

C O R P O R A T I O N

F O R N A T I O N A L

 S E R V I C E

**Report on the Results of the
Auditability Survey**

Volume I

March 29, 1996

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March 29, 1996

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 internal control structure policies and procedures related to the following transaction cycles and financial systems of the Corporation for National and Community Service (CNS):

- Procurement and General Expenditures Cycle
- Grants Management Cycle
- Payroll Expenditures Cycle
- Revenue Cycle
- Investments and Trust Fund Expenditures Cycle
- Budget Cycle
- Financial Reporting Cycle
- General Ledger (Federal Success) System
- Grants Management database
- PC-TARE (payroll) database
- VISTA (Volunteers in Service to America) Management System
- Trust Fund System

The objective of our procedures was to identify conditions which could adversely affect an audit of the CNS financial statements. Our procedures included obtaining an understanding of the internal control structure, evaluating its design and assessing its operating effectiveness, as set forth below. To gain an understanding of the internal control structure applicable to the above areas, we interviewed CNS personnel about existing policies and procedures, read CNS written policies and procedures, analyzed transaction flows and processes, and performed limited tests of processed transactions. These procedures are hereinafter referred to collectively as the "auditability survey."

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

- CNS Headquarters in Washington, D. C.
- San Francisco Service Center
- Atlanta Service Center
- San Diego National Civilian Community Corps (NCCC) campus

The objectives of an internal control structure 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 an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. Because of inherent limitations in any internal control structure, 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 the internal control structure 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 the internal control structure 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.

The auditability survey disclosed numerous reportable conditions in the CNS internal control structure. The reportable conditions are summarized in the Executive Summaries included in Volumes I and II of this report, and are discussed in detail in Sections I and II of each volume. Volume I describes the reportable conditions identified through procedures performed jointly by Williams, Adley & Co., LLP and Arthur Andersen LLP in all transaction cycles and financial systems referenced above except the Trust Fund and VISTA Management Systems. Volume II describes reportable conditions identified through procedures performed solely by Williams, Adley & Co., LLP for the Trust Fund and VISTA Management Systems. Both volumes include recommendations to correct the reportable conditions and management's responses to the findings and recommendations.

The nature and significance of the reportable conditions are such that the internal control structure is not adequate to enable an independent auditor to perform an effective and efficient audit in accordance with generally accepted auditing standards.

We communicated the reportable conditions described herein to management periodically during the course of our work. In certain instances, management has indicated to us that it has taken corrective action since the time that a reportable condition originally was brought to its attention. We describe the reportable conditions as they existed when the matters first came to our attention. Management's response to the findings and recommendations, including any corrective action taken or planned, is included in the segment of each finding 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.

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 the internal control structure. 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 the internal control structure, other matters might have come to our attention that would have been reported to you.

Inspector General
March 29, 1996
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This report is intended solely 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.

We wish to express our appreciation for the courtesies and cooperation extended to our representatives during the course of their work. We would be pleased to discuss these recommendations in greater detail or otherwise assist in their implementation.

Williams, Adley E Company LLP

Arthur Andersen LLP

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GLOSSARY OF ACRONYMS AND ABBREVIATIONS

EXECUTIVE SUMMARY

Volume I

We have conducted an auditability survey, the purpose of which was to identify conditions which could adversely affect an audit of the CNS financial statements. Our auditability survey identified numerous reportable conditions in the CNS internal control structure. As a result of these reportable conditions, the financial information prepared by CNS is not complete, accurate and reliable.

In summary, we found that:

1. CNS lacks a strong management control environment which would provide the framework within which an effective internal control structure could operate. The ineffective management control environment adversely affects management's ability to record, process, summarize and report reliable financial data.
2. The CNS general ledger does not contain accurate and complete information because CNS has not implemented policies and procedures to ensure that 1) all transactions are properly authorized and entered into the general ledger, 2) documentation to support processed transactions is retained and 3) account balances are subject to periodic supervisory review. In addition, day-to-day accounting procedures are inadequate to ensure that 1) expenses are recorded when incurred, 2) revenues are recognized when earned, 3) assets are properly valued and 4) transactions are recorded in the proper accounting period. These conditions impact the integrity of the financial information used and reported by management.
3. CNS does not maintain adequate security administration controls over logical access to data in its general ledger, grants and payroll systems. CNS procedures for assessing and monitoring the access levels of systems users are inadequate. The absence of adequate security administration controls is a pervasive control weakness that impacts the integrity of data in the general ledger, grants and payroll systems.
4. Management has not sufficiently analyzed and designed the division of responsibilities among CNS employees. In order to ensure that assets are safeguarded, duties related to authorizing, processing and recording transactions should be separated among different individuals. However, we noted several instances of inadequate segregation of duties throughout CNS. Inadequate segregation of duties can result in errors or fraud occurring and remaining undetected by employees in the normal course of performing their duties.

5. The controls over CNS budgetary accounts are inadequate. We noted that budget officers do not always have accurate and complete information for assessing funds availability. Further, controls do not ensure that obligations are recorded on a timely basis. In some instances, purchases were made without prior budgetary authorization. These conditions impair management's ability to properly allocate resources to programs and to ensure that funds are spent in accordance with applicable laws.
6. CNS accounting policies and procedures are inadequate to permit the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). Management has not established a methodology for ensuring that the financial statements, including footnote disclosures, reflect the activities of CNS in accordance with GAAP.

These conditions are discussed in greater detail in Sections I and II of Volume I along with our related recommendations. Management's response follows each recommendation.

The recommendations in Section III represent other observations that were noted during the auditability survey that would enhance the economy and efficiency of CNS operations and strengthen existing internal controls.

I. Recommendations Related to Material Weaknesses

FINANCIAL MANAGEMENT

1. Strengthen Management Control Environment

Criteria: An entity's internal control structure consists of three elements -- the management control environment, the accounting system and control techniques. Effective management controls should be established to provide the framework for the proper functioning of an entity's accounting systems and control techniques.

Condition: CNS lacks a strong management control environment. This is evidenced by 1) the number and magnitude of the reportable conditions described herein, 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.

The CNS management control environment as it currently exists has not succeeded in revealing and correcting significant deficiencies in financial management controls. In addition, CNS has not assessed and reported on its management control structure on a timely basis as required by the Government Corporation Control Act, as amended.

Cause: CNS management has not established a strong management control environment to provide the framework within which an effective internal control structure can operate. Management has not implemented policies and procedures which are designed to ensure that financial management is adequate.

Effect: The reportable conditions in the CNS internal control structure result from weaknesses in the management control environment. The reportable conditions adversely affect management's ability to record, process, summarize and report financial data in accordance with generally accepted accounting principles.

Recommendation: Management should strengthen the CNS management control environment to address existing weaknesses and to provide the framework within which the CNS internal control structure can operate effectively. A comprehensive plan should be developed and implemented to address all elements of an effective internal control structure (e.g., oversight procedures, competency and training of personnel, adequate allocation of resources for financial management activities, etc.).

Management's Response: Management agrees with this recommendation and will implement it.

Management recognizes that a strong management control environment is a function not only of the adequacy and integrity of systems, but also the commitment and competence of the people who operate those systems. Management will, therefore:

- Regularly emphasize to all CNS employees their responsibility to adhere strictly to all policies and procedures that have been established to ensure the Corporation's financial integrity;
- Provide employees with the training necessary to meet those requirements;
- Regularly and systematically monitor the Corporation's progress in meeting the commitments it makes in response to this auditability assessment and, where implementation problems arise, move decisively to resolve them; and
- Where the Inspector General, auditors or management identify additional deficiencies in management controls or failure of employees to adhere to policy and procedures, promptly take remedial actions.

This recommendation addresses the need to strengthen the management control environment and to develop a comprehensive plan in the area of internal controls.

The management control structure, including procedure development, training of personnel, resource allocation in the area of financial management, and instilling in all Corporation personnel a strong sense of the importance of sound management control structures and practices, is a priority of the Corporation.

Since its final consolidation in April of 1994 -- a little more than halfway through the fiscal year that was under audit review -- the Corporation has faced the challenges of starting up major new programs, integrating existing programs, consolidating existing agencies into a new Corporation, and adapting the disparate financial management practices of those agencies to meet the requirements imposed on government corporations.

During this start-up period, management's objective was to ensure the effectiveness and integrity of the Corporation's programs while avoiding complex control processes that would impede operations while at best being only marginally effective. The plan being developed will address the significant weaknesses and findings in this auditability assessment, enhance controls in the existing financial management system, and provide for new and improved financial systems to replace our existing outmoded systems.

The Corporation's financial management objective is to:

- Integrate management controls into systems and operations rather than to establish a separate and complex controls process that would be burdensome and at best of marginal utility in achieving our overall goals;
- Create streamlined but effective management control processes while taking full advantage of related activities such as evaluations and monitoring;
- Provide incentives for managers to become involved in management control processes, rather than enforcing internal compliance; and
- Decentralize management control responsibilities within the organization -- with accountability for outcomes.

This approach is intended to foster increased responsibility and accountability at all organizational levels and is consistent with recommendations of the National Performance Review and with the latest version of the Office of Management and Budget's Circular A-123.

This specific recommendation encompasses broadly a number of the specific recommendations contained in the auditability survey. Based on our work with the auditors over the last several months and our own analysis and operating experience, we already have taken several important actions to improve the Corporation's management control environment and structure. These include:

- Established a single point for approval, documentation of approvals, and periodic reviews of approvals as a means of strengthening controls over access to the accounting system.
- Improved cash receipts control by segregating duties related to the receipt of cash and the entry of information into the accounting system.
- Initiated a detailed cash reconciliation between Corporation and Treasury records for fiscal year 1996.
- Reconciled data between the payment system used for grants and the accounting system.
- Provided for a second review of all investment decisions made by the Corporation.

