund System. The consultant reported on the results of the review to CNS on July 12, 1996; no problems were identified in the report.

CNS should ensure that such reviews are performed periodically.

21. Maintain An Audit Trail of Updates to Records in the Trust Fund System (Auditability Survey, Vol. II, No. 13). Changes and corrections for the Trust Fund System were made directly to the database, bypassing data entry screens and all edit routines. An audit trail of these updates did not exist.

Status: Corrected. CNS implemented procedures that require the Trust Fund Database Administrator to maintain documentation for all changes made to the Trust Fund System. CNS reported that they implemented the procedures as of March 29, 1996.

A new system is being developed and is scheduled for completion by March 1997. Until the new system is implemented, CNS should consider enhancing the functionality of the Trust Fund System to include screen enhancements that are available to the Administrator, but are not currently programmed. These enhancements should allow for greater efficiency for the input of corrections and will reduce administrative costs relating to the Trust Fund System.

C. Other Observations That Were Corrected

22. Select, Appoint and Terminate Contracting Officers in Accordance with the FAR (Auditability Survey, Vol. I, No. 68). CNS did not have a formal, documented system for the selection, appointment and termination of Contracting Officers. Certain procurement personnel who acted as Contracting Officers had not been issued a Certificate of Appointment.

Status: Corrected. CNS implemented a formal, documented system for the selection, appointment and termination of Contracting Officers. In addition, the Contracting Officers were issued Certificates of Appointment. CNS reported that the corrective actions were implemented as of August 2, 1996.

23. Selectively Review Travel Vouchers (Auditability Survey, Vol. I, No. 69). Accounting personnel audited 100 percent of employee travel vouchers submitted for payment.

Status: Corrected. CNS implemented procedures to audit samples of vouchers at Headquarters. CNS reported that the procedures were implemented as of March 29, 1996.

To further enhance its sampling procedures, CNS should provide guidance on how to expand sample sizes in relation to the number of errors found. CNS should also provide training to staff and volunteers on the proper documentation of travel expenses to help reduce errors and follow-up. Sampling is not currently performed at the Service Centers due to the number of errors on the vouchers. CNS should require the Service Centers to implement Headquarters' sampling approach once its error rates on travel vouchers decrease to an acceptable level.

24. Develop Comprehensive Procurement Policies (Auditability Survey, Vol. I, No. 71). CNS did not have comprehensive policies and procedures over the procurement process.

Status: Corrected. CNS developed and documented comprehensive procurement policies. These policies included procedures for purchase requests, proposals, and contracts. CNS reported that the corrective actions were implemented as of April 15, 1996.

25. Designate a Contact Person for Payroll System Problems (Auditability Survey, Vol. I, No. 74). CNS did not have a dedicated systems administrator for the Personal Computer Time and Attendance Remote Entry (PC-TARE) database. As a result, PC-TARE Input Technicians did not know to whom they should have communicated problems.

Status: Corrected. CNS designated the PC-TARE Input Technician and the Payroll Supervisor at Headquarters as the contacts for ensuring that problems identified by PC-TARE Input Technicians at the Service Centers are addressed. CNS reported that these individuals were appointed as of March 29, 1996.

26. Secure the Computer Room Door During Business Hours (Auditability Survey, Vol. I, No. 77). The door to the computer room was closed but was not locked during business hours. All CNS personnel had access to the computer room regardless of their business need for such access.

Status: Corrected. CNS installed a cipher lock on the computer room door to limit access during business hours. CNS reported that the lock was installed as of March 29, 1996.

27. Improve Safeguards Against Fire in the Computer Room (Auditability Survey, Vol. I, No. 78). A fire extinguisher was not available in the computer room.

Status: Corrected. CNS installed fire extinguishers in the computer room. CNS reported that the fire extinguishers were installed as of March 29, 1996.

Although the risk of damage due to fire has been mitigated, the computer room is still used as a temporary storage area for computer equipment and boxes due to lack of storage space at Headquarters. We continue to recommend that alternative storage areas be established.

28. Implement a Formal Requirement for a Second Review and Approval of Trust Fund Payments (Auditability Survey, Vol. II, No. 15). One individual was able to carry out every function of the Trust Fund payment process. A formal requirement or documented procedure for the review and approval of Trust Fund payments did not exist.

Status: Corrected. CNS implemented procedures that require a secondary level of review and approval for Trust Fund payments. CNS reported that the procedures were implemented as of June 30, 1996.

II. RECOMMENDATIONS FOR WHICH CNS ACTIONS DID NOT CORRECT THE DEFICIENCIES

A. Material Weaknesses

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

Status: Not Corrected.

Discussion: As of August 31, 1996, CNS asserted that it had addressed 22 of the 33 material weaknesses identified in the Auditability Survey. The remaining 11 relate to material weaknesses for which CNS had not planned for implementation of the corrective actions until after August 31, 1996. Based on our assessment of the adequacy and effectiveness of the 22 corrective actions management indicated it had taken, we concluded that 16 were not adequately designed and/or operating effectively to correct or mitigate the internal control deficiencies. *As such, 27 of the 33 material weaknesses identified in the Auditability Survey remain uncorrected.*

Similarly, as of August 31, 1996, CNS asserted that it had addressed 29 of the 41 other reportable conditions identified in the Auditability Survey. The remaining 12 relate to material weaknesses for which CNS had not planned for implementation of the corrective actions until after August 31, 1996. Based on our assessment of the adequacy and effectiveness of the 29 corrective actions management indicated it had taken, we concluded that 14 were not adequately designed and/or operating effectively to correct or mitigate the internal control deficiencies. *As such, 26 of the 41 other reportable conditions identified in the Auditability Survey remain uncorrected.*

In several instances, CNS's corrective actions were limited to the issuance of procedural memoranda. We also noted a general lack of training, supervisory review and monitoring to ensure that corrective actions were effectively implemented and understood by those performing the related tasks.

The material weaknesses and other reportable conditions adversely affect management's ability to record, process, summarize and report financial data in accordance with generally accepted accounting principles. The effectiveness of CNS's actions to address those issues impacts the auditability of its financial statements.

Recommendation: CNS should strengthen the management control environment to address existing weaknesses and to provide the framework within which CNS internal controls can operate effectively. Management must set the “tone at the top” to ensure that a positive attitude towards internal controls permeates the entire organization. Integral to the establishment of a strong management control environment is the appointment of a permanent Chief Financial Officer.

Management should ensure that supervisors “buy-in” to implementing effective corrective actions and maintaining adequate internal controls. This is particularly important at the supervisory level because many departments do not have the staff resources to segregate duties, requiring the reliance on supervisory and monitoring controls to detect errors or irregularities. Also, management should ensure that employees are given adequate training and completely understand the new policies and procedures.

CNS recently instituted a Management Controls Coordinating Committee (the “Committee”) to “serve in an advisory capacity to the Chief Executive Officer (CEO) and as a forum for considering and addressing management controls issues.” CNS should utilize the Committee to oversee corrective actions relating to the Auditability Survey. CNS should also expand the role of the Committee to include oversight of the management control assessments required under the Government Corporation Control Act. This should entail oversight by the Committee throughout the entire management control process (i.e., identifying management control weaknesses and areas to be reviewed, assessing the results of management control reviews and developing the annual management control report).

Management’s Response: We agree with the conclusions reached in Arthur Andersen’s Follow-Up Study of this organization at August 31, 1996.

Since the time of the Follow-Up Study some significant changes in the attitude and approach to the subject of Management Controls have taken place within CNS which should allow us to clear this item in the near term. These changes include:

1. In October 1996, the Board of Directors reemphasized the fact that the resolution of management control issues remained the highest financial priority within the organization.
2. A memorandum to all employees was issued in November 1996 by the Chief Executive Officer of CNS. In this memorandum, specific direction was provided also emphasizing the importance of management controls in the day to day activities of the organization.

3. A Management Controls Coordinating Committee, which is being chaired by the newly appointed Chief Financial Officer of the organization, was formed. Membership on this committee is focused on those members of the senior staff with the highest accountability for management controls and specifically includes: the Chief Financial Officer, the Inspector General, General Counsel, Chief of Staff, Executive Director, and the Chief Operating Officer.
4. The first meeting of the Management Controls Coordinating Committee was held in September 1996. At that meeting this group established a number of corporate priorities and directions to deal with existing control problems within CNS, as well as to establish a base from which to build a strong system of management controls throughout the organization. These preliminary issues included the adoption of a preliminary charter which defines the management control structure and control requirements within CNS. In addition, the group identified training of staff as one of the most important short-term requirements which needed to be addressed. On this latter item, the group directed the Corporate Training function to research and propose, by the next meeting, an appropriate training program for all employees.
5. At a subsequent meeting of the Management Controls Coordinating Committee on November 21, 1996, the group adopted a framework for the training program for all current and future employees of the Corporation. This framework will include controls training on a multi-tiered level including general, job specific, and supervisory training. The first "pilot" training is scheduled for the CFO Conference in January of 1997.
6. The organization has also addressed existing control issues identified in this Follow-Up Study by the formation of an audit compliance group within the Chief Financial Officer's Department. This group, whose initial responsibility has been the implementation of all necessary corrective actions related to this Follow-Up Study, has worked closely with the external auditors, the Office of the Inspector General, and all levels of corporation staff on this project. We expect to keep this group in place until all shortcomings identified in the Follow-Up Study have been corrected.
7. As noted in the transmittal letter, CNS has also established a monthly checklist system within the CFO's Department. In this process, each responsible area within the organization provides periodic reports and documentation to Headquarters assuring continued compliance with the requirements of the Follow-Up Study.

While it is our judgment that the Corporation for National Service still has significant efforts ahead to fully resolve all of the issues identified in the Auditability Survey, we believe that of the remaining 33 not corrected items that are subsequently identified in this Follow-Up Study, all but a few have had significant corrective actions taken as of the date of this report. We are anticipating a period of time of continual follow-up on all items which have been revised to date to ensure compliance at the time of the next Follow-Up Study.

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

Status: Not Corrected.

Discussion: CNS developed procedures related to the approval of access to Federal Success. However, the procedures are not adequate to ensure that employees are not granted access to functions within Federal Success that are not compatible with their responsibilities.

Employees request access to Federal Success via the "CNCS WAN/System Access Request" form which is approved by the employees' supervisors and the Director of Accounting. Upon receipt of the approved request, the Department of Automation Services establishes users' access to the system. For employees at Headquarters, the level of access granted to an employee is based on that individual's assigned duties. For employees at Service Centers, the level of access is based on *job title*. For instance, Fiscal Assistants are granted access to predetermined functions within Federal Success based on the typical responsibilities of Fiscal Assistants. However, Fiscal Assistants across CNS do not always perform the same duties. For example, during our discussions at the Dallas Service Center, we became aware of one employee with cash responsibilities who inappropriately has access to the accounts receivable functions in Federal Success. The risk therefore exists that Service Center employees may be granted access to functions within Federal Success that are not compatible with their responsibilities.

