Office of Inspector General
Corporation for National and Community Service

**AUDIT OF THE
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE'S
FISCAL YEAR 2005 FINANCIAL STATEMENTS
MANAGEMENT LETTER**

**Audit Report Number 06-02
October 28, 2005**

Corporation for
NATIONAL & COMMUNITY SERVICE

Prepared by:

COTTON & COMPANY LLP
635 Slaters Lane, Fourth Floor
Alexandria, Virginia 22314

This report was issued to Corporation management on December 21, 2005. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than June 21, 2006, and complete its corrective actions by December 21, 2006. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of Inspector General
Corporation for National and Community Service

Independent Audit of the
Corporation for National and Community Service's
Fiscal Year 2005 Financial Statements – Management Letter
Audit Report 06-02

Introduction

In accordance with the Government Corporation Control Act (31 U.S.C. §§ 9101-10), the Office of Inspector General (OIG) engaged Cotton and Company LLP to audit the Corporation for National and Community Service's Fiscal Year 2005 financial statements. Their audit, conducted in accordance with government auditing standards, resulted in an unqualified opinion on the Corporation's financial statements. Audit Report 06-01, *Audit of the Corporation for National and Community Service's Fiscal Year 2005 Financial Statements*, describes the basis for the opinion as well as two reportable conditions: the Corporation's monitoring of grantee activities, and deficiencies in personnel and payroll processing. Neither reportable condition was considered to be a material weakness.

During the engagement, the auditors also noted certain matters involving the control over financial reporting and other operational matters that were not considered material weaknesses or reportable conditions. This Management Letter discusses these matters and includes recommendations for corrective action.

The contract required that the audit be done in accordance with generally accepted government auditing standards. In compliance with our statutory responsibilities, we reviewed Cotton & Company's report and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the Corporation's financial statements or on conclusions on compliance with laws and regulations. Cotton & Company is responsible for the attached auditor's report dated October 28, 2005, and the conclusions expressed therein. However, our review disclosed no instances where Cotton & Company did not comply, in all material respects, with generally accepted government auditing standards.

This report is a matter of public record and its distribution is not limited.

We provided a draft of this report to the Corporation for review and comment. The Corporation's response is included at Appendix A. In its response, the Corporation agreed with the recommendations and stated that corrective action has been completed on many of the matters.

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Office of Inspector General
Corporation for National and Community Service

**INDEPENDENT AUDIT OF THE
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S
FISCAL YEAR 2005 FINANCIAL STATEMENTS**

MANAGEMENT LETTER

In planning and performing our audit of the financial statements of the Corporation for National and Community Service as of and for the year ended September 30, 2005, we considered the Corporation's internal control to determine auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

During the audit, we became aware of several matters that present opportunities for strengthening internal control and operating efficiency. We previously reported on the Corporation's internal control in our report dated October 28, 2005. This letter does not affect our report on the financial statements of the Corporation dated October 28, 2005.

The status of these recommendations will be reviewed as part of the Fiscal Year 2006 Financial Statement Audit. We have discussed many of these comments and suggestions with the Office of the Inspector General and Corporation staff, and we will be pleased to discuss these comments in further detail at your convenience. Our comments and recommendations are attached.

We would like to express our appreciation to Corporation representatives who assisted us in completing our audit. They were always courteous, helpful, and professional.

Very truly yours,

COTTON & COMPANY LLP

Alan Rosenthal

Alan Rosenthal, CPA
Partner

October 28, 2005
Alexandria, Virginia

Independent Audit of the Corporation for National and Community Service's Fiscal Year 2005 Financial Statements

Management Letter

Cotton & Company LLP conducted the Fiscal Year (FY) 2005 Financial Statements Audit of the Corporation for National and Community Service. During the audit, we became aware of matters that present opportunities for strengthening internal control and operating efficiency. These matters and related recommendations are discussed in this management letter in the following categories:

- Grants Management
- National Service Trust
- Accounts Receivable and Debt Collection
- Human Resources and Payroll
- Vendor Payments
- General Electronic Data Processing Controls
- Property
- Financial Reporting

A. GRANTS MANAGEMENT

A.1. Grant closeout procedures did not ensure that projects were closed in a timely manner.