- Improved the comprehensiveness of procurement policies.
- Enhanced the security of computer systems.

To oversee the management control strategy and to assure implementation of improved management controls, a Senior Management Control Council has been appointed by the Chief Executive Officer. A Management Control Plan, incorporating many of the actions identified in this report, will be completed by July 1, 1996 for action by the Council.

Summary of Actions to be Taken:

1. Development of a Management Control Plan by July 1, 1996. Subsequent actions are dependent upon the specifics in this plan.

2. Improve CNS Financial Reporting Process

Criteria: Procedures should be in place and operating effectively to allow the preparation of financial statements in accordance with generally accepted accounting principles.

Condition: The CNS Accounting Division is responsible for all internal and external reporting of CNS (e.g., reports to the U. S. Department of the Treasury, internal management reports, etc.) except for the financial statements. For fiscal year 1994, the CNS Office of Corporate Analysis (OCA) used trial balances provided by the Accounting Division to produce the CNS financial statements. OCA coordinated the calculation and posting of adjusting entries to compensate for the certain errors and omissions in the financial statements. In addition, the Accounting Division communicated adjusting entries to OCA for other known errors in the general ledger. OCA posted such adjustments to the statements, but performed no additional analysis.

Neither OCA nor the Accounting Division has established a methodology for ensuring that the financial statements, including footnote disclosures, are accurate, complete and of high quality.

Cause: Management has not clearly defined who has the responsibility within CNS for ensuring the accuracy and completeness of the financial statements. The Accounting Division describes its responsibility as that of entering routine transactions into the general ledger and providing trial balances to OCA for use in compiling the financial statements. OCA describes its responsibility as taking the trial balances provided by the Accounting Division "as-is," and using those numbers to compile the financial statements. Neither entity has assumed the responsibility for analyzing the financial statement account balances for reasonableness and propriety, either at year-end or during the year.

Effect: Although CNS management attempted to correct known errors in the 1994 financial statements, their corrective actions were inadequately researched and supported. Further, management did not identify and/or correct all errors in the financial statement balances and related footnote disclosures. The weakness in the process resulted in material misstatements and inadequate disclosures in the 1994 financial statements.

Recommendation: Management should develop and implement a methodology for ensuring that the CNS financial statements, including footnote disclosures, are accurate and complete. This methodology should include a quality control process.

In addition, management should clearly define who within the organization has the responsibility for the CNS financial statements. Management should consider merging the Office of Corporate Analysis with the Accounting Division in order to centralize the responsibility for the information contained in the financial statements.

Personnel responsible for preparing the financial statements, as well as personnel responsible for maintaining the accounting data related thereto, should be held accountable for their work and their performance should be evaluated accordingly. Management should take an active role in ensuring that the organizational commitment and resources exist to enable CNS to prepare financial statements in accordance with generally accepted accounting principles.

Management's Response: Management agrees with the recommendation and will implement it.

As a government corporation, the Corporation for National Service is required to prepare annual financial statements using generally accepted accounting principles (GAAP). Predecessor organizations had their own accounting systems; none had been required to produce private sector-type financial statements. None of the financial staff from these organizations had significant experience in the production of private sector financial statements, which differ greatly from traditional federal government-type accounting principles.

To attempt to meet this new series of requirements, the Corporation for National Service hired or contracted with four professional Certified Public Accountants to assist in the improvement of financial management activities and the production of financial statements. The Corporation for National Service made every reasonable effort to obtain the information necessary to construct the 1994 financial statements from accounting records that had been maintained using significantly different accounting systems and principles. The 1994 statements therefore represent a "best effort" to establish a starting point for the new Corporation's financial position.

The Corporation will engage a professional accounting firm to assist in the preparation of the 1996 financial statements. This is necessary, in large part, because of staffing reductions experienced by the Corporation in the area of financial management. This firm will assist in developing the methodology to ensure that the Corporation for National Service financial statements are complete and accurate. The responsibility will reside within the Office of the Chief Financial Officer.

Summary of Actions to be Taken:

1. Hire professional accounting support by July 1, 1996.
2. Develop and document methodology used for production of 1996 statements by March 31, 1997.

3. Strengthen Security Controls over Access to the General Ledger

Criteria: Adequate security administration controls over financial management systems should be designed and implemented to ensure that logical access to critical data is appropriately restricted.

Condition: CNS does not maintain adequate security administration controls over logical access to data in its general ledger system, Federal Success. Federal Success is the primary financial management system used by CNS. Access to the general ledger does not require formal, documented supervisory approval. Management does not maintain a record of authorized users of the general ledger system for comparison with the access levels which exist in the system. We also noted that there were several users of the general ledger system whose user identification codes and passwords were valid even though they had not accessed the system for several months.

In addition, management does not periodically review, in detail, the access levels of general ledger system users, and does not assess the compatibility of these access levels with the current fiscal responsibilities of the users. This is evidenced by the fact that numerous employees throughout CNS have the access levels necessary to make changes to the general ledger system vendor and bank master files. Access to the vendor master file enables the user to establish and edit vendors. Access to the bank master file enables the user to establish and edit electronic funds transfer data. Of the 81 employees with access to the general ledger system as of November 18, 1995, 66 percent had read/write access to the vendor master file, and 40 percent had read/write access to the bank master file. Also, 33 percent of the users had the ability to record both obligations and disbursements in the general ledger (i.e., the ability to post budgetary and proprietary entries for the same transaction).

Cause: Security administration and control procedures have not been properly implemented. CNS has no procedures in place for assessing and monitoring, in detail, the access levels of general ledger system users. Additionally, CNS has not designed the system to disable the identification codes and passwords of users who have not accessed the system for a period of time.

Effect: The absence of adequate security administration controls is a pervasive control weakness that impacts the integrity of data in the general ledger system. Without developing a listing of *authorized* users (as opposed to users who currently do have access to the general ledger system), CNS risks unauthorized access to its data. For example, the risk exists that unauthorized changes could be made to the vendor and/or bank master files and not be detected. Also, the existence of several user identification codes that are valid but are not being used increases the risk of unauthorized access to the general ledger system.

Recommendation: Management should design and implement strong security administration controls. These procedures should include the following:

- Require requests for general ledger system access to be signed by the applicant, the applicant's supervisor and the data owner.
- Maintain approved requests for access either manually or electronically.
- Periodically compare management's record of authorized users to access levels per the general ledger system.
- Program the system to automatically suspend user identification codes and passwords that have not been used to access the system for thirty days, and to delete such codes after sixty days.
- Continuously scrutinize the appropriateness of the access levels of users in light of their fiscal responsibilities (i.e., assess adequacy of segregation of duties).

Management's Response: Management agrees with the recommendation. The Corporation has implemented the majority of the individual items specified above, and will explore the feasibility of the remaining items related to system changes.

Management recognizes the need for strengthened controls and has implemented a series of steps to enhance security over access to the general ledger, as described below.

Management does not agree with the finding that users have access to functions that are inappropriate or that are conflicting in nature.

With respect to this item, there are two issues raised in the discussion. The first is that there are inadequate security administration controls over Federal Success (FS), the Corporation's accounting and financial management system. The second is that, as a result of the inadequate security administration controls, users have inappropriate access to functions and/or that this access may be conflicting.

With respect to the first item, while procedures and practices were in place to request, authorize, approve, and provide access to FS, these procedures were not formally documented. As a result of the auditability survey work, the procedures were documented in a memorandum on August 29, 1995. The security and administration controls for authorizing user access have been strengthened. Further, management commits itself to periodically reviewing the appropriateness of all access levels and we will assess whether the recommendation to suspend access through the system is cost effective.

With respect to the second item, the FS report entitled "Authorized Functions by User," and dated November 18, 1995, shows that the Corporation, in its Headquarters and field locations, has 82 system users. Sixty of the users have access to add, change, or delete data in FS, although not all users have access to all screens and functions. The remaining 22 users have access to view data in FS only, and cannot add, change or delete any data. The purpose of allowing users to have a read only access is to provide online availability to the most current accounting and financial management data. Some users do not take advantage of this capability and instead wait until weekly, monthly, or quarterly reports are produced and distributed. Denying FS access to these users does not have any affect on the integrity of the data or the system.

Over 80 percent of the 60 FS users have access to the bank and/or the vendor file to add, change, or delete data. A review of these individuals' user accesses indicates that, with the exception of two employees who had left the Corporation a short time ago, there were no instances of unnecessary or unauthorized access to FS. The individuals have the access to the bank and vendor file as a result of their primary or alternate duties for accounting or grants related functions.

Summary of Actions to be Taken:

Most corrective actions have been taken. Management also will:

1. Review whether system changes to remove access are cost effective and make a determination on any further changes by June 30, 1996.

4. Strengthen Procedures over General Ledger Journal Entries

Criteria: Internal controls should be in place and operating effectively to ensure that data input into the general ledger is authorized and accurate.

Condition: CNS does not have adequate procedures for ensuring that input into the general ledger is accurate and complete. In the CNS general ledger for 1994, we noted that many journal entries had been recorded twice or were never recorded at all. In other instances, journal entries had been recorded inaccurately. To compensate for known inaccuracies in the general ledger, CNS made numerous adjustments to its fiscal year 1994 financial statements.

Cause: Management does not subject general ledger journal entries to supervisory review. In addition, CNS employees do not adequately review their work. This is compounded by management's inadequate procedures for substantiating and evaluating the propriety of balances recorded in the general ledger (see recommendation number 2).

Effect: Errors are not detected in a timely or consistent manner. For instance, for fiscal year 1994 financial statement purposes, management made entries in the amount of \$373.8 million to account for appropriations which had not previously been recorded in the general ledger. Incomplete and inaccurate general ledger journal entries could cause the financial statements and other internal and external reports to be materially misstated.