On a monthly basis, the Director of Accounting and an employee from the Department of Automation Services review the Authorized Functions by User Report. This report is generated by Federal Success and lists all users granted access to the various functions within the system. Based on our discussions, the two individuals perform a reasonableness review of the report to ensure the appropriateness of employees' access levels. However, the reviewers are not always familiar with the job responsibilities of the approximately 100 employees who have access to Federal Success -- particularly those at the Service Centers. The aforementioned instance of inappropriate access at the Dallas Service Center had not been detected during the reviews at Headquarters.

Recommendation: Before approving Federal Success access to Service Center employees, supervisors should review the predetermined access levels associated with the employees' job titles to ensure that the access levels are compatible with their job responsibilities. In addition, Headquarters should forward the Authorized Functions by User Report to Service Center supervisors to ensure the appropriateness of access levels for Service Center employees.

Management's Response: We concur with the finding and recommendations which are described in the Follow-Up Study.

To correct the shortcomings associated with security access to the Federal Success general ledger system, we have undertaken a number of significant initiatives to correct the more immediate problems. Of particular concern, and the focus of these changes, has been the previous absence of significant and direct supervisory oversight and control over the granting of general ledger access. In addition, we noted an absence of ongoing monitoring of the process as access requirements have changed through re-organization and through the subsequent restructuring of individual job accountabilities. We have taken the following steps to correct the situation:

1. Building on the Federal Success access reports, we provided all of the management staff who have subordinate employees with system access to the general ledger with a separate report on the individuals in their organization who have access to the system and a description of the individual access levels. These reports were reviewed by the individual managers who notified us of obvious necessary changes.
2. However, a general assessment of this process led us to the conclusion that this first step did not go far enough in strengthening the system security, because the individuals granting access authority had not been given sufficient details on what the access levels actually allowed the individuals working on the system to do. Therefore, in October of 1996 we once again initiated a project to further enhance the security access to the Federal Success system.
3. This new effort included a number of improvements to our original initiative. The report which had reflected just access coding, now included a supplement which provided a detailed description of exactly what those access codes allowed the individual to do on the system. In addition, we provided the managers with a single page list which reflected the complete security access structure within the work group. This was provided to allow the managers to see an overview of total group access levels to ensure that each functional requirement was accounted for, and to allow for identification of any unnecessary security access that had been granted previously.

4. As part of this review process, management was also required to complete individual position descriptions for all employees having access to the system and to provide this information to Headquarters. This information is in the process of being correlated at this writing to ensure that the access levels which have been granted are consistent with the specified job accountabilities and consistent with the access levels which have been provided to comparable positions within other locations.

We expect to conduct similar reviews of the security access to Federal Success each month for the near term until we are confident that this process is being carried out in a consistent and effective manner. This will also be incorporated into the CFO's monthly checklist to ensure that the specified activity is routinely carried out within the CNS Accounting Department.

While we believe these changes will accomplish the short-term requirements of maintaining adequate internal control on general ledger access, it is our judgment that a larger requirement exists to build a more consistent and professional process to all system access procedures within the organization. This will become part of the total systems efforts currently underway within CNS.

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

Status: Not Corrected.

Discussion: Commencing with fiscal year 1996, each month CNS compares the cash balances per the general ledger to that per Treasury and compiles a list of differences between the general ledger and the cash balances per Treasury. The list of differences is forwarded to appropriate individuals at Headquarters and the Service Centers for identification, resolution and recording of adjustments, as appropriate. However, CNS has not been able to identify and resolve significant reconciling differences. We also noted that employees at Service Centers with cash-related duties assisted in identifying and resolving reconciling differences. However, no supervisory controls are in place to ensure that the disposition of the reconciling differences is appropriate.

CNS has also been working with two accounting firms to establish the beginning cash balance for fiscal year 1995. Due to the volume of differences as well as other factors, this task has not yet been completed.

Recommendation: CNS should ensure that differences identified in the cash reconciliations are completely resolved on a timely basis. Personnel with no other cash-related responsibilities should identify and resolve the differences. Management should review the reconciliations and disposition of differences to assess the propriety of the reconciling items and to validate that the reconciliations were performed in accordance with established policies and procedures.

Also, CNS should perform a review of all significant differences that occurred prior to fiscal year 1996 to determine the causes for such differences and to fulfill its stewardship role relating to funds held by Treasury.

Management's Response: We concur with the findings and recommendations in the Follow-Up Study.

At the present time, we continue to work on resolving the reconciliation of cash balances reflected on the general ledger of CNS to the balances reflected on the Treasury Department reports at September 30, 1996. This effort has been ongoing throughout most of 1996 and has included a number of initiatives to correct this situation.

1. Beginning in FY 1996, we developed a special PC based system to record all transactions appearing on the general ledger of CNS and, in addition, made a complimentary recording of all transactions reflected on the reports provided by the Treasury Department. Because this new process is cumulative, we have been able to identify all such differences for this period, and have as a result, established a basis for ongoing correction and tracking of those differences in future months.
2. Also during this past year, we have engaged the services of Brown and Company LLP to assist us with the reconciliation of FY 1995 transactions in an effort to establish a beginning cash balance at September 30, 1995. At this writing, this project is continuing, with a more detailed effort still required to prepare all identified differences for subsequent inclusion and correction in the subsequent accounting periods.
3. Most recently, we have begun to focus our efforts on accounting periods prior to FY 1995. It is our present judgment that even after we finish reconciliations for FY 1995 and FY 1996 we will still have a significant difference in our beginning cash balance at September 30, 1994 and that will require further investigation and effort in that prior period.

It is our expectation that a true reconciliation of cash balances between the CNS general ledger and the Treasury Department is still several months away for the most recent fiscal years. It is of some concern, as we analyze prior periods, as to whether or not perfect reconciliation of this historical data is fully realizable.

Throughout this process, we will continue to have the reconciliations performed by individuals outside of the immediate accounting area to maintain the level of segregation noted in the recommendation.

4. Improve Cash Receipt Controls at Headquarters (Auditability Survey, Vol. I, No. 7). CNS's procedures for processing cash receipts at Headquarters are inadequate to ensure that such receipts are safeguarded. Several different employees receive cash donations. However, CNS has no procedures for tracking cash donations from point of receipt to point of deposit. Additionally, there are no procedures in place to require the immediate restrictive endorsement of all checks.

Status: Not Corrected.

Discussion: CNS has not developed formal procedures for the numerous employees who receive (or may potentially receive) cash. For example, except for National Service Trust Fund receipts (primarily related to refunds from schools), there are no procedures to ensure that receipts are immediately logged at the initial point of receipt. Additionally, there are no procedures requiring the immediate endorsement of checks. Checks are not restrictively endorsed until they are received by the Accounting Division, which in most instances is the second point of receipt. Due to the lack of strong controls over cash receipts, the risk continues to exist that receipts could be misdirected or misappropriated.

Recommendation: CNS should develop and issue procedures to employees who do or may potentially receive cash. The procedures should include:

- maintaining detailed logs of cash receipts at point of intake,
- restrictively endorsing cash donations immediately upon receipt (i.e., at the initial point of intake), and
- reconciling the logs to the detail of cash deposits made with Treasury (by an individual with no other cash-related duties).

CNS should minimize the points of receipt for cash payments and donations. To facilitate this, CNS should clearly indicate a mailing address, including department name and room number, on any materials for which receipts are expected.

Management's Response: We concur with the Follow-Up Study findings and recommendations.

CNS is presently installing a completely new set of procedures related to the receipt of cash, the control of those receipts while being prepared for deposit, and the recording of those items in the Corporate general ledger. These new procedures now include the following individual steps.

1. The Administrative Assistant in the Accounting Department will receive all cash for the Corporation and will in that process restrictively endorse all checks and log all checks on a perpetual record. Copies of that log will be submitted to the supervisor of the Cashier, and the Director of Accounting. The checks will then be forwarded to the Fiscal Operations Specialist for deposit.
2. Upon receipt, the Fiscal Operations Specialist will prepare a deposit slip, assign control numbers, log the receipt for subsequent accounting purposes, and mail the deposit to the Federal Reserve.
3. The Supervisor of the Fiscal Operations Specialist will receive the accounting detail from the Cashier and post the information to the general ledger. In addition, the log of checks received from the Administrative Assistant will be reviewed at this time to ensure all receipts have been accounted for in the process.
4. The Director of Accounting will periodically review the logs of the Administrative Assistant and compare them to the accounting records to ensure that all checks have been processed in a timely manner.

At the present time, we have identified only one other area within the organization where checks are routinely being received. That area is also in the financial organization. In the future, it will restrictively endorse checks upon receipt and hand carry them to the Administrative Assistant. This area will also notify the Payers that in the future checks should be sent directly to the Accounting Department.

For all other areas of the organization, the Administrative Assistant will provide a written notice to anyone submitting checks for deposit that all such checks should be routed directly to the Accounting Department. A copy of this notice will be sent to the CFO's Department so that ongoing follow-up may be carried on which will allow us to more formally identify areas of the operation where the potential for cash receipts may exist.

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

Status: Not Corrected.

Discussion: Treasury provides Headquarters with a “Register of Transactions” on a monthly basis. This report summarizes CNS OPAC transactions processed by Treasury for the month. Fiscal Assistants at Headquarters and Service Centers use the monthly “Register of Transactions” and vendor billing statements to enter the OPAC transactions into the general ledger. However, based on our discussions with Headquarters personnel, numerous OPAC transactions related to fiscal year 1996 and prior fiscal years have not been recorded in the general ledger on a timely basis because the related obligations have not yet been recorded.

Recommendation: CNS should record all obligations so that the related OPAC transactions may be immediately recorded in the general ledger and posted against the obligations.

Based on our discussions, we also noted that some delays occur in recording OPAC transactions because CNS does not always receive billing statements from other federal agencies on a timely basis. CNS should record all OPAC transactions in the general ledger and then periodically follow-up with these vendors to ensure that all transactions are recorded.

Management’s Response: We concur with the Follow-Up Study findings and recommendations.

We have made some progress on this issue since the Auditability Survey was issued earlier this year. However, because the process of On Line Payment and Collections (OPAC) is so closely linked to our cash reconciliation process and because OPAC charges are made to and through the Treasury Department, we do not yet have the current monitoring procedures in place to readily identify and record OPAC transactions as they are presented to CNS for payment. This monitoring procedure is critical to provide a current and reliable record of charges cleared versus amounts originally obligated, as well as amounts that have been obligated and not yet cleared through Treasury. We are working on this process along with the cash reconciliations and expect to have meaningful progress on both in the next several months.

However, we have made some current progress on this issue from the standpoint of having cleared in the months of October and November 1996 a large portion of the outstanding OPAC transactions. These items had been identified and prepared for accounting input as a result of the ongoing project in the 1996 cash reconciliations and the FY 1995 reconciliation project currently being handled by Brown and Company LLP.

When this reconciliation effort is completed, we expect to have the reconciliation of all OPAC transactions as part of the monthly CFO checklist as outlined in our transmittal letter.