The Corporation has several policies regarding grant closeout, but effective communication among grant managers, grant specialists, and grantees does not always occur. Corporation personnel attempt to accommodate grantee schedules, which sometimes results in grant closeouts not being performed in accordance with the Corporation's timeliness policies. A principal reason this occurs is that grantees do not always submit final Financial Status Reports (FSRs) within the allotted 90-day period following the end of the grant period. Corporation personnel are required to follow up with grantees when reports are late and document those efforts to expedite reporting.

We planned to review a sample of 45 closed grant files, 25 files at headquarters and 20 at service centers. We discontinued testing at headquarters after identifying exceptions for 11 of the first 13 files reviewed, resulting in a total sample population of 33 rather than the planned 45 grant files. From this sample, we identified 19 files that were not closed within 180 days following the end of the grant period.

Inconsistent closeout practices place the Corporation at risk of not identifying amounts advanced to grantees that should be returned to the Corporation. Furthermore, inconsistent closeout procedures prevent the Corporation from making timely adjustments to financial statements if they are necessary.

Recommendations: We recommend that the Corporation develop and implement procedures for identifying expired grants and enforcing administrative closeout of these grants in a timely manner. We recommend that the Corporation develop timelines for service center staff to request required documentation before grant expiration dates to ensure that grants are closed out in a timely manner. Also, we recommend that the Corporation communicate the importance of semiannual FSRs to applicable grantees and consistently document follow-up procedures when grantees are late with their submissions.

A.2. Member files did not always contain required documents.

We requested 45 member files for testing. Our sample encompassed all AmeriCorps programs, consisting of AmeriCorps State, AmeriCorps National, National Civilian Community Corps (NCCC), and VISTA. Of the 43 files provided, 9 did not have proper applications, 9 did not have enrollment forms, 6 did not have proof of citizenship, 2 did not have proof of age, and 3 did not have proof (self-certification) that education requirements were met. Additionally, four files did not contain time sheets.

Recommendations: We recommend that the Corporation implement policy guidelines that comply with established regulations for all eligibility requirements, specifically documentary proof of citizenship and age eligibility for AmeriCorps, NCCC and VISTA. Further, we recommend that the Corporation reinforce its policy and guidance to ensure that member files contain documentation of all such requirements for all programs.

A.3. Member enrollment and end-of-term forms were not always processed in a timely manner.

We tested the 43 files for members enrolled in FY 2005 that were provided to us. Of the 43, 16 members were not enrolled in a timely manner. Additionally, 45 sample files of members who completed the programs in FY 2005 were tested and 9 were not exited in a timely manner. All 25 exceptions were AmeriCorps members, as opposed to VISTA or NCCC members.

Delays in processing member enrollment and exit information could affect National Service Trust Award Liability calculations and related expenses.

Recommendation: We recommend that the Corporation coordinate with grantees to reemphasize the importance of timely processing of member enrollment and exit information within the allotted 30-day period following a member's completion of service.

A.4. The FY 2003 OMB Circular A-133 audit report for the Learning Systems Group identified three reportable conditions

The OMB Circular A-133 audit report for the fiscal year ended September 30, 2003, of the Learning Systems Group, the grantee managing disbursements of President's Student Scholarship awards, identified three reportable conditions related to its Corporation grant. We found no documentation that the Corporation performed any follow-up on these reportable conditions. In addition, this grantee was late in submitting its OMB Circular A-133 audit reports. The report for the Learning Systems Group's fiscal year ended September 30, 2003, was not submitted until July 27, 2005, more than a year late. Failure by the Corporation to obtain OMB Circular A-133 audit reports in a timely manner may result in the inability to make meaningful decisions in awarding future grants to a grantee.

Recommendations: We recommend that the Corporation implement policies and procedures to obtain OMB Circular A-133 audit reports directly from grantees on a timely basis in accordance with OMB Circular A-133 submission requirements. We further recommend that the Corporation follow up on the resolution of reportable conditions and document corrective action.

B. NATIONAL SERVICE TRUST

B.1. Deficiencies were noted in e-SPAN regarding VISTA member awards.

