

CORPORATION
FOR NATIONAL
 SERVICE

December 3, 2001

The Honorable Richard Cheney
President of the Senate
Washington, DC 20510

The Honorable Dennis Hastert
Speaker of the House of Representatives
The Capitol
Washington, DC 20515

Dear Mr. Vice President and Mr. Speaker,

Enclosed is the Inspector General's Semi-Annual Report to the Congress along with the Corporation's Report on Final Action, as required under Section 5 of the Inspector General Act.

These reports cover the six-month period from April 1, 2001 through September 30, 2001. During this period, the Corporation made management decisions on 17 audits and completed final action on or closed four audits. Subsequent to this period, the Corporation closed one additional audit.

Grants Management. The Corporation continues to make good progress on the new grants management system. We are now well into the development phase and have had demonstrations of several working modules. Testing will begin in January. The system will be on-line for most modules in April 2002 and will be fully operational by late fall. When the system is completely implemented all aspects of grant operations from applying for funds to grantee monitoring and reporting on financial and program activities will be done on-line.

Decisions Related to Pre-Audit Surveys of State Commissions. The Corporation continues to work with State Commissions to strengthen their operations and ensure they have the systems in place to adequately subgrant funds and monitor program and financial activities of their subgrantees. The Corporation's primary tool for assessing State Commission operations is the *State Commission Administrative Standards Review*. This is a comprehensive assessment of all aspects of commission operations that is conducted by a knowledgeable review team. The team spends several days at each State Commission evaluating policies, procedures and systems.

The Standards set the minimum requirements and systems that Commissions must have in place to properly administer federal funds. In three specific standards, the Corporation delineates the State Commission's monitoring responsibilities related to its subgrantees. These standards indicate that, among other strategies, the Commissions must employ a risk-based monitoring strategy, conduct monitoring site visits to subgrantees, provide feedback from site visits and assure that subgrantees remedy deficiencies within appropriate timeframes.



The Commissions must also adhere to the federal cost principles and OMB circulars for managing federal grant funds as specified in the Corporation's grant provisions. The Corporation believes that these federal requirements, OMB Circulars and the *State Commission Administrative Standards* provide a solid foundation for the administration of its grant programs while allowing the commissions the flexibility to efficiently carry out their responsibilities consistent with the differing needs of the each state. In addition, OMB Circular A-133 provides guidance to grantees and subgrantees on a risk-based approach to monitoring. The Circular describes both the processes for conducting A-133 audits as well as monitoring strategies for grant recipients with subgrantees. The Corporation relies on the Circular's descriptions related to grantee monitoring requirements and development of risk-based strategies.

Information Systems and Controls. The Corporation is pleased to note that the review of its network and computer security plan concluded that the Corporation is meeting the requirements of OMB Circular A-130, "Management of Federal Information Resources." In addition, the OIG review of the Corporation's system development life cycle also concluded that its methodologies provide a good approach to system development.

Audit Resolution. Corporation management and OIG staff worked together over the last six months to review and close open audit recommendations. The Corporation has established a joint database to be utilized by both management and OIG to track and report action on OIG audit reports. We will continue to work with OIG over the next reporting period to resolve issues and close out old recommendations.

We are sending copies of this semi-annual report to interested Congressional committees, the Office of Management and Budget, and the Corporation's Board of Directors. We will also make copies available to others on request.

If you have any questions concerning these reports, please contact me or Luise Jordan, the Corporation's Inspector General.

Sincerely,

A handwritten signature in black ink, appearing to read "Leslie Lenkowsky". The signature is written in a cursive, flowing style.

Leslie Lenkowsky
Chief Executive Officer

TABLE I

**ACTION TAKEN ON AUDIT REPORTS
(for the Period April 1, 2001 through September 30, 2001)**

	<u>Number of Reports</u>	<u>Disallowed Costs (\$000)</u>
A. Audit reports with final action not taken by the commencement of the reporting period.	46	
B. Audit reports issued by the OIG during the period	15	
C. Audit reports for which final action was taken during the reporting period	4	
1. Recoveries		
(a) Collections and offsets	0	
(b) Property in lieu of cash		
(c) Other (reduction of questioned costs)		
2. Write-offs	0	
3. Audits with no disallowed costs	4	
D. Audit reports for which final action was not taken by the end of the reporting period. ¹	57	
E. <hr style="width: 40%; margin-left: 0;"/> Audit reports for which management decisions were made during the six-month reporting period and for which final action is underway. ²	17	

¹ This includes 25 audits for which final action is not due.

² Management decisions on these audits were made in previous reporting periods or are not yet due.