Recommendation: CNS should implement procedures to require supervisory review of all general ledger journal entries. This supervisory review should be adequately documented and entail verifying the accuracy of the journal entries to the source data used to create the entries. For example, in the case of journal entries to record appropriations received, the supervisor should compare the printout of the journal entries to the related Treasury warrants. All entries made to the general ledger should be numbered, and supporting documentation should be filed for future reference.

Further, management should periodically review the general ledger balances for reasonableness throughout the year. This review should include comparing the current year's general ledger balances to the current year's budget and to the prior year's actual balances. Management should promptly investigate any unusual variances and should take corrective action as necessary. Management should maintain evidence of these reviews for future reference.

Management's Response: Management partially agrees and partially disagrees with this recommendation.

The Corporation agrees that at the time of the audit there were inaccuracies in ledger journal entries resulting from start-up problems and staff have now been added to improve the quality of ledger journal entries. We believe that existing procedures, when fully implemented, are adequate and therefore disagree that further procedures are required.

Management recognizes the need for internal controls to ensure that data recorded in the general ledger is accurate and complete. In the Corporation's start-up year, with fewer staff than in the predecessor organizations, we were able to plan and sustain a conversion strategy for moving the accounting for the former Commission on National and Community Service activities from the General Services Administration (GSA) accounting system to Federal Success. Start-up for the Corporation also involved working with GSA, the Office of Management and Budget (OMB), Department of the Treasury, and contractor employees to review legislation, establish new appropriation and fund account symbols, and redefine accounting codes for Corporation activities. This also involved a large volume of data entry for the Corporation for National Service grant and payroll activity. Appropriations for the National and Community Service Act of 1990, as amended, provided two-year funding for the national service programs. The Act also established the National Service Trust Fund and authorized the acceptance of gifts to fund program activities. Federal Success and automated reports required extensive modification to account for all of these new requirements.

Further, because the design of Federal Success only allows two months to be open simultaneously, the September 1994 general ledger was closed early in November for grant and vendor payment processing. System constraints did not allow adequate time for review and adjustment prior to the September close. Adjustments were made to the general ledger account balances outside of the system via separate spreadsheets.

All of these factors contributed to the findings in the auditability assessment concerning the accuracy of certain information in the general ledger.

Under normal circumstances procedures for recording journal entries into the general ledger are as follows: the staff accountant reviews the document (e.g., Warrant, Allotment, Apportionment Schedule, Trust Fund Transfer Request, Investment Request) for authorized signatures and completeness. The transaction is then immediately recorded into Federal Success. Authorizing documents are maintained in applicable files. The supervisor reviews the general ledger accounts monthly to assure that they are in agreement with fund source documentation. A review of the general ledger is also performed in conjunction with the preparation of the quarterly reports, Budget Execution Report and Year-end Closing Statement by an accountant, with supervisory review. The Budget Execution report is also reviewed by budget staff who compare budgetary resource amounts to originating allotment and apportionment documentation.

Management believes that by utilizing currently available procedures, general ledger entries will be both authorized and accurate by October 1, 1996. In evaluating the plan of upgrading the accounting system, we will require a flexible general ledger which remains open until all adjustments are posted prior to the closing of the fiscal year. We have taken steps to support workload by hiring a contract staff accountant and accounting clerk. We will also contract with a private firm to provide additional operational accounting support staff.

Summary of Actions to be Taken:

1. Take the above steps to improve accuracy of general ledger by October 1, 1996.
2. Include enhancement requirements in new financial and accounting system design and implementation. Estimated date of implementation is 1998.

5. Evaluate and Correct Year-end Closing Entries

Criteria: The cumulative results of operations account should reflect the excess or shortage of revenues over expenses for each fiscal year since an entity's inception in accordance with generally accepted accounting principles. The balance of the CNS appropriated capital account (a component of equity) should reflect all and only appropriations not yet expended.

Condition: During the year-end closing of the CNS general ledger account balances, the Accounting Division processes an entry to close the balances of the revenue and expense accounts to cumulative results of operations. CNS then closes the balance in cumulative results of operations to the appropriated capital account (i.e., unexpended appropriations). The former ACTION agency, whose accounts were merged with those of CNS in 1994, also made the entry to appropriated capital as part of its closing process. Posting this entry represents a misapplication of accounting principles.

Cause: CNS has not established the appropriate closing entries.

Effect: The entries made by CNS result in an understatement of cumulative results of operations. Additionally, in a year when revenues exceed expenses (as in fiscal year 1994), posting this entry would result in an overstatement of unexpended appropriations.

Recommendation: Management should thoroughly evaluate and document its process for closing the general ledger accounts at year-end. The entries that CNS records at year-end should result in accurate account balances in conformance with generally accepted accounting principles. Specifically, the cumulative results of operations account should not be closed to the appropriated capital account at year-end.

Management's Response: The Corporation agrees with this recommendation and will implement it.

Year-end Closing Entries should be updated to correct deficiencies cited in the auditability survey. We have retained a contractor to update Federal Success to automate the year-end closing process and update related general ledger accounts (i.e., appropriated capital, appropriations expended, cumulative results of operations). Federal Success currently uses the U.S. Government Standard General Ledger accounts as they existed during the 1988 system implementation. We are also seeking outside contractual assistance to provide accounting support. The firm will assist in restating the appropriated capital account.

We expect these activities to be completed for the production of the fiscal year 1996 financial statements.

Summary of Actions to be Taken:

1. Accomplish system changes with respect to year-end closing by September 1, 1996.
2. Make adjustments specified in the recommendation when producing the 1996 financial statements by March 31, 1997.

GENERAL ACCOUNTING PROCEDURES

6. Reconcile Cash on a Timely Basis

Criteria: Cash balances per CNS records should be reconciled to the cash balances per the U. S. Department of the Treasury's (Treasury) records on a timely basis.

Condition: CNS maintains its cash accounts with the 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.

Cause: Management has not established procedures to periodically reconcile and substantiate cash balances.

Effect: In its 1994 financial statements, management adjusted its cash balance to agree with the cash balance per Treasury. However, this adjustment was made at a macro level and did not account for specific reconciling items. Failure to reconcile and resolve differences on a timely basis could result in material misstatements in the financial statements. Not reconciling cash accounts increases the risk that data in the general ledger is inaccurate or incomplete. In addition, the absence of such procedures increases the risk that any misappropriation of cash could remain undetected by CNS.

Recommendation: CNS should establish written procedures for reconciling cash accounts. Reconciliations of cash balances per the general ledger to the cash balances per Treasury should be performed on a monthly basis. These reconciliations should be performed by an employee who has no other cash-related duties. CNS management should review the reconciliations to assess the propriety of the reconciling items and to validate that the reconciliations were performed in accordance with established policies and procedures. Documentation of these reconciliations and evidence of supervisory review should be maintained for future reference.

Management's Response: Management agrees with the finding and has implemented it.

The Corporation procured the resources of the Treasury's Financial Management Service, in concert with its own staff, to work towards a reconciliation of the Corporation's cash balances with Treasury for fiscal years 1994 and 1995. After several months of work, and some progress towards reconciliation, the final outcome was to quantify the amount of the cash differences. Having expended considerable time, effort, and cost, management concluded that it would be unjustifiably costly to reconcile its cash balances with Treasury going back in time for many years.

Therefore, a conscious decision was made to freeze the existing cash difference with Treasury so that time and resources could be devoted to reconciling the cash account balances with Treasury on an ongoing basis starting with fiscal year 1996.

The Corporation's Office of the Chief Financial Officer (CFO) issued written guidance for Headquarters and five Service Centers on reconciling transactions affecting cash. On a monthly basis, a detailed cash transactions report by location is matched to the Treasury's records. Mismatches are identified by the originating offices (Headquarters and Service Centers) and distributed to appropriate staff for research and reconciliation. The results of the reconciliation are returned to the Accounting Division and summarized by month. For fiscal year 1996, as of this date, October, November, and December of 1995 have been reconciled and January and February of 1996 are in process.

Summary of Actions to be Taken:

Implemented.

7. Improve Cash Receipt Controls at Headquarters

Criteria: Internal controls should be designed to ensure that assets are safeguarded. The duties of processing and recording transactions should be segregated among employees.

Condition: CNS 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 in place for tracking a cash donation from point of receipt to the point of deposit. Additionally, there are no procedures in place to require the immediate restrictive endorsement of all checks received.

Once received, cash is routed to an employee in the Accounting Division. This employee receives the cash, prepares the deposits and records the related general ledger entries. This represents an inadequate segregation of duties.

Cause: Management has not implemented controls to ensure that all cash received is properly deposited and recorded in the general ledger. Management has not properly segregated duties related to the cash receipts function.

Effect: These conditions increase the risk that cash receipts could be misdirected or misappropriated.

Recommendation: Management should consider establishing a single point of receipt for cash payments and donations. If this is impractical, then the points of intake should be minimized.

Furthermore, management should develop procedures to track incoming cash receipts. Each individual who receives cash should maintain a detailed log of cash receipts. Periodically, a person with no other cash-related duties should reconcile the log to the detail of cash deposits made with Treasury. In addition, management should implement procedures to ensure that all cash payments and donations are restrictively endorsed immediately upon receipt.

Management should establish proper segregation of duties between the depositing of cash and the recording of the deposit in the general ledger. An individual who does not handle cash receipts or accounts receivable should record the deposit in the general ledger after the cash has been prepared for deposit.

Management's Response: The Corporation partially agrees and partially disagrees with this recommendation.

Management agrees with the finding that there had been an inadequate segregation of duties at Headquarters and this problem has been resolved. Management disagrees with several of the specifics in the recommendation contained above.

As background, all Corporation receipts are in the form of checks or money orders. In early 1995, retirements of two employees directly involved in the collections function caused a temporary internal control weakness in the administration of the function. Until replacement employees were hired and properly trained, one employee received the checks, deposited the checks, and recorded the transactions into the accounting system. Although all checks should have been restrictively endorsed upon receipt, in some cases the employee waited until the deposit was made to stamp the checks. In May 1995, when a Fiscal Services supervisor was hired, the collections function was once again sufficiently staffed to allow separation of duties.