A review of e-SPAN identified one VISTA member who received both a stipend and an education award. The education award was revoked but still appears on the member's statement. Additionally, inconsistencies exist in how e-SPAN calculates pro-rated education awards. Of 89 members tested who received partial awards, 43 received less than they were due. The system programmer has been unable to determine if the error is systemic or related to data entry. We also noted three duplicate members (same name but different Social Security Numbers) in the e-SPAN download.

We recommend that Trust personnel coordinate efforts with the Office of Information Technology (OIT) to correct the deficiency in e-SPAN that allowed these conditions to occur.

B.2. Quarterly trust reconciliations were not performed in a timely manner.

We identified discrepancies in the June 2005 reconciliation report between QuickBooks (which maintains National Service Trust accounting records) and Momentum that were not resolved before the third-quarter financial statement was released. The Fund Balance with Treasury (FBWT) account was overstated by $1,323,341, mainly the result of an award payment disbursed on June 23, 2005, that was not posted in Momentum. We were told that this resulted from a system interface problem. Trust Investments and Interest Receivables balance was understated by $390,254, as the result of duplicate posting of a prepaid interest reversal. These items could have been resolved before the third-quarter financial statements were issued if a more timely reconciliation had occurred.

We recommend that the Corporation complete all quarterly reconciliations before quarterly financial statements are finalized.

C. ACCOUNTS RECEIVABLE AND DEBT COLLECTION

C.1. Debt collection activities were inconsistently conducted.

VISTA debt collection activities were not consistently conducted in accordance with Corporation policies and procedures. In 3 out of 10 delinquent receivables tested, delinquencies of more than 60 days were not forwarded in a timely manner to Accounting and Financial Management Services (AFMS) for further collection efforts.

We recommend that the Corporation review and emphasize debt-collection policies to Corporation staff and implement monitoring procedures to ensure that policies are followed.

C.2 VISTA members who were overpaid were not notified in a timely manner.

Some VISTA members were overpaid but were not notified in a timely manner.

We recommend that the Corporation notify applicable parties immediately when overpayment situations are identified.

D. HUMAN RESOURCES AND PAYROLL

D.1. The Clearance for Final Salary Payment form was incorrectly used.

The Clearance for Final Salary Payment form was not used as designed. In three of five forms reviewed, the Part 1-Office of Human Capital Certification section was not completed.

We recommend that the Corporation ensure that the Clearance for Final Salary Payment form is properly completed.

E. VENDOR PAYMENTS

E.1. Vendor payments were not always disbursed in a timely manner, and trigger dates were not always entered correctly.

We identified 9 vendor payments from our sample of 70 that were paid in excess of 30 days. The Corporation appropriately included interest when disbursing these late payments when the correct trigger dates were used. In several cases, however, an incorrect trigger date was entered, which resulted in interest not being paid. The "trigger" date is the latest date of receipt of a proper invoice, acceptance of goods and/or services if within seven days of delivery, or delivery. Entering an incorrect trigger date resulted in an improper calculation by Momentum of the Prompt Pay Date and led to the untimely payments.

We recommend that the Corporation:

- Place stricter controls over responsible offices for timely payments.
- Reemphasize the importance of timely payments.
- Resolve bottlenecks in the disbursement process as well as train data-entry personnel in proper use of trigger dates.

E.2. The Corporation paid sales tax on procurements.

During our testing of Payment Vouchers, we identified one payment of $385 that included $15 of sales tax. Evidence indicated that the Corporation routinely paid sales tax for items purchased from this one identified vendor.

We recommend that the Corporation ensure that personnel responsible for making purchases are aware that the Corporation is tax exempt, and that vendors are provided with the Employer Identification Number or Taxpayer Identification Number that documents this tax-exempt status.

F. GENERAL ELECTRONIC DATA PROCESSING CONTROLS

F.1. Some general controls for information security were weak.

As part of our audit, we reviewed controls over systems that process and report information in support of the Corporation's annual financial statements. We also reviewed network access controls used to secure and safeguard financial information traveling over the network. This review was conducted under guidelines of the Government Accountability Office's (GAO) *Federal Information Systems Control Audit Manual* (FISCAM).

As part of our 3-year rotational scope for reviewing major systems, we focused our effort this year on the General Support System (GSS) and Momentum, the major application that serves as the financial system of record. We relied upon special publications and guidelines developed by the National Institute of Standards and Technology (NIST); guidelines developed by the National Security Agency (NSA); guidelines from the Center for Internet Security (CIS); and OMB Circular A-130 Appendix III as review criteria.