TABLE II
AUDITS WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE
(for the period April 1, 2001 through September 30, 2001)

	<u>Number of Audit Reports</u>	<u>Dollar value (\$000s)</u>
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period.	0	-
B. Audits which were issued during the period	1	56
C. Total audit reports on which management decisions were made during the period.	0	-
D. Audit reports pending action during the period	1	-
E. Audit reports for which final action was taken during the period	0	-
1. Value of recommendations that were completed	0	-
2. Value of recommendations that management concluded should not or could not be implemented or completed	0	0
3. Total of 1 and 2	0	-
F. Audit reports for which no management decisions were made during the reporting period	1	56

TABLE III

**STATUS OF AUDIT REPORTS WITH MANAGEMENT DECISIONS THAT HAD NO FINAL ACTION WITHIN ONE YEAR OF THE ISSUANCE OF THE REPORT
(Corresponds to OIG Semiannual Report Table IV)**

<u>Audit Number</u>	<u>Date Issued</u>	<u>Title</u>	<u>Disallowed Costs</u>	<u>Status of Action/Reason No Final Action Was Taken</u>
98-02	4/27/98	Review of Pre-award Financial Assessment of Grant Applications	N/A	One recommendation remains open on this audit – to revise grants policies and procedures related to pre-award financial assessment. Revised policies and procedures are drafted and under review within the CFO office for issuance in December 2001.
98-23	7/8/98	Auditability Assessment of the Corporation's FY97 Statement of Financial Position	N/A	The Corporation closed this audit because any remaining open issues are tracked through the subsequent year's financial statement audit.
99-01	10/9/98	Audit of the Corporation's FY97 Statement of Financial Position	N/A	The Corporation closed this audit because any remaining open issues are tracked through the subsequent year's financial statement audit.
99-02	11/17/98	Recommended Improvements to the Corporation's Internal Controls (Management Letter)	N/A	The Corporation completed corrective action on this audit and reported final action complete to the OIG on June 30, 2000.
99-04	1/22/99	Audit of Congressional Hunger Center Cooperative Agreement	\$111,351	Final action completed – Notice of Final Action sent to OIG on October 30, 2001.
99-05	2/26/00	Evaluation of the Corporation's Monitoring and Oversight of Cooperative Agreement Awarded to Congressional Hunger Center	- 0 -	Four of the five recommendations have been closed. The final recommendation is being assessed for effectiveness and inclusion in CFO grant policies on financial monitoring of grantees.
99-09	5/6/99	Audit of Corporation Contracts with Biopherics, Inc	TBD	The Corporation determined that it must verify the labor hours worked and other direct costs incurred for fiscal years 1996 – 1998 in order to determine any disallowed costs. The estimated completion date of additional audit work is March 1, 2002.
99-10	8/2/99	Audit of Corporation Contracts with TvT, Inc.	\$294,094	In Appeal. The Corporation is currently negotiating with TvT in an effort to resolve before appeal proceedings begin.
99-12	4/6/99	Audit of the Corporation's FY 1998 Statement of Financial Position	N/A	The Corporation completed corrective action on the audit on November 13, 2000, after the final open recommendation was resolved.

<u>Audit Number</u>	<u>Date Issued</u>	<u>Title</u>	<u>Disallowed Costs</u>	<u>Status of Action/Reason No Final Action Was Taken</u>
99-15	9/14/99	Audit of Corporation's Oversight and Monitoring of the Health Benefits Programs	N/A	All but one corrective action has been completed. The final corrective action will be completed when a contract is in place for outside expertise to assist in performing technical analysis of health benefits.
99-18	8/27/99	Audit of Corporation Contracts with GS Tech, Inc	TBD	The Corporation must complete additional audit work to determine any disallowed costs. The estimated completion date for the audit is February 15, 2002.
99-24	6/30/99	Recommended Improvements to the Corporation's Internal Controls, FY 1998	N/A	The Corporation closed this audit because any remaining open issues are tracked through the subsequent annual financial statement audit.
00-01	3/31/00	Audit of the Corporation's FY 1999 Financial Statements	N/A	The Corporation closed this audit because any remaining open issues are tracked through the subsequent annual financial statement audit.
00-02	11/30/99	Audit of the Corporation's Contract with Aguirre International	TBD	During the course of audit resolution, Corporation staff found errors in the allocation of indirect cost rates that needed to be corrected by the contractor's cognizant agency, U.S. AID. AID elected not to do so due to budget constraints. Therefore, the Corporation must perform an incurred cost audit for fiscal 1998 to determine the allowable indirect costs. Expected completion is January 15, 2002.
00-04	12/14/99	Evaluation of the Corporation's Oversight and Monitoring of its cooperative agreement with the National Association of Child Care Resource Referral Assns.	N/A	Corrective action will be completed by December 2001 when a final indirect cost rate is approved.
00-06	5/18/00	Pre-audit Survey of the Delaware Commission	N/A	Final action will be completed in conjunction with the resolution process for the audit of the Commission's grants, Audit Report 01-05.
00-07	5/18/00	Pre-audit Survey of the Iowa Commission	N/A	Final action completed – Management Decision included Notice of Final Action to OIG.
00-08	5/30/00	Pre-audit Survey of the North Carolina Commission	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.