6. Require Periodic Review of Open Obligations (Auditability Survey, Vol. I, No. 12). CNS has procedures for performing periodic reviews of open obligations. However, these procedures are not operating effectively because CNS has not implemented and enforced the requirement to review open obligations. Many open obligations have been outstanding for several years.

Status: Not Corrected.

Discussion: CNS issued memoranda to all Budget Holders regarding the review of open obligations. However, the memoranda did not provide detailed instructions on *how* to perform the reviews. As a result, Budget Holders developed their own methods of review. These methods ranged from broad in scope (e.g., “skimming” the “Report on Open Obligations #816”) to detailed (e.g., matching open obligations to a file of outstanding purchase orders). Because some Budget Holders are only “skimming” the report, the risk continues to exist that errors, irregularities and/or obligations requiring update may not be detected and corrected.

Additionally, many open obligations still require review. For instance, one Budget Officer indicated that 50% to 75% of the open obligations for which the Budget Officer is responsible are not valid and should be de-obligated. This Budget Officer does not expect that these open obligations will be updated in the general ledger until January 1997.

We also noted that Headquarters budget personnel and the Budget Holders’ supervisors are not consistently monitoring and reviewing the results of the reviews.

Recommendation: CNS should develop and implement uniform, comprehensive procedures that address in detail the review requirements for open obligations (e.g., level of detail of reviews, documentation requirements, supervisory review and monitoring requirements, due dates, etc.). Training should be provided to explain the new procedures to the Budget Holders.

The review procedures should include matching all open obligations to outstanding purchase orders. The reviews should be documented, including annotation of the open obligations report. This will provide a record of the status of the obligations and facilitate the supervisors’ reviews as well as the next month’s reviews by the Budget Holders.

Headquarters personnel (e.g., within the Office of Financial Management Services) should periodically, but no less than quarterly, review a consolidated CNS open obligations report to ensure that old obligations are being de-obligated. As part of its review, Headquarters personnel should specifically inquire as to the validity of old obligations and understand the reasons for keeping them open.

Management's Response: We concur with the findings in the Follow-Up Study and will implement the recommendations as stated.

Beginning in September of 1996 a major project was initiated in the Accounting Department at Headquarters to bring the entire record of Open Obligations into compliance. This project involved researching the contents of the Open Obligations Report to identify general areas where major corrections were needed. Once those areas were identified, we initiated a detailed analysis of the account to correct all of the obvious errors present in that report. This resulted in individual corrections being made on approximately 2,000 items.

Once all of those corrections were made, it was our assessment that we had an open obligations report that was useable to all of the Budget Holders within the organization, who had been plagued up to that time with attempting to work with a document that was largely incorrect. We then initiated a major effort throughout the organization to have each of these Budget Holders review, reconcile and correct any remaining items which were reflected as still obligated.

This effort is being carried out at this time and is scheduled for completion in December 1996. In order to ensure that each area of the organization completes this effort and all necessary corrections are identified, we are requiring that each Budget Holder secure supervisory approval signature upon completion and forward a copy of the Open Obligations Report together with their own signature certifying as to its accuracy.

In order to ensure that this problem does not recur we are requiring that the process of reviewing these reports continues on a monthly basis. For the near term, we will continue to have Budget Holders certify and supervisors approve the activity and forward copies of the Open Obligations Report to Headquarters. This follow-up control feature has been incorporated in the CFO monthly checklist as described in our cover letter to the Follow-Up Study.

7. Reconcile Data in Grant Systems (Auditability Survey, Vol. I, No. 13). CNS records grant activity in three electronic data processing systems, all of which use the same source document for original entry. For National and Community Service Act (NCSA) grants, data is maintained in the general ledger system (Federal Success) and the Grants Management database, and payments are processed by the U. S. Department of Health and Human Services via its Payment Management System (PMS). CNS does not reconcile the data recorded in these systems on a timely basis.

Status: Not Corrected.

Discussion: Management implemented procedures to reconcile monthly grant data in Federal Success with data in PMS. However, we noted that the initial reconciliation of opening balances was not adequately documented and that supervisory review of the reconciliations was not documented. CNS did not develop written procedures for preparing and documenting the reconciliations. In addition, CNS does not prepare the monthly reconciliation on a timely basis. For example, we noted that the March 1996 reconciliation was not performed until June 1996. Delays were noted for six other months in fiscal year 1996. As a result of these deficiencies, errors or irregularities could occur in grants processing and not be detected on a timely basis.

Recommendation: CNS should develop written procedures for preparing and documenting the reconciliations between Federal Success and PMS and establish monthly due dates for their completion. In addition, the supervisor reviewing the accuracy of the reconciliation should sign or initial the reconciliation to document the review. Finally, the reconciliation should be completed by personnel with no other grant-related responsibilities.

The design of a new automatic interface for the grants systems is currently in progress. We recommend that CNS complete the interface as soon as possible.

Management's Response: We agree with the Follow-Up Study findings and recommendation as of the time the Follow-Up Study was conducted.

In subsequent follow-up on this particular recommendation, we noted that the primary reason that the initial reconciliation was not adequately documented was that it was not done. Therefore, our first requirement in order to come into compliance with this recommendation was to reconcile our general ledger with the data base maintained by the Department of Health and Human Services which handles disbursements on behalf of CNS for NCSA grants.

In order to achieve that reconciliation we first had to write a new program for the Federal Success system which would allow us to print out the details of the NCSA grants. This includes the original obligated amounts and the total drawdowns that have occurred on the grant since inception. This reconciliation report was developed during the month of October 1996, which still allowed us to use this report to reconcile September 1996 accounting reports.

We then took the Federal Success Report and compared it to the Synchronization Report which is issued monthly by HHS on a grant by grant basis. This process was completed during November 1996 and provided us with a detailed record of every difference that exists between the two systems also on a grant by grant basis. Researching and correcting every one of these differences is currently in process with an estimated completion date in December 1996.

Now that we have a mechanism in place to reconcile these two databases of record, we will continue these reconciliation efforts, first ensuring that our starting numbers are correct through the effort currently underway, and then completing the monthly reconciliations routinely as part of our regular monthly operations. We have also incorporated this process into the CFO checklist to ensure continued compliance and timeliness in the future.

Because this reconciliation effort will occur in the financial area, we anticipate no issues associated with segregation of duties involving grant related staff being involved in this process. We will subsequently review this issue to make sure that any problems associated with segregation of duties does not enter into the process at a later time.

As suggested in the Follow-Up Study, we will continue to pursue the automatic interface with HHS. We do concur that the control and economies associated with this linkage would prove to be extremely advantageous, but not until these records are reconciled.

8. Segregate Duties Related to NCSA Grants Processing (Auditability Survey, Vol. I, No. 15). For National and Community Service Act (NCSA) grants, CNS has not adequately segregated the duties of Grants Management Officers, who both authorize grantee accounts and request funds for grantees.

Status: Not Corrected.

Discussion: CNS disagrees that having the same individual authorize grantee accounts and request funds results in inadequate segregation of duties. On that basis, CNS took no corrective action.

Our discussions revealed that CNS has interpreted “authorize” grantee accounts to mean “establish” grantee accounts (i.e., physically set-up the account in the grant system at the U.S. Department of Health and Human Services (HHS)). Grantees initiate the set-up of their accounts with HHS by forwarding the grant award documents (which are approved by the CNS Grants Management Officer) directly to HHS. Prior to establishing the account in the system, HHS calls the *Grants Management Officer* at CNS for authorization to ensure that the grant information is valid. Throughout the grant period, the Grants Management Officer authorizes payments to the grantee by requesting funds transfers on behalf of the grantee. Grants Management Officers therefore have the ability to authorize invalid grantee accounts and authorize payments to those invalid grantees.

Recommendation: CNS should segregate the responsibilities of Grants Management Officers. Grants Management Officers should not be responsible for, *nor capable of*, both authorizing the establishment of grantee accounts by HHS and requesting funds transfers on behalf of grantees.

Management’s Response: We concur with the findings and recommendations in the Follow-Up Study. The misinterpretation by CNS staff of the true nature of the control requirements associated with authorizing a grant disbursement has also been corrected.

The Corporation has chosen to modify its policy relative to verbally approving payment of advances to grantees. Under this new policy which was issued in September 1996, all Headquarters Grants staff were notified to provide signed awards documentation to the administrative assistant of the Grants Office for distribution to Health and Human Services. (HHS). This documentation will provide HHS the desired verification to make subsequent on-line advances to the respective Grantees.

In addition, a memorandum was submitted to all Grant Officers apprising them of this change in the NCSA grants procedures and further instructing them that the process of approving advances by the Grant Officers will be discontinued. Subsequently, Grantees were notified of this change and given until October 31, 1996, to comply with the implementation of the required software to secure on-line advances via the HHS payment system. These procedures were fully operational and verbal advances by the Grants Staff ceased on October 31, 1996.

These procedures will be subjected to ongoing Compliance Reviews in the future.

9. Require Timely Input of FSRs for DVSA Grants (Auditability Survey, Vol. I, No. 16). CNS does not input data from Financial Status Reports (FSRs) for Domestic Volunteer Service Act (DVSA) grants into the general ledger on a timely basis. As a result, expense and advance balances in the general ledger and financial statements may be misstated.

Status: Not Corrected.

Discussion: CNS issued procedures to the Service Centers dictating deadlines for the timely input of FSR data into the general ledger. The Service Centers self-report to Headquarters the number of FSRs which are not processed by the deadline. However, these monitoring procedures are not sufficient to enable Headquarters personnel to objectively verify that the Service Centers are inputting the data on a timely basis. The self-reporting procedures do not provide assurance that complete and accurate balances are recorded in the general ledger.

Recommendation: Rather than require that Service Centers self-report the number of FSRs not input into the general ledger, Headquarters should run the “Missing FSRs for Grants Report” (GM-11, GM-14) on the day after the due date. This report provides a listing by Service Center of all FSRs which have not been input into the general ledger as of the run date. Management should obtain explanations for FSRs that are not input into the general ledger in a timely manner and ensure that they are subsequently input.

Management’s Response: We concur with the findings and recommendations outlined in the Follow-Up Study.

In October 1996, we established a number of interim procedures designed to resolve the control issue outlined in this item while awaiting the development and installation of more extensive procedures surrounding Report GM-11 and GM-14. These interim procedures involve the preparation of a listing to Headquarters on a quarterly basis outlining by census of the grant portfolio in the Service Centers the specific Financial Status Reports which are missing. In addition, this new procedure requires management to describe the actions which are being taken to resolve securing the document.

Under this new procedure the following steps are being followed:

1. A master list of all grants administered by the Service Center is prepared at the appropriate deadline date for the receipt of FSRs.

2. Each grant is checked to ensure the FSR has been received and the date it was received. These dates are then posted to the master list. When the master list has been completely posted, any grant missing a receipt date is followed up on by the Service Center.
3. The Service Center then follows up with the grantee on missing FSR's to ensure appropriate action for resolution is initiated. This action is then detailed in writing for subsequent review and follow-up.
4. When this process has been completed, a copy of the master list of all Service Center grants plus copies of plans for resolution of missing documentation is sent to Headquarters. This will serve as a basis for future monitoring of Service Center performance on securing the missing FSR's. This process has also been incorporated into the monthly CFO checklist to ensure continuing compliance with this control requirement.