In conducting our review of internal control over information technology (IT), we reviewed controls in the following six FISCAM categories:

- Entity-wide security program planning and management
- Access controls
- Application software development and program change controls
- System software controls
- Segregation-of-duty controls
- Service continuity controls

We noted five conditions, listed below, in which the general control environment could be improved. These technical control deficiencies within the general support system and major applications weaken controls within financial applications. These weaknesses could also reduce the reliability, integrity, and confidentiality of the financial data used to prepare the Corporation's financial statements.

- OIT did not have a minimally accepted baseline configuration for the Oracle 9i database management system. The Oracle 9i database supporting the eGrants/eSPAN system was not configured for compliance with Federal guidance from the Center for Internet Security (CIS).

- A detailed review of the Symantec Enterprise Firewall configuration revealed four areas in which administration and operation of the firewall could be improved. We have separately communicated details of firewall issues to management.. Corporation management promptly addressed each of the issues identified during the configuration review of the firewall.

- A Privacy Impact Assessment, as required by OMB Memorandum 03-22, *OMB Guidance for Implementing the Privacy Provisions of the E-Government Act of 2002,* was not completed for major information systems.

- The security awareness training program was not effective in training all personnel in their security responsibilities. Two network users from our sample of 45 had not been through security awareness training within the past year. We conducted social engineering tests and were able to obtain network passwords from 6 out of 47 users tested.

- Documentation of policies, procedures, and standards was not in place for some areas, including:

    - All system users had not officially accepted rules of behavior for the network and major applications.

    - The most recent version of the Corporation's systems development life cycle (SDLC) document had not been finalized and approved by management.

We recommend that the Corporation:

- Create a minimally accepted baseline configuration for its Oracle 9i database management system and incorporate technical guidance from CIS and NSA when the baseline configuration is established. This baseline should then be used to properly configure all instances of Oracle databases in production.

- Document policies and procedures requiring a privacy impact assessment for all major systems. The evaluation of privacy risks should be included in the regularly scheduled Certification and Accreditation (C&A) or risk assessment processes.

- Ensure that all employees and contractors participate in annual security awareness refresher training provided online by OIT. We recommend that the delivery of this training by strengthened, periodic e-mail reminders be sent to employees and contractors, and online testing be modified to deliver feedback to the user.

- Develop policies, procedures, and standards to address:

    - The appropriate level of approval for rules of behavior for the network and all systems used by the Corporation. Once approved, we recommend that OIT ensure that all users are familiar with rules of behavior for Corporation systems and formally accept them.

    - The process of reviewing and approving the most recent version of the SDLC document. Once the document has been approved, it should be made available to employees on the Intranet. Any training required for key positions on new or updated procedures should be conducted promptly.

G. PROPERTY

G.1. Headquarters and Service Centers property records did not always agree.

During site visit testing of property at one Service Center, we noted discrepancies between inventory lists provided by Headquarters and the Service Center. The Headquarters Property Officer did not update the master property schedules. This resulted in property no longer in the custody of the Corporation remaining on the property schedule. Additionally, property disposal forms, Centralized Excess Property Operation (CEPO), did not always have the approving official's signature.

We recommend that the Corporation coordinate property custodian activities and ensure that employees review Corporation Policy Number 500 regarding property management.

H. FINANCIAL REPORTING

H.1. Policies and procedures did not exist for grant accrual review.

Policies and procedures did not exist to ensure thorough grant accrual review. Supervisory signatures were not provided as evidence of review of the Expense Accrual-Comparison of HHS vs. Momentum report. Furthermore, causes of significant variances were not documented.

We recommend that the Corporation enhance policies and procedures for review of grant accrual to HHS's actual expense on a quarterly basis.

H.2. Some liabilities were unrecorded.

During testing of subsequent disbursements (July-August), we identified 20 out of 43 unrecorded liabilities at June 30, 2005, with a total amount of $135,000 (85.61 percent of total subsequent disbursements).

We recommend that the Corporation record liabilities in a timely manner after goods and services are delivered and enter the correct accounting period commensurate with the date of the liability event.

H.3. Property sub ledgers were incorrect.