The audit recommendation would require three individuals to be involved in the function, a staffing level we believe to be excessive. Management believes the current procedures, as described below, are adequate safeguards.

The current procedures require the Fiscal Services supervisor to receive, log, and restrictively endorse all collections. The receipts are provided to another Fiscal Services employee for deposit. The same employee who deposits the funds enters the transactions into the accounting system. The Fiscal Services supervisor reconciles the receipts log to the deposit documents and verifies that the entries are recorded properly in the accounting system.

It is impractical to have a single point of receipt for all checks, given the decentralized operations of the Corporation. We agree, however, that the points of entry should be minimized. All checks will be provided immediately to Accounting or to one of the Service Centers for deposit.

Summary of Actions to be Taken:

Implemented.

8. Record All OPAC Transactions in the General Ledger

Criteria: Transactions should be recorded promptly and accurately.

Condition: CNS makes payments to and receives payments from other Federal entities through the U. S. Department of the Treasury (Treasury) On-line Payment and Collection (OPAC) System. The Accounting Division at Headquarters is responsible for retrieving the detail of OPAC transactions from the Treasury Government On-line Accounting Link System (GOALS). The Accounting Division forwards this OPAC documentation to the Service Centers, where applicable. However, CNS has not completely entered OPAC transactions into the general ledger on a timely basis.

Cause: CNS has not designed and implemented procedures to record all OPAC transactions in the general ledger on a timely basis.

Effect: Numerous OPAC transactions remain unrecorded in the general ledger. This condition has contributed to the large differences between Treasury and CNS cash balances. Not recording OPAC transactions could materially affect the cash, accounts receivable, accounts payable, revenue and expense accounts in the general ledger and the financial statements. Errors or irregularities in OPAC transactions could occur and remain undetected.

In addition, not recording expenses affects the accuracy of the CNS record of open obligations. Incomplete or inaccurate open obligation records cause budgetary reports to be misstated. This impairs management's ability to properly allocate resources to programs and to ensure that funds are spent within budgetary parameters.

Recommendation: Management should develop and implement procedures to ensure that OPAC transactions are recorded in the general ledger on a timely basis. The Accounting Division in Headquarters should retrieve the detail of OPAC transactions from GOALS on a monthly basis, immediately verify the accuracy of Headquarters transactions, then input all OPAC transactions into the general ledger. The Accounting Division should input the transactions related to the Service Centers to improve the timeliness of information in the general ledger.

The Accounting Division should then forward a copy of the OPAC documentation to the applicable Service Centers. The Service Centers should verify the propriety of the OPAC transactions and take corrective action if necessary. If a transaction is modified, accounting personnel should update the general ledger accordingly. Management should supervise this process to ensure that it is operating in accordance with established procedures.

Management's Response: Management agrees with the recommendation and has implemented it.

The Corporation agrees with the finding that these transactions were not recorded on a timely basis during the period covered by the review. However, rather than the remedial actions described above, management has taken an alternative series of steps to resolve the matter.

Reconciliation with Treasury for On-line Payment and Collection System (OPAC) transactions is important and must be accomplished in order for the Corporation's financial records to be accurate. In general, ACTION did completely, if not always timely, enter OPAC transactions into the accounting system. OPAC transactions for other components which were merged into the Corporation may not have been entered completely or timely into their accounting systems. Similarly, during the Corporation's transition, September 1993 through April 1994, OPAC transactions were not entered completely and timely into the accounting system. This condition was a result of the Corporation's start-up, increased workload, conflicting priorities, and staff turnover both at Headquarters and the Service Centers to accomplish the OPAC processing.

The Corporation, as part of its efforts to reconcile its cash with Treasury in fiscal year 1996 (October 1995-September 1996), is up to date with FY 1996 OPAC processing (as of February, 1996). This effort is distributed among the Headquarters and five Service Center locations. A single employee assigned to Headquarters monitors the OPAC processing. Another CFO employee provides assistance with the OPAC processing. The Corporation will assess the implementation of these procedures on an ongoing basis and make a future decision concerning whether further centralization is necessary.

Summary of Actions to be Taken:

Implemented.

9. Establish Procedures to Properly Value Accounts Receivable Balances

Criteria: Assets should be properly recorded in accordance with generally accepted accounting principles. An adequate (but not excessive) allowance for doubtful accounts should be established to properly value accounts receivable in accordance with generally accepted accounting principles.

Condition: CNS does not have procedures in place for periodically evaluating the collectibility of accounts receivable and recording a valuation allowance. At the end of fiscal year 1994, CNS reported to the U. S. Department of the Treasury that over \$5 million of its accounts receivable were overdue by one year or more. However, CNS had not recorded an allowance for doubtful accounts in its general ledger at September 30, 1994. For financial statement purposes, CNS recorded a general allowance of ten percent of the outstanding accounts receivable balance. This allowance had no historical or other supporting basis. Further, CNS had not recorded a reserve for specific, delinquent accounts.

In reviewing the detail of accounts receivable, we noted that the CNS general ledger reflects over \$7 million in accounts receivable from the Commission on National and Community Service, a predecessor entity of CNS. These amounts do not represent valid receivables of CNS.

Cause: Management has no procedures in place for periodically substantiating and evaluating amounts in its accounts receivable subsidiary ledger. Further, management has no procedures in place for evaluating the collectibility and assessing the valuation of accounts receivable.

Effect: Accounts receivable are materially overstated in the financial statements.

Recommendation: Management should establish procedures for periodically evaluating the collectibility and assessing the valuation of accounts receivable balances. CNS should establish an allowance for doubtful accounts using all relevant information available. Management should require that such an analysis of accounts receivable be performed periodically, documented and subject to supervisory review.

Significant accounts receivable should be evaluated individually to assess the likelihood of collection. This analysis should consider the aging of the account and the status of any collection efforts. Additionally, management should establish a general reserve for smaller receivable balances, based on the aging of these balances and historical collectibility of the aged balances.

Management's Response: Management agrees with the recommendation and will implement it.

Management concurs with the finding and will establish procedures for periodically evaluating the collectibility and assessing the valuation of accounts receivable balances.

Summary of Actions to be Taken:

1. Establish procedures by November 30, 1996.

10. Accrue Expenditures for Goods and Services Received

Criteria: Expenses for goods and services should be recorded in the period in which they are incurred in accordance with generally accepted accounting principles.

Condition: CNS procedures are inadequate to ensure that expenses are recorded in the proper period. CNS currently records an expense when the payment for the good or service is made to the vendor, instead of accruing the expense when it is incurred (i.e., recording expense and accounts payable/accruals when the good or service is received).

In addition, the CNS fiscal year 1994 financial statements did not reflect the payroll liability related to the last pay period in fiscal year 1994.

Cause: Management has not designed and implemented procedures for accruing expenditures for goods and services received. Further, CNS lacks procedures for establishing and evaluating the accuracy of year-end accruals.

Effect: For financial statement reporting purposes, failure to properly accrue expenses results in understatements of liabilities and expenses. In addition, this can result in misstatements in other internal and external reports.

Recommendation: Management should develop procedures to establish accruals for goods and services in the proper accounting period to permit the preparation of financial statements in accordance with generally accepted accounting principles. Also, supervisory control procedures should be developed to evaluate the accuracy and completeness of reported accruals.

Management's Response: The Corporation agrees with the recommendation and will implement it.

The predecessor organizations were not required to produce financial statements in accordance with generally accepted accounting principles, and they did not establish procedures or processes for the accrual of expenditures for goods and services received.

Management will develop procedures to establish accruals for goods and services received by September 1, 1996, and will implement these procedures when producing its financial statements for fiscal year 1996.

Summary of Actions to be Taken:

1. Develop procedures by September 1, 1996.
2. Include estimate when producing financial statements for fiscal year 1996 by March 31, 1997.

11. Substantiate Balances in Accounts Payable

Criteria: Liabilities should be properly recorded in accordance with generally accepted accounting principles.

Condition: In its 1994 financial statements, CNS presented two separate line-items for amounts payable to grantees and amounts payable to vendors (grants payable and accounts payable, respectively). However, CNS originally reported in the accounts payable line-item \$1.4 million of grant-related payables.

Cause: CNS has no procedures in place for periodically substantiating and evaluating amounts in its accounts payable subsidiary ledger.

Effect: Reported liabilities may be materially misstated.

Recommendation: Management should develop procedures which require accounting personnel to periodically substantiate and evaluate amounts recorded in CNS subsidiary ledgers to permit the preparation of financial statements in accordance with generally accepted accounting principles. Also, supervisory control procedures should be developed to evaluate the accuracy and completeness of reported amounts.

Management's Response: Management agrees with the recommendation and will implement it.

Summary of Actions to be Taken:

1. Develop and implement procedures by July 31, 1996.

BUDGET

12. Require Periodic Review of Open Obligations

Criteria: Obligations should be reviewed on a periodic basis to ensure accuracy and completeness. Funds should be deobligated on a timely basis.

Condition: CNS has established procedures for performing a periodic review of open obligations. However, these procedures are not operating effectively because management has not implemented and enforced the review requirements.

Our review of a listing of CNS obligations revealed many open obligations which had been outstanding for several years. CNS personnel have indicated that they are aware of numerous errors in the CNS records of outstanding obligations. However, no organization-wide effort has been made to correct the errors.

Cause: Management has not established procedures for this review. The errors in the open obligations records have been caused, in part, by the failure to record all vendor payments in the general ledger.

Effect: The absence of comprehensive review procedures has resulted in numerous errors in the CNS record of open obligations. Incomplete or inaccurate open obligation records cause budgetary reports to be misstated. This impairs management's ability to properly allocate resources to programs and to ensure that funds are spent within budgetary parameters.