It is anticipated that revisions to this process, by the establishment of the GM-11 and GM-14 reports, may occur early in 1997 which would allow control to be exercised somewhat mechanically. Until those reports can be initiated along with appropriate management procedures and follow-up controls, we will retain this process to provide a basic level of management oversight.

10. Segregate Duties Related to DVSA Grants Processing (Auditability Survey, Vol. I, No. 18). CNS has not adequately segregated the duties of Grants Management Officers who 1) record grant obligations in the general ledger, 2) generate Notices of Grant Award and 3) approve Requests for Advance or Reimbursement for Domestic Volunteer Service Act (DVSA) grants.

Status: Not Corrected.

Discussion: CNS disagreed with this finding and did not segregate the duties of the Grants Management Officer. CNS concluded that the fact that the Grants Management Officer *does not certify payment* adequately addressed the risk associated with the lack of segregation of other duties. We noted that it is a Certifying Officer (and not a Grants Management Officer) who certifies to Treasury that payments to grantees are valid before payments are processed. However, the Certifying Officer certifies the payments by comparing the schedule of payments prepared by the Grants Management Officer to the source documentation that was also approved by the Grants Management Officer.

Because the Certifying Officer certifies payment by reference to the approval of the Grants Management Officer, the Certifying Officer would not detect instances in which the Grants Management Officer generated a Notice of Award and approved payment for an invalid grantee.

Recommendation: CNS should segregate the responsibilities of Grants Management Officers. The Grants Management Officer should not be responsible for, *nor capable of*, performing more than one of the following functions: establishing obligations in the general ledger, generating Notices of Grant Award and approving and/or scheduling payments to grantees.

Management's Response: We concur with the Follow-Up Study findings and recommendations.

CNS has now developed, and will be implementing a revision in the workflow associated with the processing of DVSA grants at the Service Centers. These changes will have the effect of revising the duties of the Grants Management Staff (GMS) in each of the Service Centers in such a way as to properly segregate duties related to the ability of the GMS to produce a Notice of Grant Award (NGA), approve Requests for Advance or Reimbursement (RAR) and schedule payments to grantees. These revisions will provide a clear description of responsibilities of the GMS and direct separate individuals to perform the required functions.

Under the new procedures, the Service Center Director will designate one person and an alternate, either a Grants Assistant (GA) or Fiscal Specialist (FS), as the person solely responsible for establishing the RAR in the Federal Success System. Other members of the Grants staff are prohibited from establishing and processing RARs. In addition, the GA or FS will verify certain signatures and pertinent documentation before processing the RAR. The RAR and the Grant file will then be submitted to the Service Center Director or designated Certifying Officer for verification of the payment in Federal Success System before payments are scheduled.

Periodic Compliance Reviews of this process will be done to ensure ongoing compliance with these new requirements.

11. Strengthen Procedures for Completing Receiving Reports (Auditability Survey, Vol. I, No. 19). CNS has inadequate procedures for ensuring that expenses for goods or services are recorded in the proper accounting period. Personnel who complete receiving reports often record the date of receipt as the date on which the receiving report was signed or the date of the vendor invoice. However, this may not be the date on which the goods or services were actually received.

Status: Not Corrected.

Discussion: CNS established and distributed to all employees procedures for completing receiving reports. However, the procedures have not been adequately implemented. Although some employees indicated that they had received the procedures, they did not recall the specifics of the procedures.

Additionally, the concept that the actual receiving date is crucial to recording the transactions in the general ledger in the proper period is not well understood by those receiving the goods. One employee indicated that a mental note only is made of the receiving date until the invoice is received. Employees at the San Diego National Civilian Community Corps (NCCC) Campus were not aware that receiving reports must be completed by the *recipient* of the goods immediately upon receipt. Instead, the Budget Holder at the Campus completes the receiving report after the invoice is received from the vendor, at which time the Budget Holder calls the employee who received the goods to determine the date of receipt.

Because recipients of goods do not consistently record receiving dates at the time of receipt, the risk exists that transactions may not be recorded in the proper period. In addition, interest cannot be properly calculated and paid to vendors if the general ledger contains inaccurate data. The lack of accurate information for calculating interest on late payments to vendors could result in violations of the Prompt Payment Act.

We also noted that some employees use receiving stamps to decrease paperwork. However, the stamp does not require users to indicate whether the payment is “final.” If “final” payment is not indicated on the form, any remaining excess obligation will remain open rather than be de-obligated.

Recommendation: CNS should provide training to ensure that all employees understand the importance of recording the actual receiving date. In addition, if CNS prefers to use receiving stamps to decrease paperwork, the stamps should include lines to indicate whether or not the payment is final.

Management's Response: We concur with the findings and recommendations as stated in the Follow-Up Study.

We have approached resolution of this issue through a number of separate procedural changes within CNS. The most significant change will be made in Headquarters, where in lieu of attempting to train and continuously monitor the total corporate staff in the importance of maintaining controls on the receiving function, it was decided that centralization of receiving activity would offer the best control environment and the most economical long-term course of action. Under this Headquarters procedure, the following major steps will provide the level of control necessary:

1. Once an approved purchase order has been issued by CNS, the documentation will flow to this Central Receiving function. In circumstances where the delivery will be for hard goods, this function will retain all documentation in anticipation of that delivery. Where the procurement is in the nature of services, Central Receiving will forward copies of the Receiving Report to the Originating Department directing them to notify Central Receiving upon completion of the service requirements of the order.
2. All hard goods received by CNS will be delivered to this Central Receiving function where that function will log the date and receipt of the merchandise. This log will then be taken along with the merchandise to the Originating Department where delivery will occur, and the log will be signed by the individual or designate originating the procurement form.
3. When an Originating Department has received services which have been procured through this process, that department will complete the copy of the Receiving Report it was provided. This completion will include the dates and services provided, specific notation as to whether or not this is the final payment, and the signature of the designated Budget Holder.
4. This document will then flow to the Central Receiving function where it will be attached to the original documentation on the procurement, the log will be posted as to the receipt of the services, and all documentation will be forwarded to the Procurement Department for the invoicing cycle.

We anticipate this Central Receiving function will become fully operational in January of 1997, where, in addition to resolving this immediate control function, it will also provide a better base from which to build further controls into our overall procurement processing. In order to ensure continued compliance with this activity, the submission of the departmental log to the financial area will be a continuing requirement as part of the CFO monthly checklist process.

For receiving functions not at Headquarters, guidance will be issued outlining the importance of recording the date merchandise is received on the Receiving Report at the time of the delivery. This guidance has been provided this time by the CFO directly, and will have future follow-up in subsequent site visits by the staff as part of the Compliance Review strategy outlined in our transmittal letter to this Follow-Up Study.

12. Substantiate Payroll Processed by NFC (Auditability Survey, Vol. I, No. 21).

CNS does not reconcile time and attendance source data to the report of transactions processed by the U.S. Department of Agriculture's National Finance Center (NFC).

Status: Not Corrected.

Discussion: CNS implemented procedures to reconcile the total number of timesheets transmitted to NFC to the total number of timesheets processed by NFC. However, the reconciliation does not include a comparison of *time and attendance data* transmitted to and processed by NFC. The risk therefore continues to exist that errors or irregularities could occur during the processing of time and attendance data by NFC and not be detected. This could result in misstatement of payroll expense in the financial statements and/or under/overpayment of employees.

Recommendation: CNS should reconcile aggregate time and attendance data (i.e., total hours by type - overtime, regular, annual leave, sick leave, etc.) per CNS's source documents to aggregate time and attendance data processed by NFC.

Management's Response: We concur with the Follow-Up Study findings and recommendations.

In order to correct this significant control problem, CNS has instituted a number of procedural changes to resolve the problem on an immediate basis. These changes, which began with Pay Period 20 in October of 1996, involve the calculation of the monthly hours input to the system by manually adding the hours reported on the time cards and comparing and reconciling those totals to the Batch Confirmation Report which is provided by NFC. This procedure has been operating very effectively at the Headquarters location and we are confident that the ease with which this procedure can be carried out will improve with time.

We have also incorporated this process into the procedures used at the field locations that do direct input of payroll hours through the PC-TARE system. It should be noted that because those organizations do not have direct access to NFC, they are not able to print the Batch Confirmation Report on site. This has required an additional sub-routine within the Human Resources Department requiring the Field location to manually report hours and the Human Resources Department to verify the accuracy of those numbers through reconciliation to the Batch Control Report.

Even though we are confident that this process has resolved the existing control problems, we will continue to monitor this process through the CFO monthly checklist to ensure that continued compliance will be maintained.

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

Status: Not Corrected.

Discussion: The PC-TARE Input Technician continues to input time and attendance data as well as investigate, resolve and correct differences on the Leave Error Reports. The Payroll Supervisor and the Chief of Labor and Employee Relations review the Leave Error Reports to approve the changes that *should* be made to the PC-TARE database; however, no supervisory review is performed to ensure that the approved changes are properly made.

We also noted that the reconciliations that are performed at Headquarters do not include Service Center employees' leave balances. In addition, PC-TARE Input Technicians at the Service Centers input their own time and attendance data and no supervisory review is performed of that input.

Recommendation: The Payroll Supervisor should receive the Leave Error Reports directly to ensure that prior pay period changes have been properly made and to ensure that current period differences are addressed. The reconciliations should include review of Service Center employees' leave balances. Additionally, supervisory review should be performed to ensure that the PC-TARE Input Technicians properly input their own time and attendance data.

Management's Response: We concur with the Follow-Up Study findings and recommendations as provided.

Beginning with Pay Period 18 of calendar year 1996, CNS has made a number of changes which will resolve the control issues associated with the reconciliation of leave balances and the process which surrounds the administration of the leave error reporting.

Initially, we identified the errors in leave balances as the most significant of the problems identified in this recommendation. To deal with this issue, we initiated a corporate-wide effort to identify and correct all existing leave balance differences between NFC and the PC-TARE system. The results of that exercise were as follows:

<u>Pay Period</u>	<u>Number of Employees with Identified Leave Errors</u>
18	183
19	155
20	67
21	41

We anticipate the number of errors reported to be about 20 per pay period after the existing backlog has been corrected. This is considered to be the level of differences which would occur in a normal pay period.

We have also revised the procedures related to these activities which will allow us to resolve the additional control issues identified in the Follow-Up Study. This includes having the Payroll Supervisor receive the Leave Error reports directly, which is now the case. Additionally, this individual does a complete review of the leave balances of all individuals doing input to the PC-TARE system to ensure that adequate control is being exercised over that aspect of the activity.

Each month-end, we will require a report on leave balance errors and corrections as part of the CFO monthly checklist process.

14. Improve Controls Over Access To NFC Payroll System and PC-TARE Database (Auditability Survey, Vol. I, No. 23). CNS has not established adequate security administration controls over financial management systems to ensure that logical access to critical data is sufficiently restricted.