During substantive testing of property and equipment, we noted that the FY 2004 ending balance, $2,916,449, per the property and equipment sub ledger, did not agree to the FY 2005 property and equipment sub ledger beginning balance of $2,178,791. Several deletions and corrections of errors made during 2005 were not reflected in the sub ledger. This resulted in a large unsupported adjustment required to balance the account.

We recommend that the Corporation re-enforce policies and procedures over capital assets and implement additional quality assurance procedures to prevent unsupported transactions from entering the financial system.

H.4. Imputed financing was not correctly recorded.

The Corporation did not record correct imputed costs and imputed financing sources for liabilities paid by the Judgment Fund (Treasury), resulting in an understatement of $516,831 in each account. Imputed Cost/Imputed Financing are non-reimbursed or under-reimbursed costs recognized by a receiving entity. This transaction is considered to be an "imputed cost" offset by an "imputed financing," because no funds change hands.

The Corporation posted a journal voucher in Period 13 to correct the accounts after we identified the misstatement.

We recommend that AFMS communicate with the General Counsel to ensure that litigation, claims and assessments as well as related judgments paid on behalf of the Corporation are properly recorded in a timely manner.

H.5. Trust Receivables were not included in the financial statements.

The Corporation did not have a control in place to record trust receivables in Momentum when overpayments of education awards and interest forbearance were identified. As a result, these receivables were excluded from the year-end financial statements.

We recommend that AFMS establish a control to record a receivable when an overpayment has been identified. Additionally, we recommend that AFMS review existing trust receivable accounts and develop aging criteria to account for the uncollectible amount.

STATUS OF PRIOR-YEAR MANAGEMENT LETTER COMMENTS

Fiscal Year 2004 Management Letter Comment	Fiscal Year 2005 Status
A.1 Oversight of OMB Circular A-133 reporting/audit findings are not resolved in a timely manner.	This issue remains open. Elevated to Internal Control Report.
A.2 Grant closeout procedures do not ensure that projects are closed in a timely manner.	This issue remains open and is currently listed as A.1.
A.3. Member Files did not always contain required documents.	This issue remains open and is currently listed as A.2.
B.1 Member end-of-term forms are not always processed in a timely manner.	This issue remains open and is currently listed as A.3.
B.2 Interest forbearance procedures are not always followed.	Management has fully implemented corrective actions to address this issue. This issue is closed.
B.3. Trust disbursement procedures are inconsistent.	Management has fully implemented corrective actions to address this issue. This issue is closed.
B.4. VISTA member partial education awards are inconsistent.	This issue remains open and is currently listed as B.1.
C.1 Debt collection activities are inconsistently conducted.	This issue remains open and is currently listed as C.1.
D.1 Overtime was not always approved in writing.	Management has fully implemented corrective actions to address this issue. This issue is closed.
E.1 Vendor payments are not always disbursed in a timely manner.	This issue remains open and is currently listed as E.1.
F.1 Certain general controls on information security are weak.	This issue remains open and is currently listed as F.1; however, several items noted in the FY 2004 management letter have been corrected.
G.1. Property records between HQ and Service Centers do not always agree.	This issue remains open and is currently listed as G.1.

APPENDIX A

CORPORATION RESPONSE

Corporation for
NATIONAL & COMMUNITY SERVICE

MEMORANDUM

Date: December 20, 2005

To: Carol Bates, Acting Inspector General

From: Bill Anderson, Deputy CFO for Financial Management

Subject: Comments on Management Letter

Thank you for the opportunity to comment on the draft of the fiscal 2005 management letter. The Corporation is pleased that, for the sixth year in a row, it received an unqualified opinion on its financial statements and that the audit found continued improvement in our internal controls. The management letter recommends several areas for further improvement with which the Corporation generally agrees. The Corporation's response to each recommendation is outlined below.

Finding A.1 – The report stated that grant closeout procedures did not ensure that projects are closed in a timely manner and recommended that the Corporation (1) develop and implement a policies and procedures for identifying expired grants and enforce timely administrative closeout of these grants; (2) develop timelines for Service Center staff to request required documentation before the expiration date to ensure that grants are closed out in a timely manner; and (3) communicate the importance of semiannual FSRs to applicable grantees and consistently document follow-up procedures when grantees are late.