Recommendation: Management should require budget officers to review, in detail, the open obligations report on a quarterly basis. This review should include matching all open obligations to a file of outstanding purchase orders. Reconciling items should be resolved and adjustments to the general ledger should be made on a timely basis.

Management's Response: Management agrees with the recommendation and will implement it.

As noted in the auditability assessment, procedures exist for performing periodic reviews of open obligations. The implementation of those procedures were less than desirable during fiscal year 1994 due to both start-up considerations and the realities of staffing and budgetary resources available to perform the function.

In general, the Corporation's budget staff are required to perform reconciliations on a monthly basis, with quarterly reviews performed by central budget staff as well as decentralized staff with budget responsibilities holding cuff records. In particular, during the last quarter of any period of availability, budget staff review open obligations in some detail in order to ensure that resources are properly allocated and sufficiently utilized.

In the past, full reconciliation has been difficult due to problems with posting OPAC transactions (see response to recommendation number 8 -- Record All OPAC Transactions in the General Ledger). As the difficulties with OPAC transactions are resolved, full reconciliation will be possible and unliquidated balances will be deobligated where necessary. Without the posting of OPAC transactions, one cannot determine the excess estimated obligated amount, if any, to deobligate.

The major issue with open obligations relates to the closing of items where obligations have been incurred and the period of availability has expired. This results in a potential overstatement of obligations, since according to appropriations law these funds are not available for new obligations.

Management will reissue guidance requiring all budget holders to review open obligations on a quarterly basis. The review will require matching all open obligations to outstanding orders. The guidance will be issued by May 15, 1996, to be fully implemented in the third quarter of fiscal year 1996.

Summary of Actions to be Taken:

1. Guidance requiring all budget holders to review open obligations on a quarterly basis will be reissued by May 15, 1996.
2. Perform first detailed reconciliation by July 31, 1996.

GRANTS MANAGEMENT

13. Reconcile Data in Grant Systems

Criteria: Information used in the preparation of financial statements and relied upon by management should be accurate and complete.

Condition: In fiscal year 1994, CNS recorded grant activity in three electronic data processing (EDP) 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 (HHS) Payment Management System (PMS). Grants of the former Commission on National and Community Service were recorded in the Grants Management database, payments were processed by HHS, and financial records were maintained by the U. S. General Services Administration (GSA). CNS did not reconcile the data recorded in these systems on a timely basis in fiscal years 1994 and 1995.

Cause: Management did not require the information in each of the grants systems to be compared to the data in the other grant systems to determine whether the information was accurate and complete and to make adjustments as necessary.

Effect: Management does not have a source of complete information about its grants on which to base decisions. Available information is not periodically substantiated and evaluated. This condition results in misstatements of grant-related accounts in the financial statements. In addition, errors or irregularities could occur in grants processing and remain undetected.

Recommendation: Management should require that data in the various grants systems be periodically reconciled by personnel with no other grant-related responsibilities. Documentation of these reconciliations should be subject to supervisory review, and should be maintained for future reference.

In the long-term, CNS should consider integrating the information contained in its Grants Management database with its general ledger system. In addition, CNS should consider interfacing the data contained in any outside grant processing systems (e.g., the HHS PMS) with the general ledger system. This would allow management to obtain complete information on a timely basis. Further, this would eliminate the need to perform reconciliations of grant data which is currently recorded in multiple systems.

Management's Response: Management agrees with the recommendation and will implement it.

The Corporation has taken a series of steps to reconcile this information on a timely basis, and agrees that an automatic interface should be implemented.

The finding is a result primarily of merging the grants authorized by the National Community and Service Act of 1990 (NCSA) and administered by the Commission on National and Community Service, into the Corporation's accounting system in April 1994, six months after the start of the fiscal year. Up to this time, the General Services Administration (GSA) did the accounting for these grants, and the Department of Health and Human Services' Payment Management Division made the grant payments using the Payment Management System (PMS).

The separate NCSA grant data (in the Grants Management database) were never fully reconciled to the GSA or PMS systems. The unreconciled data was entered into the Corporation's accounting system, Federal Success (FS), in April 1994. Reconciliation efforts for the FY 1994 data were postponed while administrative processes and procedures were developed to account for the NCSA grants.

In May 1995, two additional staff were hired in the Corporation's Accounting Division to work, in part, on the Corporation's grants data accounting and reconciliations. Since that time, significant progress has been made to: (1) reconcile all pre-April 1994 grants data originating from GSA's system; (2) reconcile all post-April 1994 grants data entered into FS; (3) reconcile on a monthly basis with PMS all fiscal year 1996 grants data entered into FS; and (4) implement an automated interface between the Corporation's FS system and the PMS.

For fiscal year 1996, the NCSA grants data (grantee award authorizations, grantee cash advances, and grantee cash disbursements) in both the Corporation's FS system and the PMS system are reconciled. The Corporation believes that current practices and procedures for accounting and reconciling the grants data, pending implementation of the automated systems interface, are adequate to ensure accuracy and completeness.

All recommended actions have been taken except that the automatic interface has not yet been completed.

Summary of Actions to be Taken:

1. Install and operate automatic interface by December 31, 1996.

14. Record NCSA Grant Advances in the Proper Period

Criteria: Advances to grantees should be recorded in the period in which they are made in accordance with generally accepted accounting principles.

Condition: National and Community Service Act (NCSA) grant recipients obtain advances from and report grant expenditures directly to the U. S. Department of Health and Human Services (HHS). HHS provides monthly reports to CNS containing NCSA grant activity data. CNS uses these reports to enter the advance transactions into the general ledger and the Grants Management database. Accounting personnel input the data into the general ledger upon receipt of the HHS reports. The data entered includes the transaction date of the transaction. The transaction date determines the accounting period in which the transaction is reported.

In our review of ten NCSA grant advances, we noted two instances of incorrect transaction dates in the general ledger.

Cause: CNS procedures for ensuring that advances are recorded in the proper accounting period require improvement.

Effect: Grant activity may not be reported in the proper period. Grant expenses and advances may be misstated in the financial statements and in internal and external reports.

Recommendation: CNS should enhance procedures for ensuring that transaction dates for NCSA grant advances are properly input into the general ledger. The transaction date should be the date on which HHS processed the transaction. CNS should provide to personnel responsible for data input additional training regarding what constitutes a proper transaction date. Management should periodically review selected transactions in the general ledger for compliance with established procedures.

In addition, the Accounting Division should use the HHS Charges by Appropriation report as the source of input for grants data. This report shows the total monthly amount of cash drawdowns for each grantee.

Management's Response: Management agrees with this recommendation.

The procedure for recording the grant transactions into Federal Success (FS) for the National and Community Service Act of 1990, as amended, grants is to use the transaction dates appearing on the Charges by Appropriation report from the Department of Health and Human Services' Payment Management System (PMS). Since this information is input into FS manually, it is subject to human error. As such, there may be instances where a transaction date from the PMS report was missing, or not input into FS. If this occurs, the FS system defaults to the current date.

Summary of Actions to be Taken:

1. Provide additional training by May 31, 1996.

15. Segregate Duties Related to NCSA Grants Processing

Criteria: Internal controls should be designed to ensure that assets are safeguarded. The duties for authorizing and processing transactions should be segregated among individuals.

Condition: CNS provides funds to grantees through the U. S. Department of Health and Human Services (HHS) Payment Management System (PMS). Grants management officers authorize grantee accounts with HHS. Grantees who have a computer and modem obtain a Smartlink II software package from HHS. Smartlink II allows recipients to dial into PMS and request funds.

Grantees who do not have the necessary computer hardware must contact a CNS grants management officer to request funds. The grants management officer then accesses the grantee's HHS account through Smartlink II and requests a transfer of funds on the grantee's behalf. These same grants management officers are responsible for authorizing grantee accounts with HHS.

Cause: Management has not sufficiently analyzed and designed the segregation of responsibilities among CNS employees.

Effect: Inadequate segregation of duties can result in errors or irregularities occurring and remaining undetected by employees in the normal course of performing their duties.

Recommendation: Management should segregate the responsibilities of grants management officers. Grants management officers should not be responsible for, nor *capable of*, both authorizing grantee accounts with HHS and requesting funds transfers on behalf of grantees.

Management's Response: Management agrees with this recommendation.

The Corporation will develop and implement procedures to segregate these duties by July 1, 1996.

Summary of Actions to be Taken:

1. Develop and implement procedures by July 1, 1996.

16. Require Timely Input of FSRs for DVSA Grants

Criteria: Transactions should be promptly and accurately recorded. Expenses should be recorded in the period in which they are incurred in accordance with generally accepted accounting principles.

Condition: Data from Financial Status Reports (FSRs) for Domestic Volunteer Service Act (DVSA) grants is not input into the general ledger on a timely basis. Grantees have thirty days after year-end, or ninety days for grant close-outs, in which to submit FSRs to the State Offices. Service Centers receive the FSRs from the State Offices and are then allowed another forty-five days in which to input the data.

Grants management officers often do not adhere to this timeframe for input. In 1995, CNS noted that there were numerous FSRs related to fiscal year 1994 which had never been input into the general ledger. CNS attempted to accumulate these amounts for financial reporting purposes. However, CNS was unable to determine the amount of other FSRs which were entered late.

Cause: Management does not monitor and enforce grants management officers' compliance with established procedures. Grants management officers are not aware of the importance of timely input of data into the general ledger.

Effect: Expenses recorded in the general ledger and the financial statements are incomplete. Advance balances in the general ledger and the financial statements are overstated.

Recommendation: Management should actively monitor and enforce the timely input of FSRs into the general ledger by grants management officers. In addition, CNS should require State Offices to submit FSRs to the Service Centers within a specified timeframe. State Office compliance with this timeframe should also be monitored and enforced by management.