Status: Not Corrected.

Discussion: On a quarterly basis, CNS prints a National Finance Center (NFC) report which indicates employee access levels into NFC. The Personnel Director and the NFC Security Officer perform a review of the access levels by comparing the printed NFC report to a log maintained by the Personnel Director. Although CNS stated that quarterly reviews are being performed, the log only indicated a review by the Personnel Director on March 29, 1996. No documentation existed to support any review by the NFC Security Officer.

In addition, the reviews do not include Service Center employees' access to the Personal Computer Time and Attendance Remote Entry (PC-TARE) database. No monitoring is performed of Service Center employees with access to the database, and no assessment is made of whether access levels continue to be appropriate.

Recommendation: CNS should design and implement adequate security administration controls over access to the NFC payroll system and the PC-TARE database. CNS should monitor who has access to the NFC payroll system and PC-TARE database, and should regularly assess whether such access levels continue to be appropriate.

Management's Response: We concur with the findings and recommendations.

This control deficiency has now been corrected through the development of a routine process for monitoring and revising security access to the PC-TARE and NFC systems. This control process, which had been done sporadically and with only limited effectiveness in prior periods, has been upgraded substantially in scope and process.

The current process, which was installed in November 1996, requires the submission of a complete list of all individuals with access to PC-TARE or NFC by the Systems Manager to the Director of Human Resources. Upon receipt, the Director reviews each and every individual shown on the list to verify that appropriate access has been granted and is consistent with individual job accountabilities.

This list will be signed and a copy forwarded to the CFO Department as part of the CFO checklist procedure to ensure continued compliance with the recommendation.

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

At Headquarters, one payroll technician establishes National Civilian Community Corps (NCCC) members in the National Finance Center (NFC) payroll system and the Personal Computer Time and Attendance Remote Entry (PC-TARE) database. This same employee maintains personnel files and processes member payroll exceptions.

Status: Not Corrected.

Discussion: The NCCC Payroll Technician at Headquarters (“the Technician”) no longer establishes NCCC members in the payroll system. This duty has been transferred to two Personnel Assistants. However, the Technician continues to have the *capability* to establish the NCCC members in the payroll system. Prior to processing each payroll, NCCC Campuses forward reports which indicate changes in payroll information from the prior pay period, including new members added to the payroll. NFC also generates a “Start-Up 17” report which shows all payroll information to be paid. Review of these reports could detect errors or irregularities, however the reports are received directly by the same Technician who has the capability to create or change payroll transactions. In addition, based on our discussions, although the reports are available for supervisory review, such reviews are not typically performed.

We also noted that the Technician and the two Personnel Assistants continue to have read/write access to both the NFC Personnel/Payroll System and the PC-TARE database.

Recommendation: CNS should modify the Technician’s access to the NFC payroll system so that the Technician does not have the capability to establish personnel in the payroll system. The Technician’s supervisor should receive NFC payroll reports directly and review for propriety prior to processing payroll.

CNS should also ensure that an employee does not have read/write access to both the NFC Personnel/Payroll System and the PC-TARE database.

Management’s Response: We concur with the findings of the Follow-Up Study and the recommendations which were submitted.

In September 1996 a new transaction report was developed which has allowed us to resolve the control issues associated with this recommendation. This report, which is system generated, details all of the transactions, by computer operator, by type of transaction for the entire payroll period. These reports, which are routed directly to the supervisor of the area, in turn allow supervisors to make sure that no transactions are entered for which the individual has not been previously authorized.

In the case of this recommendation, the presence of this transaction report in the hands of the supervisor provides the control review capability, which is essential in barring the Technician access to the input screens on new employee set up. At the present time the Payroll Supervisor is monitoring all transactions in the payroll and personnel systems. By a direct review of these listings the supervisor has been able to identify certain unauthorized transactions which were made and correct the process through on-site direction and training.

This transaction report will also be made part of the CFO checklist process for future control monitoring activities.

16. Segregate Duties Related to Trust Fund Payments and Administration (Auditability Survey, Vol. I, No. 28). CNS is responsible for administering the National Service Trust (Trust Fund) and making payments from the Trust Fund to qualified participants in the AmeriCorps programs. CNS uses the Trust Fund System to maintain participant data and make related payments from the Trust Fund. Several individuals have the ability to approve, record and schedule payments through the Trust Fund System. These duties are incompatible.

Status: Not Corrected.

Discussion: CNS segregated the duties of 1) approving payments from the Trust Fund, 2) recording the payments in the Trust Fund System and 3) scheduling the payments to recipients among three employees. However, the Trust Fund System Access Report indicated that the Trust Fund Database Administrator has system access *capabilities* to both approve payments from the Trust Fund and record the payments in the Trust Fund System.

Recommendation: CNS should modify the access levels of the Trust Fund Database Administrator so that the Administrator does not have the *capability* to both approve and record payments. If this is not practical, a supervisor should periodically review the audit trail reports that can be generated from the Trust Fund System showing any activity processed by the Trust Fund Database Administrator.

Management's Response: We agree with the Follow-Up Study findings and recommendations.

We have approached the resolution of this finding and the implementation of this recommendation from two perspectives. We will take action to restrict the access of the Trust Fund Database Administrator to the two system access capabilities described in the report. This includes the ability to approve (initiate) payments and the ability to record (request) payments in the Trust Fund System. We concur that this one individual had far too much system access and entry capability for CNS to maintain appropriate controls in this system.

While this is an immediate step to bring CNS into compliance with the recommendations contained in the Follow-Up Study, we consider it an interim measure at this time. Over the next several months, we intend to review the entire control structure of the Trust Fund System through the offices of the newly hired System Security Administrator at CNS. In this project we will be requesting an analysis of access, work flow, documentation of transactions, and approval processes currently in place on the system; followed by detailed proposals on what changes should be made to bring the controls associated with the system into full compliance for subsequent Follow-Up Studies.

We expect to conduct Compliance Reviews of this operation as part of the program outlined in the transmittal letter to this Follow-Up Study.

B. Other Reportable Conditions

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

Status: Not Corrected.

Discussion: CNS has implemented procedures to record cash deposits in the general ledger on a timely basis and to reconcile those deposits to the amount confirmed by Treasury. However, at the San Francisco and Dallas Service Centers, one Fiscal Assistant receives, logs, deposits, records in the general ledger and reconciles the deposits to the confirmation from Treasury. The same Fiscal Assistants are also responsible for resolving reconciling items for the monthly cash reconciliations.

At Headquarters, the duties of receiving, logging, depositing and recording checks received are segregated among a Fiscal Assistant and a Fiscal Services Supervisor. However, the Fiscal Assistant who opens the mail and records cash receipts in the general ledger has access to the accounts receivable module in the general ledger.

The lack of segregation of duties increases the risk that CNS funds may be misappropriated and not be detected.

Recommendation: CNS should establish procedures at the Service Centers to ensure that one individual does not perform more than one of the following activities:

- prepare and submit the deposit to Treasury,
- record the deposit in the general ledger, and
- reconcile the deposit in the general ledger to deposit confirmed by Treasury.

CNS should review the access levels of all employees who handle cash receipts to ensure that they do not have access to accounts receivable in the general ledger.

Management's Response: We concur with the Follow-Up Study findings and recommendations.

CNS is currently revising procedures associated with the receipt of cash at all of the Service Centers. These new procedures which replace previous activities in total have been provided to ensure that these control issues are resolved and that each of the Service Centers have procedures which are somewhat consistent on key processing requirements between locations. These new procedures include the following procedures and control points.

1. All checks are logged and restrictively endorsed immediately upon receipt in the Service Center by a Staff Assistant.
2. A Collections Officer will then prepare the checks for deposit by completing Register of Remittance, Deposit Ticket, adding machine tape, and depositing the checks in accordance with Order 2350 of the Treasury Department. Notification of this deposit will be sent to Headquarters at that time.
3. A Budget Analyst will enter these amounts to Federal Success within one day of receipt of the notification of a deposit by the Collections Officer.
4. The Staff Assistant will then verify posting of the checks to Federal Success and note the check log accordingly.
5. The Service Center Director will review the check deposit reconciliation on a monthly basis to ensure procedures are being followed.

As also requested in the recommendation, we have spent a significant amount of time on security access procedures which are reported under item #2 of this Follow-Up Study. It is our conclusion that those changes effectively deal with the question of segregation of duties under this recommendation.

18. Properly Record Accounts Receivable Related to Cost-Sharing Agreements (Auditability Survey, Vol. I, No. 33). CNS enters into agreements with other Federal agencies and not-for-profit organizations to share expenses related to certain Volunteers in Service to America members. Accounting personnel manually prepare billings for shared costs on a quarterly basis. However, CNS does not consistently record the billings as accounts receivable.

Status: Not Corrected.

Discussion: CNS distributed procedural memoranda to Service Center personnel relating to the accounting for cost-sharing agreements. The memoranda properly instructed them to record accounts receivable and recognize revenue when amounts due for services performed are *billed*. However, based on our discussions with personnel at the Dallas Service Center, due to confusion over the journal entries, they record the receivable and recognize revenue when they *enter into* the cost-sharing agreement (i.e., prior to providing service or billing for those services).

To prepare its financial statements in accordance with generally accepted accounting principles, CNS must record revenue when earned (i.e., when services have been performed). Recording the revenue when the cost-sharing agreement is initially executed results in overstatement of accounts receivable and revenue in the general ledger and financial statements.

Recommendation: CNS should ensure that the Service Centers understand the journal entries associated with cost-sharing agreements and provide training as necessary.

Management's Response: We concur with the findings and recommendations on this item.

In reviewing this recommendation, we concluded that in addition to the issues raised in the recommendation, a complete audit of the entire cost-sharing agreement portfolio should precede any changes in accounting activity in order for CNS to ensure that the starting point for all accounting activity is accurate initially. This audit, conducted by CNS, was conducted in November 1996 and included the following:

1. Development of a master list of cost-sharing agreements which program management determined was accurate and complete.
2. We then compared this list to existing contract files to ensure a contract existed for each designated agreement. Any missing documents were secured at that time.

3. The Service Centers were then requested to separately list every agreement under their control and provide in that process details on the amount of billings, existing receivables, and cumulative collections since the inception of the agreement.
4. These reports were then submitted to Headquarters where a complete analysis is being conducted on what the billings should have been, and what the outstanding balances in accounts receivable should be.
5. Any differences noted in this process will be investigated and corrected as appropriate. We would anticipate completion on this project about December 31, 1996.

We will provide appropriate guidance on the development of journal entries for these balances as part of our efforts under recommendation #19, which follows.

19. Properly Recognize Revenue Related to Cost-Sharing Agreements (Auditability Survey, Vol. I, No. 34). CNS enters into agreements with other Federal agencies and not-for-profit organizations to share expenses related to certain Volunteers in Service to America members. CNS does not consistently record amounts received in advance under the cost-sharing agreements as refundable advances (i.e., deferred revenue). As a result, revenue is not properly recognized in the general ledger and financial statements in accordance with generally accepted accounting principles.

Status: Not Corrected.