Corporation Response – The Corporation has implemented policies and procedures for grant closeout and included requirements to close out grants within the required timeframes in the 2006 Grants Management Specialist's workplans. The Corporation tracks FSR receipt through eGrants and will use this capability to identify grantees for notification of delinquent Financial Status Reports (FSR). This will be utilized for both semi-annual FSRs and Final FSRs due as part of the closeout process. We have established a policy to place holds on current grantee accounts if FSRs are more than 45 days late. Finally, the Office of Grants Management established a new position, Senior Grants Officer for Compliance, which will be responsible for tracking timeliness of grantee reporting, receipt and review of FSRs, and ensuring that grant closeout actions are taken within established timeframes. We expect to fill the position no later than March 2006.

Finding A.2 – The report stated that member files did not always contain required documents and recommended that the Corporation (1) implement draft policy guidelines that comply with established regulations for all eligibility requirements, specifically proof of citizenship and age eligibility for AmeriCorp, NCCC and VISTA; and (2) reinforce its policy and guidance to ensure that member files contain documentation of all such requirements for all programs.

Corporation Response – The Corporation reemphasized the importance of maintaining all eligibility documentation at the Commission Executive Director's meeting in April 2005 and again in training sessions at the National Service Conference in August. We also review member files on site visits and evaluate state commission systems for reviewing member files and ensuring programs comply with the documentation requirements. The AmeriCorps Director will also send a reminder to all AmeriCorps programs and state commissions in January to reemphasize member file requirements and inform the programs that past performance on this compliance and other documentation and timeliness requirements will be considered during grant competition in 2006.

Finding A. 3 – The report stated that member enrollment and end-of-term forms are not always processed in a timely manner and recommended that the Corporation coordinate with Grants Management and Program Offices to reemphasize the importance of timely processing member exit information within the allotted 30-day period following a member's completion of service.

Corporation Response – AmeriCorps staff reemphasized the importance of timely forms processing at the Commission Executive Director's meeting in April 2005 and again in training sessions as the National Service Conference in August. In addition, the AmeriCorps Director reviews a monthly report that identifies all programs that are not entering member enrollment and exit data within established timeframes. The Director requires Corporation program officers to follow up with delinquent programs. Finally, the Director is sending a reminder to AmeriCorps programs and state commissions in January reemphasizing the requirement and informing the programs that past performance on these compliance and other documentation and timeliness requirements will be considered during grant competition.

Finding A.4 – The report stated that Learning Systems Group's A-133 audit report identified three reportable conditions and recommended that the Corporation (1) implement procedures to obtain OMB Circular A-133 audit reports directly from the grantee; and (2) follow-up and document resolution of reportable conditions.

Corporation Response – The Corporation reviews the most current OMB Circular A-133 audit report for each grantee each year as part of the award process. If the report is not in the clearinghouse at the time of award, the Corporation requests the A-133 audit report from the grantee. Regarding the Corporation's grants to the Learning Systems Group, the grants expired and were not renewed. Since the organization was not receiving new grants, Corporation staff did not request and review the A-133 audit reports. The Corporation's current activities with Learning Systems Group are carried out through a contract and are governed by the Federal Acquisition Regulation (FAR). The contractor has specific instructions and direction through the contract statement of work with firm deliverables subject to the established contract acceptance of services criteria.

Finding B.1 – The report stated that VISTA member partial awards are inconsistent and recommended that Trust personnel coordinate efforts with the Office of Information Technology (OIT) to correct the deficiency in e-SPAN that allowed this condition to occur.

Corporation Response – The Corporation currently has an eSPAN Change Control Board (CCB) which identifies system issues and prioritizes the research and correction of the process. The error identified is a one day difference in the calculation of a pro-rated award for some members. The item is currently being researched and, if needed, action will be taken upon completion of the research to either correct the system or provide directions to staff to correct any input problem.

Finding B.2 – The report stated that quarterly Trust reconciliations were late and recommended that the reconciliations be completed before the quarterly statements are released.

Corporation Response – Beginning in fiscal 2006 the Corporation implemented a Trust investment process in Momentum which eliminated the use of Quickbooks to account for Trust investment activity, and thus the need for a reconciliation process between the general and subsidiary ledgers.