Management's Response: Management agrees with this recommendation and will implement it.

We concur with this recommendation to monitor and enforce the timely input of FSRs into the general ledger. The transactions covered by this recommendation should be promptly and accurately recorded. In general, we believe the late input of information results primarily from delays in grantee and State Office submissions.

Service Center personnel need to work with State Office staff and grantees to facilitate timely submissions of FSRs.

Summary of Actions to be Taken:

1. Set up a procedure to monitor and enforce timely entry by June 1, 1996.

17. Develop Procedures to Accrue DVSA Grant Expenses

Criteria: Grant activity should be recorded in the period in which it occurs in accordance with generally accepted accounting principles.

Condition: CNS adjusts general ledger balances related to Domestic Volunteer Service Act (DVSA) grants when grantees submit Financial Status Reports (FSRs) to CNS. The FSRs contain information regarding grant amounts expended by grantees. CNS recognizes grants expense as the grantee expends the grant funds.

FSRs are required to be submitted by grantees up to ninety days after fiscal year-end, depending upon the stage of the grant. However, CNS has developed no methodology for accruing expenses which grantees have incurred as of fiscal year-end but have not yet reported.

Cause: CNS lacks procedures for accumulating the information needed to estimate the amount of expenses to accrue related to DVSA grantees.

Effect: The failure to properly accrue grant expenses results in an overstatement of advances and an understatement of expenses in the financial statements and other internal and external reports.

Recommendation: Management should develop procedures to establish accruals for grant expenses in the proper accounting period to permit the preparation of financial statements in accordance with generally accepted accounting principles. Management should accumulate the amount of expenses reported on FSRs received after year-end in order to adjust the financial statements accordingly. Service Center personnel should be instructed to report to management the amounts on FSRs input into the general ledger after year-end. In addition, CNS should carefully monitor and enforce grantee compliance with the requirements for filing FSRs on a timely basis.

Management's Response: Management agrees with this recommendation and will implement it.

Summary of Actions to be Taken:

1. Develop procedures by September 30, 1996.
2. Adjust financial statements for fiscal year 1996 by March 31, 1997.

18. Segregate Duties in DVSA Grants Processing

Criteria: Internal controls should be designed to ensure that assets are safeguarded. The duties for approving and recording transactions should be segregated among individuals.

Condition: Grants management officers in the Service Centers record grant obligations in the general ledger and generate Notices of Grant Award. In addition, grants management officers approve grantee Requests for Advance or Reimbursement (RARs) and schedule payments to grantees. A Certifying Officer approves scheduled payments before they are processed. To do this, the Certifying Officer compares the scheduled payment to the source documentation that was approved by the grants management officer.

Cause: Management has not sufficiently analyzed and segregated responsibilities among CNS employees.

Effect: Inadequate segregation of duties can result in errors or irregularities occurring and remaining undetected by employees in the normal course of performing their duties.

Recommendation: Management should segregate the responsibilities of grants management officers. One 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, approving RARs or scheduling payments to grantees in the general ledger.

Management's Response: Management disagrees with this recommendation.

As an operational policy, the duties of approving and recording transactions are segregated not only among Grants Management Officers (GMOs) and grants specialists, but also among Service Center personnel. Presently, GMOs generate Notices of Grant Awards and approve grantee requests for payment by approving the Request for Advance or Reimbursement (RAR). The GMO does not certify payment; this function is performed by a separate individual -- generally, the Budget Analyst. In fact, Federal Success does not permit the same individual to perform both functions. Therefore, a segregation of duties currently exists satisfying internal control requirements.

The recommendation from the auditors would require a third individual to be involved in this process, thereby increasing staff time and costs. We do not agree that the costs of additional segregation of duties is warranted, since there are already two separate individuals involved in the process.

Summary of Actions to be Taken:

None required.

PROCUREMENT AND GENERAL EXPENDITURES

19. Strengthen Procedures for Completing Receiving Reports

Criteria: Receiving reports should reflect the date on which the goods or services were received to allow recognition of expenses in the period incurred in accordance with generally accepted accounting principles. Interest on late payments should be properly calculated and paid to vendors in accordance with the Prompt Payment Act.

Condition: CNS has inadequate procedures for ensuring that expenses for goods or services are recorded in the period incurred. Personnel who complete receiving reports often record the date of receipt as the date on which the receiving report was signed or the date on the vendor invoice. However, this may not be the date on which the goods or services were actually received.

Cause: CNS has not provided personnel with adequate instruction on how to properly complete a receiving report.

Effect: The date on which goods or services are received impacts 1) the accounting period in which a related expense is recorded and 2) the calculation of penalty interest for late payments to vendors. Incorrect receiving dates cause expenses to be misstated in financial statements and in other internal and external reports. In addition, interest cannot be properly calculated and paid to vendors because the general ledger contains inaccurate data. The lack of accurate information for calculating interest on late payments to vendors results in violations of the Prompt Payment Act.

Recommendation: Management should establish procedures to require that personnel record on the receiving report the date on which goods or services were received. CNS should provide training to personnel to enable them to properly complete a receiving report.

Until the established procedures are in place and operating effectively, the Accounting Division should review the receiving date on each receiving report for reasonableness prior to inputting the date into the general ledger. If the date is not reasonable (e.g., the receiving and the invoice dates are the same), then the Accounting Division should follow-up with the person who completed the receiving report and change the receiving date in the general ledger as needed.

Management's Response: Management agrees with this recommendation and will implement it.

The Corporation has taken several steps to strengthen these procedures, and will take the additional steps outlined below.

We recently replaced a receiving report form because of confusion over its proper use with a self-inking stamp.

All incoming invoices are stamped before forwarding to the customer for certification of receipt. Like the receiving report form, this stamp provides a specific block for the customer to indicate the date the goods or services were received and satisfies the requirements of the Prompt Payment Act.

By June 30, 1996, we will also issue separate instructions on receiving and invoicing procedures and provide training on an individual basis, as needed.

Until these new procedures are fully operational and functioning effectively, the Accounting Division will follow-up as recommended.

Summary of Actions to be Taken:

1. Issue guidance by June 30, 1996 and provide assistance as necessary.

20. Segregate Purchase Approval and Payment Certification Functions

Criteria: The responsibility for authorizing the procurement of goods and services should be segregated from the function of approving payments for goods and services.

Condition: At Headquarters, there are two employees who exercise contracting authority and are also certifying officers. Both of these duties should not be held by one individual (i.e., the duties are incompatible) because one person would then have the ability to both authorize a procurement and approve payment for it. A fiscal operations specialist inputs payment data into the Electronic Certification System (ECS) before it receives final approval for payment. However, this does not mitigate the risk caused by inadequate segregation of duties because the fiscal operations specialist inputs all transactions that are appropriately authorized in accordance with established procedures.

Cause: Management has not sufficiently analyzed and segregated responsibilities among CNS employees.

Effect: When an employee has the ability to perform incompatible functions, it increases the risk that unauthorized or inappropriate transactions could occur and remain undetected by employees in the normal course of performing their duties.

Recommendation: Management should assign the responsibilities for approving purchases and certifying payments to different individuals. These individuals should have no other incompatible duties.

Management's Response: Management partially agrees and partially disagrees with this recommendation.

Management agrees to take action to further segregate these functions with respect to one individual. The other individual will no longer exercise procurement authority (see response to recommendation number 53). Management further notes that the Corporation's financial system and operations already provide for sufficient segregation of duties.

To make a payment in the Corporation's financial system, Federal Success, requires that a payment be entered into the system by one individual and certified by another individual. Neither of the two individuals mentioned in this finding has the authority or ability to perform either of these two functions. The individuals mentioned in the finding are certifying officers in Treasury's Electronic Certification System (ECS) which permits them to certify to the Treasury Department that a schedule of payments, coming from the accounting system and prepared by someone else, can be paid. That certifying authority was provided to these individuals because there had been instances where payments schedules needed to be certified and no certifying officers were readily available. There was a need to have some redundancy in certifying officers so that one was always available.

Management continues to believe that, because these individuals do not have the ability to enter or certify payments in the accounting system, their current duties are not incompatible. Only one of the individuals mentioned in the finding has procurement authority.

To respond positively to the finding, management will remove the certifying authority from that individual.

Summary of Actions to be Taken:

1. Remove the certification authority within ECS from one individual by April 30, 1996.

PAYROLL

21. Substantiate Payroll Processed by NFC

Criteria: Time and attendance data which CNS transmits to the U. S. Department of Agriculture National Finance Center (NFC) for processing should be compared to the NFC report of amounts paid to employees.

Condition: CNS payroll is processed by NFC. CNS transmits time and attendance data to NFC via Personal Computer Time and Attendance Remote Entry (PC-TARE) software. CNS obtains a Start-up 17 Report each pay period which details the amounts paid to employees. However, CNS does not perform a detailed review of this report to ensure that it accurately reflects all and only authorized transactions.

Cause: Management has not established procedures to ensure that a reconciliation is performed between time and attendance source data and the report of transactions processed by NFC.

Effect: Errors could occur in the processing of data transmitted to NFC and remain undetected. This could result in material misstatements in payroll expense in the financial statements and in other internal and external reports.

Recommendation: Each pay period, the CNS Human Resources Office should compare, in detail, time and attendance data transmitted to NFC with a report which details amounts processed by NFC. Batch totals should be used to expedite this procedure. Reconciling items should be resolved on a timely basis. The Human Resources Office should communicate any changes in payroll amounts to the Accounting Division for update in the general ledger. A supervisor should ensure that the comparisons are performed in accordance with established procedures.

Management's Response: Management agrees with this recommendation and will implement it.

The Human Resources Office will institute procedures by April 30, 1996.