Discussion: CNS distributed procedural memoranda to Service Center personnel on how to record transactions related to cost sharing agreements. The memoranda properly instructed them to record deferred revenue for amounts received in advance of services performed. Since the memoranda were issued, the San Francisco and Dallas Service Centers each received one advance. We reviewed the journal entries for these advances noting that in both instances the advances were recorded as revenue rather than deferred revenue.

Recommendation: CNS should ensure that the Service Centers understand the journal entries associated with cost-sharing agreements and provide training as necessary.

Management's Response: We concur with the Follow-Up Study findings and recommendations.

In connection with the activities of completing an inventory of cost-sharing agreements, CNS has also issued new guidance for the accounting treatment of deferred revenue transactions and the journal entries required for establishing accounts receivable. This guidance was issued in November 1996. The original guidance on the subject which had been issued in June 1996, clearly did not provide either the guidance nor the follow-up requirements which should have been included in that document. This new guidance should correct that situation.

As part of this new directive, the Service Centers have been directed to record all billings for cost-share agreements into a deferred revenue account and then complete appropriate analysis to determine the correct amount which needs to be recognized as current revenue. This eliminates the potential confusion which may exist, or may have existed, if the entry process is attempted at the time that receipts are being recorded.

A continuing review of these requirements will be included in the Compliance Review strategy which was also discussed in our transmittal letter.

20. Request that Organizations Providing Transaction Processing Services to CNS Acquire General Controls Reviews (Auditability Survey, Vol. I, No. 38). The mainframe for the CNS general ledger system is operated by the U. S. Department of Transportation (DOT). CNS uses the U. S. Department of Health and Human Services (HHS) Payment Management System to process transactions related to certain grants. CNS has not ensured that comprehensive information systems reviews are being performed at DOT and HHS for their data centers and processing services.

Status: Not Corrected.

Discussion: CNS requested that DOT and HHS obtain independent data center internal control reviews of their processing facilities. HHS had already obtained such a review and submitted the independent auditor's report to CNS as evidence of such. However, DOT did not respond to CNS's request. CNS did not follow-up with DOT nor did CNS make other arrangements for the performance of the review (e.g., perform the review themselves). As a result, CNS has no assurance that adequate controls exist to safeguard CNS data from unauthorized access and modification at DOT.

Recommendation: CNS should follow-up on its request with DOT. If DOT has not obtained, and does not plan to obtain in the immediate future, a comprehensive general controls review, CNS should make other arrangements for the performance of the review.

Management's Response: We concur with the Follow-Up Study findings and recommendations.

In October 1996, CNS went back and re-did the original efforts on this recommendation in order to bring the organization into compliance. This effort included:

1. Issuing follow-up letters to the organizations who provide services to CNS to remind them of their requirement to provide these documents to their clients.
2. We received reports from the National Finance Center which does payroll processing for CNS, and from The Department of Health and Human Services which provides disbursement support for our National Community Service Act grants.
3. We have received a response from the Department of Transportation after our second follow-up.

4. In addition to the above, we have also familiarized key internal management staff with the requirements of Statement on Auditing Standards No. 70 on which this recommendation is based. We then formally polled these individuals as to the possibility of any additional organizations that may fall under these requirements other than the ones we had already identified. At this writing no additional candidates have been identified where follow-up would be required.
5. We are currently in the process of assessing the contents of the control reports we have received to determine if any control weaknesses exist that would require CNS to implement any additional procedures. At this writing no significant findings which would affect CNS have been noted, but further research is necessary.

This process will be placed on the CFO checklist to ensure continued follow-up for future periods will become part of our normal operation.

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

Status: Not Corrected.

Discussion: CNS distributed guidance on maintaining cuff records and reconciling the records to the general ledger. However, the guidance did not provide uniform, comprehensive procedures for reconciling the cuff records to the Status of Funds reports (Report on Open Obligations #816, Report on Obligations and Expenses #343, Report on the History of Transactions #300). Based on our discussions with Headquarters personnel, all three reports constitute the "Status of Funds Report" and must be used to perform a complete and accurate reconciliation. However, Budget Officers across CNS use varying combinations of the reports. For example, not all Budget Officers utilize the 816 report during reconciliation. The risk therefore exists that some Budget Officers may not be performing complete and accurate reconciliations.

We also noted that although the National Civilian Community Corps (NCCC) Campuses submit their monthly reconciliations to Headquarters for review, the San Francisco and Dallas Service Centers are not required to submit their reconciliations nor are they being monitored to ensure that the reconciliations are being performed.

Recommendation: CNS should develop uniform, comprehensive procedures related to the documentation of cuff records and the monthly reconciliations of the cuff records to the Status of Funds reports. The procedures should include detailed instructions on how to perform the reconciliations. The instructions should specify which reports are necessary to perform a complete and accurate review. In developing the procedures, CNS should consider the various methods employed by Budget Officers across CNS to determine "best practices." CNS should provide adequate training to Budget Officers to enable them to follow the established procedures. Management should consistently monitor compliance with the established procedures.

Management's Response: We concur with the Follow-Up Study findings and recommendations.

In November of 1996, CNS requested copies of the current reconciliations of all cuff records from its Budget Holders. The original intent of this effort was to bring together in one location all of the forms and formats in use within the company so that:

1. We would develop some level of assurance that cuff records are being maintained by all of the responsible individuals throughout the organization.
2. With all of the documents in one place, we would be able to make an assessment of the quality of the documentation that exists throughout the organization.
3. We would be able to assure ourselves that there were no significant financial variations in budget versus commitments.
4. Finally, we would be able to establish a mechanism to formally monitor the preparation and reconciliation of these records on a monthly basis from this point forward.

At this writing the review process for October 1996 is continuing. Our initial reaction from an analysis of the documents that have been submitted is that most major Budget Holders have done a good job in monitoring commitments. However, certain areas need improvement in approaching the reconciliation requirements on a timely basis and in a form that provides an ability for external sources to gain a comfort level in the final product.

These issues are being addressed at the present time by the development and implementation of common forms and format into the process. In addition, we have established these reconciliations as part of the routine reporting requirements of the monthly CFO checklist process to provide continuing assurances of ongoing compliance with this requirement.

22. Properly Establish Obligations for Travel (Auditability Survey, Vol. I, No. 43).

The Service Centers do not establish obligations in the general ledger prior to the occurrence of travel. The risk exists that CNS could enter into obligations for which funds are not available, resulting in a violation of the Antideficiency Act.

Status: Not Corrected.

Discussion: For staff travel, the San Francisco and Dallas Service Centers implemented procedures to obligate lump sum amounts at the beginning of each quarter for anticipated travel. However, the obligations at the San Francisco Service Center are recorded based on verbal communication. Although the San Francisco Service Center does obtain annual authorizations for budgeted travel, it does not document the approval of the quarterly obligations or the basis for the estimated amounts. Federal Travel Regulations 301-1.102 state that such authorizations should be “reviewed and revalidated at least quarterly” and should include “realistic limitations on purpose, geographic area, number of trips, trip duration, and costs.”

For Volunteers in Service to America (VISTA) member travel, based on our discussions at both the San Francisco and Dallas Service Centers, “Travel Authorization Forms” are now submitted approximately two weeks prior to travel and the obligations are recorded prior to travel. However, at the San Francisco Service Center, obligating documents related to emergency travel, completion of service travel, and termination travel sometimes may not be submitted until *after* the travel has occurred.

Recommendation: CNS should require that adequate documentation supporting the basis for, and approval of, quarterly amounts obligated under blanket travel orders be maintained. CNS should ensure that its procedures address de-obligating any estimated obligations in excess of actual at the end of each quarter. In addition, CNS should require that approved travel authorizations be sent to the Service Center by facsimile when time does not permit mailing the travel orders.

Management’s Response: We concur with the Follow-Up Study findings and recommendations

In November 1996, CNS completely revised all of the procedures associated with obligating travel expenditures in each of the Service Centers. The purpose of these revisions was first of all, to establish common procedures within each Service Center for obligating travel; and of equal importance to revise the underlying process for obligating travel for each of the State Offices in their submission process to the Service Centers.

The revised procedures stated briefly are as follows:

1. The Director of Field Operations will issue annual travel budgets for each State Office broken down into four quarterly apportionments.
2. Upon receipt of these budgets the State Program Director will prepare a travel authorization for each individual within the office who is scheduled to travel in the period.
3. Attached to these approved travel authorizations will be a spreadsheet delineating the trips for the quarter broken down by Travel, Per Diem, and other anticipated expenses for each individual.
4. The Service Centers, upon receipt of this information, will obligate the funds in Federal Success and issue travel orders accordingly.
5. If during the course of the quarter, an individual would exceed the obligated travel budget, the State Director will contact the Service Center Director and request a revision in that existing travel budget and a reduction in the budget for another individual to offset the excess.
6. At the end of each quarter, all unexpended funds will be deobligated and made available for reobligation in the subsequent quarter.

Monitoring of this process will become part of the Compliance Review process as outlined in our transmittal letter.

23. Implement Procedures to Ensure Completeness of Grant Files (Auditability Survey, Vol. I, No. 45). Numerous CNS grant files are missing documents, including Financial Status Reports (FSR), Requests for Advance or Reimbursements (RAR), and grantee budgets. Grants Management Officers do not ensure that complete documentation is maintained in the files and the files are not subject to periodic supervisory review.

Status: Not Corrected.

Discussion: For National and Community Service Act (NCSA) grant files, CNS developed a checklist of required documentation. CNS also developed procedures requiring that Grants Management Officers periodically review the files for completeness. For NCSA grants, the Service Centers indicated that these reviews had been performed. However, we noted that 12 of 15 files were missing at least one document essential to maintaining adequate controls and/or monitoring of grant awards (e.g., quarterly reports, site visit reports, continuing application, etc.). We noted that 10 of the 15 files were missing at least one document essential to the preparation of and support for the financial statements (e.g., FSR, RAR). Only two of the 15 files included a copy of the checklist.

For Domestic Volunteer Service Act (DVSA) grants, based on our discussions, the Service Centers are performing reviews of DVSA grant files at the time files are initially set-up; however, no directives were distributed to the Service Centers requiring periodic reviews of the grant files throughout the grant period.

Recommendation: CNS should establish a deadline for Grants Management Officers to complete the reviews of the grant files. The checklists should be maintained in the file to facilitate the reviews and ensure compliance with CNS policies. CNS should also consider forming a quality control team at the Service Centers to help ensure adherence to accounting policies and procedures.

Management Response: We concur with the Follow-Up Study findings and recommendations.

To improve the quality of existing documentation and to ensure that files are maintained in a professional manner in the future, CNS has initiated a major effort to deal with this problem.

For all DVSA grants, the Service Centers have initiated a file checklist to ensure that all new files contain all of the necessary documents before the grant files are closed. For existing files, an effort has been initiated to complete a monthly sample of existing grant files to ensure that all necessary documents are and will be contained in the files. This process will proceed as follows:

1. Each month the Service Centers will prepare lists of all active grants under their administration.
2. From these lists, a five percent sample of the current files will be selected for audit. Control will be maintained to ensure that previously audited files are excluded from the process.
3. The files will be pulled, a checklist prepared if none exists at the onset, and each necessary document will be verified as to inclusion.
4. Missing documents will be secured and the file perfected before it is refiled.