<u>Audit Number</u>	<u>Date Issued</u>	<u>Title</u>	<u>Disallowed Costs</u>	<u>Status of Action/Reason No Final Action Was Taken</u>
00-09	2/09/00	Pre-audit Survey of the Tennessee Commission	N/A	Final action completed – Management Decision included Notice of Final Action to OIG.
00-10	5/10/00	Pre-audit Survey of the Washington Commission	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-11	6/20/00	Pre-audit Survey of the Kentucky Commission	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-14	3/28/00	Pre-audit Survey of the Pennsylvania Commission on Community Service	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-15	4/12/00	Pre-audit Survey of the Ohio Commission on Community Service	N/A	The Commission's corrective actions are scheduled to be completed by December 31, 2001.
00-16	3/27/00	Pre-audit Survey of the West Virginia Commission on Community Service	N/A	Corrective action has been completed on all but one finding. The remaining open finding will be closed upon review of the Commission's revised A-133 follow-up procedure.
00-17	3/28/00	Pre-audit Survey of the Missouri Commission on Community Service	N/A	The Commission's corrective action will be assessed as part of the Administrative Standards Review scheduled for December 2001.
00-18	3/24/00	Pre-audit Survey of the Virginia Commission on Community Service	N/A	The Commission's corrective action will be assessed as part of the Administrative Standards Review scheduled for January 2002.
00-19	2/9/00	Pre-audit Survey of the New Hampshire Commission on Community Service	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-21	1/6/00	Audit of the Corporation's Contract with Outsourced Administrative Systems	TBD	The Corporation must complete additional audit work to determine any disallowed costs. The incurred cost audits are under way and we anticipate final action by July 31, 2002.
00-22	9/21/00	Audit of the Corporation's Contract with Encore Management Corp.	TBD	The Corporation must complete additional audit work to determine any disallowed costs. The estimated completion date for the audit is July 31, 2002.
00-23	6/15/00	Audits of the Corporation's Contract with Hi-Tech International, Inc.	7,368	Final action completed – a Notice of Final Action sent to OIG on November 29, 2001.

<u>Audit Number</u>	<u>Date Issued</u>	<u>Title</u>	<u>Disallowed Costs</u>	<u>Status of Action/Reason No Final Action Was Taken</u>
00-24	8/8/00	Pre-Audit Survey Report of the Alaska Service Commission	N/A	The Commission's corrective action will be assessed as part of the Administrative Standards Review scheduled for June 2002.
00-25	7/12/00	Pre-Audit Survey Report of the Michigan Service Commission	N/A	Final action completed – Management Decision included Notice of Final Action to OIG.
00-26	6/23/00	Pre-Audit Survey Report of the New Jersey Community Service Commission	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-27	6/23/00	Pre-Audit Survey Report of the Rhode Island Community Service Commission	N/A	Final action completed – Management Decision included Notice of Final Action to OIG.
00-28	7/7/00	Pre-Audit Survey Report of the Idaho Service Commission	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-29	6/23/00	Pre-Audit Survey Report of the Wisconsin Community Service Commission	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-30	9/20/00	Pre-Audit Survey Report of the Florida Service Commission	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-31	6/9/00	Pre-Audit Survey Report of the Minnesota Community Service Commission	N/A	The Commission's corrective action will be assessed as part of the Administrative Standards Review scheduled for February 2002.
00-32	6/29/00	Pre-Audit Survey Report of the Illinois Service Commission	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-33	9/29/00	Pre-Audit Survey Report of the Kansas Service Commission	N/A	Final action completed – Management Decision included Notice of Final Action to OIG.
00-34	7/26/00	Pre-Audit Survey Report of the New Mexico Community Service Commission	N/A	Final action completed – Management Decision included Notice of Final Action to OIG.
00-35	5/16/00	Pre-Audit Survey Report of the Wyoming Service Commission	N/A	The Commission's corrective actions are scheduled to be completed by March 30, 2002.
00-38	6/27/00	Recommended Improvement to the Corporation's Internal Controls, Fiscal Year 1999	N/A	The Corporation closed this audit because any remaining open issues are tracked through the subsequent year's financial statement audit.