Summary of Actions to be Taken:

1. Institute procedures by April 30, 1996.

22. Resolve Differences in Leave Balances and Segregate Related Duties

Criteria: Management should resolve differences between the National Finance Center (NFC) payroll system and the Personal Computer Time and Attendance Remote Entry (PC-TARE) database on a timely basis. Reconciliations of differences in leave balances between NFC and PC-TARE should be performed by someone other than the employees who input the leave data into the NFC payroll system and PC-TARE database.

Condition: CNS time and attendance data is maintained in the NFC system and a PC-TARE database. After CNS transmits time and attendance data to NFC, NFC reports to CNS any differences between NFC and PC-TARE leave balances. Out of the thirty employee time and attendance records that we reviewed, we noted eighteen instances in which annual leave balances in the PC-TARE database did not agree with the balances maintained in the NFC payroll system. Additionally, we noted seven instances in which there were differences between the sick leave balances in NFC and PC-TARE. Although CNS has assigned to certain CNS employees the responsibility for resolving differences, the differences which we noted arose throughout the year and remained unresolved at the end of fiscal year 1995.

In addition, one payroll technician at Headquarters is responsible for 1) processing employee time and attendance data through PC-TARE, 2) investigating and resolving differences in leave balances between the NFC payroll system and the PC-TARE database and 3) making necessary corrections to the data in the NFC payroll system and the PC-TARE database. Also, the payroll technician inputs her own time.

Cause: CNS procedures for ensuring that PC-TARE input technicians receive the Leave Error Reports from NFC are not operating effectively. PC-TARE input technicians are not taking action to investigate and resolve differences in leave balances between NFC and PC-TARE on a timely basis. Also, management has not sufficiently analyzed and segregated responsibilities among CNS employees.

Effect: These internal control deficiencies increase the risk of not detecting and correcting errors in employee leave balances. Failure to resolve differences between NFC and PC-TARE in a timely manner could result in payroll errors, inaccurate reporting to management and other Federal agencies, and inaccurate financial statements. Inadequate segregation of duties may result in errors or irregularities occurring and remaining undetected by employees in the normal course of performing their duties.

Recommendation: CNS should strengthen procedures over the timely resolution of differences between NFC and PC-TARE. The reconciliations should be subject to supervisory review. Personnel responsible for reviewing the reconciliations should be held accountable for their work and their performance should be evaluated accordingly.

Management should reassign the duties of the payroll technician described above to ensure that someone other than the employee who inputs data into PC-TARE resolves the differences in leave balances and makes needed corrections. These processes should be subject to a detailed supervisory review.

Management's Response: Management agrees with this recommendation and will implement it.

The Human Resources Office will institute procedures by April 30, 1996.

Summary of Actions to be Taken:

1. Institute procedures by April 30, 1996.

23. Improve Controls over Access to NFC Payroll System and PC-TARE Database

Criteria: Adequate security administration controls over financial management systems should be designed and implemented to ensure that logical access to critical data is sufficiently restricted.

Condition: The National Finance Center (NFC) payroll system contains access controls such as password restrictions, etc. However, CNS has no procedures in place for 1) monitoring which employees have access to the NFC payroll system and Personal Computer Time and Attendance Remote Entry (PC-TARE) database and 2) assessing whether the levels of access continue to be appropriate in relation to the employees' assigned duties. Although CNS has designated a systems administrator for the NFC payroll system, the Human Resources Office does not have a record of who has access to the NFC payroll system and the PC-TARE database.

Cause: CNS has not properly designed and implemented security administration and control procedures over the NFC payroll system and PC-TARE database. CNS has no procedures in place for monitoring and assessing the access levels of NFC payroll system and PC-TARE database users.

Effect: Without a record of who has access, management cannot determine whether only authorized employees have access to the NFC payroll system and the PC-TARE database, and whether access levels continue to be appropriate.

Recommendation: Management should design and implement adequate security administration controls over access to the NFC payroll system and the PC-TARE database. An official in the Human Resources Office 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: Management agrees with this recommendation and has implemented it.

The Human Resources Office has received updated information on access levels, and implemented procedures to regularly monitor access to the NFC payroll system and PC-TARE database.

Summary of Actions to be Taken:

Implemented.

24. Segregate NCCC Payroll Processing Duties

Criteria: The duties of establishing personnel in the payroll system, processing payroll transactions and maintaining payroll records should be segregated. Duties related to the authorization of transactions and the custody of related assets should be segregated.

Condition: In 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. In addition, the employee requests NCCC member advance checks from NFC, receives those checks from NFC, then distributes them to the NCCC campuses.

Cause: Management has not sufficiently analyzed and segregated responsibilities among CNS employees.

Effect: When an employee has the ability to perform incompatible functions, it increases the risk that unauthorized or inappropriate transactions could occur and remain undetected by employees in the normal course of performing their duties.

Recommendation: Management should segregate the duties of establishing personnel in the payroll system from the duties of processing and maintaining records of payroll and advances related to these personnel. In addition, management should revise the payroll process to ensure that an employee who requests and authorizes advances or other checks does not subsequently handle the checks. (Also see recommendation number 25 regarding NCCC advances.)

Further, management should ensure that one employee does not have read/write access to both the NFC payroll system and the PC-TARE database. (See recommendation number 23.)

Management's Response: Management agrees with this recommendation and will implement it.

Segregation of duties for establishing AmeriCorps NCCC Corps Members and processing and maintaining records of payroll and advances related to Corps Members will be implemented by April 30, 1996.

Summary of Actions to be Taken:

1. Institute procedures by April 30, 1996.

25. Improve Procedures over Advances to NCCC Members

Criteria: Transactions should be promptly and accurately recorded in the general ledger. Internal controls should be designed to ensure that assets are safeguarded.

Condition: CNS provides advances on stipends to National Civilian Community Corps (NCCC) members at the beginning of their terms of service. NCCC Campus Directors request the advances from a payroll technician at Headquarters, who processes the requests through the National Finance Center (NFC). NFC sends the checks to the payroll technician. The payroll technician forwards the checks to the Campus Directors, who distribute the checks to the NCCC members.

The Accounting Division records these advance checks as payroll expense, instead of properly recording the amounts as advances. In the first several pay periods of the members' term of service, the payroll technician manually reduces on the report to NFC the members' hours worked, thereby reducing the amount paid to each member. This process is repeated each pay period until the advance is fully repaid. This process is not subject to supervisory review.

In addition, the process contains incompatible duties which have not been adequately segregated. The payroll technician requests the checks and receives the checks from NFC. The Campus Directors request and receive the checks from the payroll technician.

Cause: CNS has not designed and implemented controls over the process for issuing advance checks to NCCC members to ensure that 1) assets are safeguarded, 2) transactions are properly reflected in the general ledger and 3) collections on advances are properly processed.

Effect: The receipt of checks by the same individuals who request the checks increases the risk that errors or irregularities in the processing of advance checks could occur and remain undetected. Failure to record advances in the general ledger overstates payroll expense in the CNS financial statements and other internal and external reports. The manual adjustment of hours worked by members could result in payroll errors. The lack of supervisory review over this procedure increases the risk of errors occurring and remaining undetected.

Recommendation: CNS should redesign the procedures over issuing and recording advance checks to NCCC members. NFC should send the checks directly to the NCCC campus to someone other than the individual who initiated the check request. NFC should send a listing of the checks to the official who made the request. The requester should use this list to ensure that the request was properly processed.

The Human Resources Office should record the advances with the proper budget and accounting codes in the NFC payroll system. This will ensure that the advances are accurately reflected in the general ledger.

The payroll technician should prepare a listing of advances to members and the schedule for repayment. A supervisor should compare this listing to the record of hours worked by members prior to submitting this data to NFC each pay period. The Accounting Division should be notified of the reductions in advances each pay period and should adjust the advance balances in the general ledger accordingly.

Management's Response: Management agrees with this recommendation and will implement it.

Arrangements will be explored with the NFC for providing for automatic repayment of advances to Corps Members. Procedures implementing these recommendations will be established prior to any additional advances being made available to Corps Members.

Summary of Actions to be Taken:

1. Institute procedures by July 31, 1996.

26. Strengthen Procedures over VISTA Payroll

Criteria: Payroll information should be accurate and complete. Internal controls should be designed to ensure that assets are safeguarded.

Condition: Volunteers in Service to America (VISTA) project directors supervise VISTA members at project sites. The project directors are responsible for reporting time and attendance data to the State Offices. This includes notifying the State Offices about members who should be removed from the payroll because they have terminated or taken an extended leave of absence from the program. However, CNS does not provide the project directors with an updated record of VISTA members per the VISTA Management System (VMS, i.e., the system through which CNS processes VISTA payroll). CNS has returned numerous VISTA checks to the U. S. Department of the Treasury (Treasury) because the members' pay status had not been properly updated in the VISTA Management System.

Additionally, payroll checks for VISTA members are sent to the project directors instead of directly to the members. The project directors are then responsible for distributing the checks to the members.

Cause: CNS does not provide project directors with the information necessary to verify the accuracy and completeness of the VMS record of VISTA members. CNS has not established internal controls to ensure that assets are safeguarded.

Effect: Project directors do not have the information necessary to detect errors in payroll records on a timely basis. In addition, sending checks to someone other than the intended recipient increases the risk that cash could be misappropriated. These conditions could result in a misstatement of payroll expense in the financial statements.

Recommendation: Each pay period, CNS should send the project directors a list of members paid. The project directors should verify that the information is accurate and complete.

Additionally, CNS should, in all cases, send checks directly to VISTA members or through electronic funds transfer (EFT) to the members' bank accounts. CNS should prohibit project directors from receiving checks intended for VISTA members.

Management's Response: Management agrees with this recommendation and will implement it.

The Corporation is currently planning to develop a report to be sent biweekly to project directors listing all current Members serving on the project. The project directors will be required to return that list to State Offices with any errors or omissions annotated. Upon implementation of this process, we will begin sending all payments (including EFT payments) directly to the VISTA members. This will be in place by November 1, 1996.