Because each month only 5% of the files are to be audited, we anticipate this process to become a continuing monthly effort at the Service Centers for the foreseeable future. It is our judgment that with the ongoing effort to include a checklist and audit of all files at the point of initiation and to continually sample the portfolio over a period of time, our current problems with documentation on these grants will be resolved.

For NCSA grant files, a substantial effort has already taken place to resolve the basic issue of file quality. This includes:

1. The development and implementation of a checklist to monitor the fact that all required documents are contained in the file.
2. To improve the quality of the total filing system, the department completed an audit of all NCSA files to ensure from the onset that all files were up to date.
3. The department recently checked every file again to make sure that each file has a checklist for control purposes.
4. Plans are in place to complete a full review of all files at six-month increments going forward.

We expect to monitor these ongoing efforts of file improvement through the CFO checklist on a monthly basis for the DVSA grants and through Compliance Reviews for the NCSA side of the organization.

24. Record Complete Information for Grant Obligations in the General Ledger (Auditability Survey, Vol. I, No. 47). Our review of the open obligations report revealed numerous grant obligations for which the vendor was listed as the Corporation for National Service (CNS) or the Commission on National and Community Service (CNCS). When a grantee's employer identification number (EIN) is unknown, the Accounting Division inputs the CNS EIN into the grantee's record in the general ledger.

Status: Not Corrected.

Discussion: We reviewed the "Open Obligations Report #816," for June 30, 1996. This report is a comprehensive list of all open obligations, including grants. Our review of this report indicated that 518 grant obligation transactions (determined by line items) still indicated CNS or CNCS as the vendor. In all of these cases, the EIN was incorrect as well. Of the 518 transactions, 61 percent were related to fiscal year 1994 and prior years, 33 percent to fiscal year 1995, and 6 percent to fiscal year 1996.

Recommendation: CNS should update *all* transactions in its "Open Obligations Report #816" to reflect proper grantee names and EIN numbers. CNS should ensure that all future grantee information entered into the general ledger is complete and accurate.

Management's Response: We concur with the Follow-Up Study findings and recommendations.

During November 1996, a significant project was initiated to clean up the entire Open Obligations Report, not just the items noted in this recommendation. This effort is described in detail under Recommendation Number 6. At the time these updated reports were sent out to the Budget Holders, a separate review was conducted to ensure that this specific problem had been corrected. This review revealed only about 10 items still having an improper EIN number for grant obligations. These items are being corrected at the present time.

Going forward, we will require these corrections to be made monthly as part of the ongoing certification process on the Open Obligations Report to ensure that errors of this type will not enter into this Follow-Up Study as has been the case in the past.

We will monitor this process as part of the monthly CFO checklist which was described in the transmittal letter.

25. Standardize and Document Procedures over NCSA Grant Processing and Monitoring (Auditability Survey, Vol. I, No. 50). CNS has no formal, standardized procedures related to the administration, monitoring, and transaction processing of National Community Service Act (NCSA) grants.

Status: Not Corrected.

Discussion: CNS developed and documented procedures related to the administration and monitoring of NCSA grants. The procedures include detailed guidance for pre-award assessments, review of grantee Financial Status Reports (FSRs), and site visit reviews. CNS also provided a two-day training course on these procedures to grants and program personnel.

Through discussions with CNS personnel, some pre-award assessments and reviews of FSRs are being performed. Pre-award assessments attempt to determine potential problem areas *prior* to granting an award (e.g., determining fiscal integrity of the grantee). FSRs determine the quarterly and cumulative rate of expenditures by grantee of recipient share and corporation funds. In addition to reviewing FSRs, monitoring of grants *after* the award needs to be performed at the grant sites. However, based on our discussions with Headquarters personnel, few site visits have been made pursuant to the monitoring procedures.

CNS has not documented its procedures related to the transaction processing of NCSA grants. CNS stated that it is in the process of creating an interface between the Federal Success System (general ledger) and the Payment Management System (PMS) and that it will document the procedures upon implementation of the interface.

Recommendation: CNS should document the procedures over the transaction processing of NCSA grants. Upon completion of the modifications that will interface Federal Success with PMS, CNS should revise and update the procedures as necessary. CNS should also complete the implementation of the administration and monitoring procedures.

Management's Response: We concur with the Follow-Up Study findings and recommendations.

We have reviewed this recommendation and have begun the process of surveying all of the key staff who are involved in the management of NCSA grants. It is our judgment that in order to adequately address this issue and to provide for accurate procedural documentation and monitoring of the grantees, a major Corporate initiative is required. We will work on developing the details of that program in the months ahead, and plan on the implementation of some form of corrective action to be in place in the Third Quarter of FY 1997.

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

Status: Not Corrected.

Discussion: CNS stated that it had informed all DVSA grants officers of the requirement to use the procurement request as the source document for inputting data into the general ledger. CNS also stated that it would monitor the Service Centers to ensure that the procedures were being implemented. However, Headquarters has not monitored the Service Centers to ensure that they are properly complying with the requirement.

Recommendation: CNS should develop a quality control structure, *including supervisory review*, to ensure that staff use the procurement request as the source document to generate the NGA and for the input into the general ledger.

Management's Response: We concur with the Follow-Up Study findings and recommendations.

CNS is currently revising its procedures to correct this process and to provide continuing oversight over the use of Procurement Requests (PR), or at a minimum to provide a professional audit trail along with appropriate approvals whenever the originally obligated amount of the grant changes. These new procedures are briefly described as follows:

1. The Service Centers will be required to complete a new PR every time the original grant award amount changes by more than \$25,000. For amounts less than that amount, the change will be noted on the original PR form appropriately initialed, dated, and approved.
2. Subsequently, each month the Service Centers verify the presence of a new PR or properly executed change notation when the grant award amount has changed. This new procedure is part of the file review process outlined in #23.
3. Where the amount has been changed by more than \$25,000 and no PR has been prepared, a new one will be prepared and authorized at that time. If a change has been made and no notation has been appropriately made in the file for lesser amounts, authorizations will be secured at that time.

4. For all files where a change has been made, a copy of the PR form will be attached to the listing of files audited during the month and remitted to the CFO's Department at Headquarters as part of the CFO's monthly checklist process.

In addition to the checklist oversight process, records of these findings will be maintained and incorporated into the Compliance Review efforts which were outlined in our transmittal letter to ensure continuing compliance with this new procedure.

27. Segregate Imprest Fund Duties at Headquarters and NCCC Campuses (Auditability Survey, Vol. I, No. 54). At Headquarters and the San Diego National Civilian Community Corps (NCCC) Campus, CNS has not adequately segregated the duties of imprest fund cashiers. In addition to maintaining, disbursing, and requesting replenishment of the imprest fund, the cashiers also reconcile the cash balance and document any overages or shortages.

Status: Not Corrected.

Discussion: Rather than segregate the duties of the imprest fund cashiers, CNS implemented cash counts to address the risks associated with the lack of segregation of duties (i.e., to potentially detect errors or irregularities rather than to prevent them). The procedures at Headquarters require quarterly unannounced cash counts. The procedures at the San Diego NCCC Campus require unannounced cash counts four times throughout the year, irrespective of quarter.

The unannounced cash counts are not performed frequently enough to ensure that funds are not misappropriated between counts. In addition, the quarterly counts are not being performed consistently at Headquarters. Headquarters personnel indicated that the last count was performed on March 29, 1996. Headquarters did not perform a count during the third quarter of fiscal year 1996. The risk continues to exist that errors or irregularities may occur between counts and not be detected.

Recommendation: We continue to recommend that CNS segregate the duties of the imprest fund cashiers to *prevent* misappropriation of CNS funds, rather than rely on infrequent cash counts that may only potentially *detect* misappropriation of CNS funds.

Management's Response: We concur with the Follow-Up Study findings and recommendations.

In November 1966, CNS developed and is currently in the process of implementing new procedures for Headquarters and modified procedures for NCCC campuses relative to the processing and use of imprest funds. These procedures will specifically delegate to separate individuals the responsibilities of authorizing and recording transactions and maintaining custody of the fund. These procedures are briefly described as follows:

1. The Cashier will disburse funds upon receipt of an appropriate authorizing form, record the transaction on the perpetual log, and complete the proper account classifications.

2. Periodically, the Cashier will request reimbursement of the fund from the Supervisor of the Cashier by proper submission of the Cashier Reimbursement Voucher.
3. The Supervisor of the Cashier will verify the documentation, reconcile the balance, document any differences, approve the package, and forward the documentation to the Approving Official.
4. The Approving Official will approve the reimbursement of the fund and cause the funds to be submitted to the Cashier for replenishment. On periodic occasions, the Approving Official will conduct a surprise cash count of the fund to ensure proper control is maintained.

We will also incorporate surprise cash counts as part of our monthly CFO checklist and will monitor the operation of the imprest cash fund through periodic Compliance Reviews of the Accounting Operation.

For the NCCC side of the organization, the procedures described above are fully implementable and we are proceeding accordingly. However, we have also initiated discussions on those imprest funds as to whether or not they should be retained in their current form. We expect that assessment to be completed in the near term.

28. Segregate Procurement-Related Duties (Auditability Survey, Vol. I, No. 56).

CNS has no policies or procedures in place that prohibit the same individual from approving a purchase order or contract and later certifying that the goods or services have been received.

Status: Not Corrected.

Discussion: CNS issued a policy that prohibits the same individual from approving a purchase order or contract and later certifying that the goods or services have been received. However, based on our discussions at Headquarters, one Contracting Officer stated that although he had not done so, he has the authority and capability to approve a procurement request, approve a purchase order, certify receipt of goods, and approve payment of the invoice.

As a mitigating control to detect such instances, the Accounting Division stated that before processing payments they ensure that different individuals have signed 1) the purchase order or contract and 2) the receiving report. We attempted to test a statistical sample of 68 non-grant disbursements made in July 1996. We reviewed 25 items related to the Service Centers noting that the disbursements were properly processed and duties adequately segregated.

Of the 43 items related to Headquarters, the Accounting Division could not locate the invoices for 23 sample items because the invoices had not yet been filed. Of the 20 items we did review, we noted three instances in which the signature of the employee certifying receipt of goods was not legible. Accounting personnel were not able to identify the signatures. As such, for these instances, accounting personnel could not have verified that different individuals had authorized the purchase order (or contract) and the receiving report before processing the invoice for payment.

Recommendation: CNS should analyze the duties of employees with procurement-related responsibilities. If an employee has the authority or capability to approve a purchase order or contract, certify receipt of goods *and* approve payment, one level of authority should be removed. During its review of the authorizing documents, the Accounting Division should follow-up on any illegible signatures to ensure that the transaction has been properly authorized. In addition, CNS should ensure documents are filed on a timely basis.

Management's Response: We concur with the Follow-Up Study findings and recommendations.