Finding C.1 – The report stated that debt collection activities were inconsistently conducted and recommended that the Corporation review and emphasize debt collection policies to Corporation staff and implement monitoring procedures to ensure that policies are followed.

Corporation Response – The Corporation has reemphasized the importance of adhering to the debt collection policy and procedures established to control accounts receivable activities. A reminder was sent to accounts receivable program staff and accounting staff on December 16, 2005, to stress the importance of timely action on receivables. Accounting and Financial Management Services (AFMS) and VISTA staff also meet regularly to review the status of delinquent receivables and to ensure timely action is taken. The Corporation will continue to monitor the process to ensure that the requirements are followed.

Finding C.2 – The report stated that some VISTA members were not notified of overpayment of their payroll in a timely manner and recommended that when errors are found the member should be immediately notified.

Corporation Response – The Corporation has a process in place to notify VISTA members in the event of an overpayment in their payroll. The Corporation reemphasized the requirement for timely notification in an email to all AFMS and field staff involved in the process on December 16, 2005. The Corporation will continue to monitor the process to ensure that the requirements are followed.

Finding D.1 – The report stated that the "Clearance for Final Salary Payment" was not filled out completely and recommended that the Corporation ensure that form is completed properly.

Corporation Response – The Corporation's Office of Human Capital implemented a Standard Operating Procedure to ensure that all clearance activities are completed before an employee's final salary check or lump sum leave payment is released.

Finding E.1 - The report stated that Vendor payments are not always disbursed in a timely manner and recommended that the Corporation (1) place stricter controls over the responsible offices; (2) reemphasize the importance of timely payments in the disbursement process; and (3) resolve bottlenecks in the disbursement process and train personnel in proper use of dates.

Corporation Response – The Corporation has put an emphasis on the timely payment of invoices. During fiscal 2005 AFMS took over the role of invoice receipt and tracking and has developed an automated notification process that alerts offices before invoices are due but are past their internal due date established in our new procedures. Using the new procedures the Corporation was green on the government-wide metrics for prompt payments at the end of fiscal 2005. We have instructed program offices on the invoice payment process and discussed issues that arise with each problem invoice. The Corporation will continue to monitor the process to ensure that the requirements are followed.

Finding E.2 – The report stated that the Corporation paid sales tax on some purchases and recommended that the Corporation ensure that personnel responsible for making purchases were aware that the Corporation is tax exempt and that vendors are provided with the Employer Identification Number or Taxpayer Identification Number.

Corporation Response – All staff in the Office of Procurement Services (OPS) are aware that sales tax is not paid and we routinely furnish our District of Columbia tax exempt letter or a SF1094, U.S. Tax Exemption Form to vendors requiring such documentation. Purchase card training for field staff also points out that tax is not paid on any purchase. In addition, on December 13, 2005, the Agency Program Coordinator for purchase cards sent an email to all cardholders reminding them of our tax exempt status and the procedure for obtaining a tax exempt letter or form from OPS. Finally, Policy 350, Procuring Supplies and Services, will be enhanced to more clearly identify the tax exempt status of our purchases and the procedures for using the SF1094.

Finding F.1 – The report stated that certain general controls for information security are weak and recommended that the Corporation (1) create and use a minimally accepted baseline configuration for their Oracle 9i database management system and incorporate the technical guidance from CIS and NSA when the baseline configuration is established; (2) document the policies and procedures requiring a privacy impact assessment (PIA) for all major systems and include the evaluation of privacy risks in the regularly scheduled Certification and Accreditation (C&A) or risk assessment processes; (3) ensure that all employees and contractors participate in the online testing at least annually and that the delivery of the information be strengthened and modified to deliver feedback to the user; and (4) finalize and provide the appropriate level of approval for the Rules of Behavior, for the network and all systems used by the Corporation, ensure that all users are familiar with the Rules of Behavior for Corporation systems and formally accept them, complete the process of reviewing and approving the latest version of the SDLC document, and make it available to employees on the Intranet. Any training that is required for key positions on new or updated procedures should be conducted promptly.