We are currently in the process of implementing a number of changes to correct this control deficiency. The first of these changes will occur through the centralization of all receiving activities at Headquarters where the control problems were identified. These revisions are shown in detail under recommendation #11.

As noted in the description of the revised workflow under that Central Receiving function, it will no longer be possible for the same individual to approve a purchase order and certify the receipt of goods or services. It will require that another separate individual must always be involved in the receiving process before documentation can be submitted for payment.

To correct the second part of this recommendation, guidance will be issued to the Accounting Department requiring that all signatures will be legible and appropriate before any request for payment is entered into the Federal Success system. Also, a special effort was initiated and is now completed to file all documentation identified in the Follow-Up Study as being unfiled at the time the Follow-Up Study was being conducted.

Oversight of this control requirement will be maintained through periodic Compliance Reviews of that segment of the CNS operation.

29. Maintain Updated Listing of Procurement Request Approval Authority (Auditability Survey, Vol. I, No. 57). Before procurement requests are approved by Contracting Officers and processed, Contracting Officers should review them to ensure that they are approved by both the Director of the requesting department and the Budget Officer in that department. CNS does not maintain an updated listing of employees with authority to approve procurement requests. Contracting Officers therefore do not have information available to determine whether procurement requests have been properly authorized.

Status: Not Corrected.

Discussion: CNS developed and issued lists of Budget Officers, Directors and Acting Directors who were authorized to approve procurement requests as of October 1995. However, some Contracting Officers were not aware that the list of Directors and Acting Directors existed and was available. In addition, in October 1996, CNS issued an “updated” listing of employees with procurement request authority. However, the revised listing did not include Budget Officers, Directors or Acting Directors.

Contracting Officers may not be familiar with all the personnel authorized to approve procurement requests throughout CNS’s program offices. The absence of complete and updated listings of personnel with the authority to initiate and approve procurement requests may impair the ability of Contracting Officers to ensure that procurement requests have been properly approved.

Recommendation: CNS should update the listing of employees with the authority to approve procurement requests. The list should include all Budget Officers, Directors, and Acting Directors and indicate the budgetary accounts for which they have authority. CNS should provide the complete listing to all Contracting Officers so that they may refer to it as necessary. The listing should be updated periodically as changes warrant it.

Management’s Response: We agree with the Follow-Up Study findings and recommendations.

In November 1996, it was decided that a completely new approach to the maintenance of authorizing listings was in order. Up to this point various departments had maintained listings of the individuals who had authority to approve certain transactions, sign contracts, etc. While for specific situations these listings could be updated as needed, the maintenance of the listing always suffered as a result of staff turnover or an absence of an immediate need. In the future, a book will be maintained within the organization which details the following:

Procurement Request Authorities
Delegations
Credit Card Holders
Budget Holders
Cuff Record Holders
NCCC Signature Authorities
Other Authorizations

This master book will be maintained within the CFO's Department, will be updated on a monthly basis and distributed to appropriate departments on an as-needed basis. All listings are current at this writing.

30. Improve Procedures for Substantiating Personnel and Payroll Records (Auditability Survey, Vol. I, No. 59). All payroll and personnel actions should be properly authorized and recorded on a timely basis. Critical payroll data should be periodically substantiated and evaluated by CNS.

Status: Not Corrected.

Discussion: The Personnel Department provides Department Heads with monthly reports on employees within their departments. These reports include information on employee grade or pay band level, salary and organizational location. The San Francisco and Dallas Service Center Directors do not receive nor review monthly reports for their employees. Although the Service Center employees are listed on the Department Head's report at Headquarters, the Department Heads are not always familiar with the detailed payroll data for employees at Service Centers.

In addition, the memorandum accompanying the management reports advised Department Heads to use the reports for personnel and budget related decisions. CNS did not require or encourage that the reports be used as a means to substantiate personnel or payroll data.

We also noted that the Personnel Department provides Department Heads with periodic notification of the status of personnel actions requested. However, the procedures did not require that Department Heads monitor the status of personnel actions (i.e., follow-up within an established time-frame).

Recommendation: CNS should ensure that appropriate personnel (e.g., Department Heads and/or Service Center Directors) periodically review management reports on employee pay rates, grade levels and organizational assignments to ensure the accuracy and completeness of personnel and payroll data. Discrepancies or questions relating to data on the reports should be investigated and resolved on a timely basis. Additionally, Department Heads and/or supervisors should monitor the status of requested actions and follow-up on any actions for which confirmations have not been received within a specified time period.

Management's Response: We concur with the Follow-Up Study findings and recommendations.

In November 1996, guidance was provided to the Department Heads and Service Center Directors to direct their attention to the individuals reflected on the monthly list provided by the Personnel Department. That list, which includes basic employee information including salary grade or band level, salary amount, and location coding, was designed to be a fundamental payroll control record. As such, by stressing the importance of having the appropriate review on this document, we are able to ensure that at least a basic review of the payroll records is conducted on a monthly basis.

As part of the process of clarifying the Department Head and Service Center Director's responsibility on the monthly reporting as described above, we also resolved a number of additional issues which were raised in the Follow-Up Study. Service Center Directors missing these reports in the past now receive them, and separate guidance has been provided on the need to ensure that requested personnel actions are actually completed and that any errors or oversights are promptly corrected.

C. Other Observations

31. Establish Performance Measures (Auditability Survey, Vol. I, No. 65). CNS has not established measurable standards of performance with which to evaluate its financial management activities, administrative functions and the performance of individual employees.

Status: Not Corrected.

Discussion: CNS established performance standards for finance and budget functions; however, no mechanisms are in place to measure and report actual performance against the standards. In addition, CNS has not yet established standards for administrative functions or for employee performance.

Recommendation: CNS should establish standards of performance for administrative and program functions as well as for employees. CNS should implement mechanisms to measure and evaluate actual performance against the standards. CNS should also ensure all performance measures, methodologies for capturing performance measure data and processes for assessing CNS performance are in accordance with the requirements of the Government Performance and Results Act.

In addition, CNS has proposed a Management Control Performance Plan and Standards (the "Plan") for Office Directors and Department Heads. CNS should ensure that the Plan includes and clearly defines measurable standards against which the Office Directors and Department Heads will be evaluated.

Management's Response: We concur with the Follow-Up Study findings and recommendations

We are presently in the process of evaluating this recommendation within the context of projects already underway to develop measurements and establish reporting procedures on Corporation activities. It is our assessment that to truly address this recommendation will require a significant Corporate effort that probably will not get underway until well into the second quarter of FY 1997.

As part of that effort, we will make sure that each measure of performance which is developed will have a basis for future evaluation, a formal reporting mechanism, and will be in compliance with the Government Performance and Results Act.

32. Improve Processing of RARs (Auditability Survey, Vol. I, No. 67). CNS does not always indicate on Domestic Volunteer Service Act (DVSA) grantee Requests for Advance or Reimbursement (RARs) that they were reviewed, approved for payment, and entered into the general ledger.

Status: Not Corrected.

Discussion: Management distributed a memorandum to Grants Management Officers and Service Center Directors restating procedures for processing RARs. While CNS has reemphasized to the Service Centers the proper procedures for processing RARs, no supervisory reviews have been performed to ensure that staff now comply with these previously existing procedures.

Recommendation: CNS should develop a quality control structure which includes supervisory review to ensure that staff comply with CNS policy related to entering RARs into the general ledger.

Management's Response: We concur with the Follow-Up Study findings and recommendations.

The new procedures which are being installed at the Service Centers for the processing of grants specifically requires RARs to be processed as a separate work item in those locations. As such, the transactions will be given separate treatment within the processing and approval structure at the Service Center, which in turn should eliminate the potential for disregarding these items. In the future the procedures for entering an RAR will be as follows:

1. Before the RAR is entered, the designated member of the staff will verify that all required signatures are present on the form.
2. It will be verified that the Notice of Grant Award has been signed and returned by the grantee, that the Procurement Request form is current, and all FSRs are up to date.
3. The designated individual will then enter the RAR into Federal Success and forward the documentation to the Certifying Officer.
4. The Certifying Officer will verify that this process has been completed and will then verify the payment within Federal Success and approve the RAR.

A review of this document entry procedure will become part of the Compliance Review process which was addressed in the transmittal letter.

33. Require Users to Change Their Password Upon Initial Sign-On to VMS (Auditability Survey, Vol. II, No. 17). The VISTA Management System (VMS) does not require users to change their password during their first attempt to access the system. As a result, several users do not change their password from the default password which is their user identification (i.e., first initial and last name).

Status: Not Corrected.

Discussion: CNS responded that the corrective action had been implemented. However, based on our observations at the Florida State Office, VMS users continue to access the system with their user identification as their password. Based on our discussions and observations, other State Office personnel continue to use their user identification as their password.

Recommendation: We strongly recommend that CNS modify VMS or install a software package which would require users to change their password upon initial sign-on to the system and periodically thereafter. CNS should ensure that *all* (i.e., current as well as new) users are required to change their passwords.

Management's Response: We concur with the Follow-Up Study findings and recommendations.

This turned out to be a significant issue, as users apparently could figure out passwords for other individuals from their own experience with the system. Upon identifying this weakness, the Automation Department of CNS that oversees the security of the VMS system issued a demand that all passwords on the system be changed immediately. This was accomplished on October 18, 1996 with any passwords not changed at that time "deactivated". Guidance was also provided on what the protocol should be in selecting passwords to avoid recurrence of similar problems in the future.

Follow-up on this requirement will fall under the direction of the Automation Department and will be part of the new System Security Procedures which are in the process of implementation at this writing.

34. Secure or Properly Dispose of Sensitive Documents and/or Reports (Auditability Survey, Vol. II, No. 18). CNS does not have procedures related to the safeguarding of sensitive information. The Privacy Act requires that sensitive documents and information be safeguarded from unauthorized disclosure, alteration, or destruction.

Status: Not Corrected.

Discussion: CNS developed and distributed a policy to all employees relating to the handling of sensitive documents. According to the policy, employees should physically secure sensitive documents in a safe, locking file or secured file room. The policy also states that sensitive documents should be disposed of by shredding. However, we noted approximately six years of Volunteers in Service to America (VISTA) personnel files that were not physically secured at the San Francisco Service Center. In addition, we noted that the California State Office does not shred sensitive documents to dispose of them.

Recommendation: The San Francisco Service Center should immediately secure the personnel files until they are archived. The California State Office should acquire a shredder to dispose of sensitive documents. Supervisors should ensure that their staff understand what constitutes “sensitive” information.

Management’s Response: We concur with the Follow-Up Study findings and recommendations

To correct this situation, CNS will be initiating a number of corrective actions.

1. Of an immediate nature, we will direct the San Francisco Service Center to appropriately secure all personnel files when not actively being used.
2. We will initiate the acquisition of a paper shredder for the California State Office.
3. We will significantly revise and then reissue the guidance which was provided earlier this year on the safeguarding of sensitive information. In this case, that guidance will be more detailed as to exactly what constitutes sensitive information and approaches to be used in protecting that information.