Corporation Response – The Corporation (1) created a baseline document that details the configurations of both Application Servers and Database Servers. These documents enable OIT to recreate a server in a standard configuration. We have begun working on the second version of this document, which will incorporate the appropriate configuration parameters from both the CIS and NSA technical guidance. We anticipate that this version of the document will be completed by April 1, 2006; (2) is rewriting its Certification and Accreditation (C&A) policies and will be performing C&As on all major and general support systems by March 1, 2006. PIAs will be conducted on all systems (including minor) by March 1, 2006; (3) enhanced the online security awareness test and re-released it for employees to take in December, 2005. It is expected that all employees will take this course by January 5, 2006; and (4) will review, update and approve its Rules of Behavior as part of the rewrite of the C & A policy. The Corporation will also implement a new Standard Development Life Cycle (SDLC) document by June 1, 2006. The SDLC will be made available on the Intranet at that time.

Finding G.1 – Property records between Headquarters and Service Centers do not always agree. OIG recommends that the Corporation coordinate property custodian activities and ensure that employees review Corporation Policy Number 500 regarding property management.

Corporation Response – On December 7, 2005, a notice was sent to all Corporation staff reminding them of their responsibilities to follow Property Management Policy 500 and the overall importance of adhering to these procedures in tracking and disposing of Corporation property. In addition, the Office of Administrative and Management Services will conduct a biannual inventory of Corporation property and reconcile the inventory to the inventory database.

Finding H.1 – The report stated that there was no supervisory signature to evidence review of the "Expense Accrual-Comparison of HHS vs. Momentum report and recommended that the Corporation enhance policies and procedures for review of the Grant accrual to HHS' actual expense on a quarterly basis.

Corporation Response – The grant accrual process has been reviewed and a new accrual process is in place that is based on quarterly draws from the Department of Health and Human Services' grantee Payment Management System. After the quarterly accrual is processed the notification of the accrual will be sent via email, as it is currently done, and the Director of AFMS will return an approval email for the grant accrual.

Finding H.2 – The report stated that some liabilities were not included in quarterly statements as of June 30, 2005 and recommended that liabilities be recorded in a timely manner after the goods/services are delivered.

Corporation Response – The Corporation reemphasized the importance of timely entry of data through the implementation of a new invoice recording and distribution process. Often there is no objective record of delivery until the invoice is received, especially with service contracts. Recording of the liability is often after the invoice is received as well as after the goods and services are delivered. Given the timing for reporting to Treasury and OMB and the immateriality of the entries, it would not be proper to open a prior period to record a liability. AFMS plans to hold quarterly meetings to train pertinent staff on goods and services entries in Momentum and again highlight the importance of timely entries. The meetings will also address any processing questions raised by staff.

Finding H.3 – The report stated that property subledgers were incorrect and recommended that the Corporation reinforce policies and procedures over Capital Assets and implement additional quality assurance procedures to prevent unsupported transactions from entering the financial system.

Corporation Response: The Corporation has emphasized the importance of adhering to the Capital Asset policies by reviewing the schedules and the incorrect entries with staff. Internal control testing will be conducted in conjunction with the Corporation's fiscal 2006 management control review to ensure the provisions in our Accounting for Capital Assets policy are followed. The Corporation will implement a mid-year call for property and equipment changes from the program offices. This process is currently only being done at year end. This will assist in the review of additions, transfers, and deletions during the year and reflect changes to Property and Equipment more timely.

Finding H.4 – The report stated that imputed financing was not recorded and recommended that AFMS communicate with the General Counsel and implement a corrective action to ensure that judgments paid on behalf of the CNCS are recorded properly and in a timely manner.

Corporation Response – The Judgment Fund web site will be reviewed quarterly and the entries to the financial system will be completed in the quarterly financials. Concurrent with this review AFMS will communicate with the Office of general Counsel to ensure the web-site actions are up-to-date.

Finding H.5 – The report stated that Trust Receivables were not included in the Financial Statements and recommended that AFMS (1) establish a control in the system to record a receivable when an overpayment has been identified; and (2) review the existing Trust receivable accounts and develop aging criteria to account for the uncollectible amount.

Corporation Response – Trust receivables have been reviewed and will be reported in the financial statements. We have established a procedure to record the receivables in Momentum after a 30 day time period of non-collection. This will ensure the receivable will be included in the Financial Statement and under the Corporation's debt collection process, will be sent to Treasury for collection in accordance to the Debt Collection Act.

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