Summary of Actions to be Taken:

1. Develop and send biweekly report to project directors and implement other changes by November 1, 1996.

27. Segregate Duties Related to VISTA Payroll Processing

Criteria: The duties for maintaining the Volunteers in Service to America (VISTA) Management System (VMS) should be segregated from the processing of transactions in the system.

Condition: A CNS systems administrator maintains the VMS, processes VISTA payroll, and maintains the related payroll files.

A payroll clerk assists the VMS systems administrator with the above duties. In addition, the payroll clerk creates a schedule containing the payroll data from VMS, and inputs this information into the Electronic Certification System (ECS). A Certifying Officer compares the data entered in ECS by the payroll clerk with the schedule created by the payroll clerk before approving the file and transmitting the data to Treasury.

The duties described above are incompatible because both the systems administrator and the payroll clerk have the ability to initiate and authorize source documents and enter data into VMS. The systems administrator can also change programs and data files.

Cause: Management has not sufficiently analyzed and segregated responsibilities among CNS employees.

Effect: Inadequate segregation of duties can result in errors or irregularities occurring and remaining undetected by employees in the normal course of their duties.

Recommendation: Management should ensure that employees with responsibilities for systems maintenance have no other duties related to that system. Employees who initiate and authorize source documents should not enter the data into the system. For example, the payroll clerk should not create a schedule of payments from VMS *and* enter the payments into ECS.

Management's Response: Management agrees with this recommendation.

The Corporation agrees with the need to reexamine responsibilities to achieve greater segregation of duties.

Summary of Actions to be Taken:

1. Reexamine staffing and responsibilities and institute changes by September 30, 1996.

INVESTMENTS AND TRUST FUND EXPENDITURES

28. Segregate Duties Related to Trust Fund Payments and Administration

Criteria: Internal controls should be designed to ensure that assets are safeguarded. The duties for approving and recording transactions should be segregated among individuals.

Condition: CNS is responsible for administering the National Service Trust (Trust Fund). For qualified participants in the AmeriCorps programs, the Trust Fund pays post-service educational awards and interest forbearance on participant loans. CNS uses its 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 to recipients through the Trust Fund System. These duties are incompatible.

A Certifying Officer approves scheduled payments before they are processed. However, to approve scheduled payments, a Certifying Officer compares the scheduled payment to the source documentation. This source documentation is approved by one of the individuals who holds the incompatible duties described above. Additionally, two of the individuals who have access to the Trust Fund System are also Certifying Officers.

Cause: Management has not sufficiently analyzed and segregated responsibilities among CNS employees.

Effect: Inadequate segregation of duties can result in errors or irregularities occurring and remaining undetected by employees in the normal course of performing their duties.

Recommendation: Management should segregate the responsibilities related to the administration and payments of the Trust Fund. An individual should not be responsible for, nor *capable of*, performing more than one of the following: 1) approving payments from the Trust Fund, 2) recording the payments in the Trust Fund System and 3) scheduling the payments to recipients.

Management's Response: Management partially agrees and partially disagrees with this recommendation.

The Corporation agrees to increase the segregation of duties related to trust fund payments and administration. However, management believes the finding does not reflect the current level of segregation, and disagrees with the specifics in the recommendation requiring three separate staff to perform the above functions since having two individuals involved in the process represents an adequate segregation of duties.

As with many of the other segregation of duty findings, this finding stems from having a number of duties performed by relatively few people. In this case, one individual approves and records most Trust Fund payments. However, when the workload gets beyond the ability of that individual to keep up or when that individual is out of the office, another individual will perform that same function. That second individual is one of two people who can schedule these payments for processing at Treasury. Both of those individuals look at all payments before approving the schedule.

Once that schedule is approved, it is transmitted to Treasury and the entire schedule is again approved by another individual through the Treasury's payment system.

While management continues to believe the attention to individual payments made by a total of three people provides a reasonable assurance against errors or irregularities, it will, through internal procedures, ensure that the individuals approving the schedule to be transmitted to Treasury record no payment request or initiate any payments. This individuals will have responsibility for reviewing the payments included in that schedule. The change will be in place by June 30, 1996.

Summary of Actions to be Taken:

1. Institute changed procedures by June 30, 1996.

II. Recommendations Related to Other Reportable Conditions

GENERAL ACCOUNTING PROCEDURES

29. Improve Procedures for Recording Cash Deposits

Criteria: Transactions should be promptly and accurately recorded.

Condition: CNS procedures over cash deposits are inadequate to ensure that deposits are completely and accurately recorded by the U. S. Department of the Treasury (Treasury) and in the general ledger. CNS does not record deposits in the general ledger until it receives a confirmation of deposit from Treasury. In addition, CNS does not reconcile the amount it records on the deposit ticket to the deposit amount confirmed by Treasury.

Cause: Management has not established procedures to record deposits in the general ledger on a timely basis and to reconcile the amount deposited with Treasury with the amount recorded in the general ledger.

Effect: Cash balances reported by CNS may be misstated. Errors could occur in the recording of cash deposits, either by CNS or by Treasury, and remain undetected. Deposits sent to Treasury could be lost in transit and remain undetected.

Recommendation: CNS should record deposits in the general ledger at the time the deposits are prepared. The employee who prepares and submits the deposit to Treasury should not have the ability to also record the deposit in the general ledger. In addition, management should establish procedures whereby an individual other than the one who prepares the deposits would reconcile the deposit amount recorded in the general ledger to the deposit amount confirmed by Treasury. Errors or omissions in the recording of deposits would be detected through this procedure, thus reducing the number of reconciling items in the month-end cash reconciliation.

Management's Response: Management agrees with this recommendation and has implemented it.

The Corporation has revised procedures for handling cash, and has instructed employees to record deposits in the general ledger at the time the deposits are transmitted to Treasury.

Summary of Actions to be Taken:

Implemented.

30. Reconcile Payments Generated through ECS

Criteria: Transactions should be promptly and accurately recorded. Expenses for goods and services should be recorded in the period in which they are incurred in accordance with generally accepted accounting principles.

Condition: To initiate payments to vendors, CNS sends an electronic file of requested payments to the U. S. Department of the Treasury (Treasury). CNS constructs this file by entering the payment information into either 1) the general ledger or 2) the Treasury Electronic Certification System (ECS). In order to maintain a complete record of payments in the general ledger, payments which are processed through ECS must be subsequently re-entered into the general ledger. However, CNS has no procedures in place for ensuring that all payments processed through ECS are subsequently recorded in the general ledger. Numerous payments made through ECS have never been recorded in the general ledger.

Cause: CNS has no procedures in place for reconciling between data input into ECS and the general ledger. Additionally, management does not enforce existing procedures restricting the use of ECS to certain payments.

Effect: Expenditures recorded in the general ledger are incomplete. This results in an understatement of expenses and an overstatement of cash reported in the financial statements. This condition impacts the integrity of the information used for management decision making. In addition, the incomplete records impair the accuracy of other information reported externally, such as reports required by the Prompt Payment Act.

Recommendation: CNS should implement procedures to periodically reconcile all data input into ECS with the general ledger. This will improve the accuracy of the information in the general ledger, as well as reduce the number of reconciling items in the month-end cash reconciliation. In addition, management should limit the processing of payments through ECS and compliance with such limits should be monitored.

Management's Response: Management agrees with the recommendation and has implemented it.

The Electronic Certification System (ECS) is an electronic payment and certification system administered by Treasury, the Corporation's disbursing agent. The Corporation uses the ECS primarily as a certification system for payments paid through the accounting system, Federal Success (FS), or interfaced on an automated basis into FS. However, the ECS can be used in certain cases to process payments that have to be made on the same day. When ECS is used in this manner, it is necessary to manually record the payment data into FS. Since this payment mechanism is outside the system, it is used only in special circumstances. ECS payments must be approved by the Accounting Director.

To strengthen internal controls for ECS, the Accounting staffperson who processes the payment through ECS is responsible for recording the payment data into FS. The supervisor is responsible for monitoring the timeliness and accuracy of the payment recordings in FS.

Summary of Actions to be Taken:

Implemented.

31. Record Returned Checks in the General Ledger

Criteria: Transactions should be recorded in the general ledger on a timely basis.

Condition: 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 the VISTA Management System (VMS). Additionally, we noted that the San Francisco Service Center does not record returned checks in the general ledger.

Cause: CNS has not designed and implemented procedures to record returned checks in the general ledger and/or VMS on a timely basis.

Effect: Not recording returned checks results in an understatement of cash and an overstatement of payroll expense in the general ledger and the financial statements. Errors or irregularities could occur and remain undetected by employees in the normal course of performing their duties.

Recommendation: Management should develop and implement procedures to ensure that returned checks are recorded on a timely basis in the general ledger and, for VISTA-related checks, in VMS. Accounting personnel should record returned checks in the appropriate system(s) immediately upon receiving the checks. Management should ensure that employees are properly trained to carry out this function. Additionally, management should monitor compliance with established procedures.

Management's Response: Management agrees with the recommendation and will implement it.

Returned checks should be recorded in the appropriate systems promptly. Procedures will be implemented, and management will monitor compliance on an ongoing basis, including using cash reconciliation processes to assure that all checks are entered.

Summary of Actions to be Taken:

1. Institute and implement revised procedures by June 1, 1996.

32. Strengthen Controls over Property and Equipment

Criteria: CNS should record material amounts of property and equipment as assets in accordance with generally accepted accounting principles. CNS should disclose future minimum lease payments, if material, in accordance with Statement of Financial Accounting Standard Number 13, "Accounting for Leases." Internal controls should be designed and operating effectively to ensure that assets are safeguarded.

Condition: CNS policy is to capitalize only those property and equipment expenditures greater than \$100,000. The result of this policy is that CNS does not capitalize any property and equipment expenditures. CNS has no procedures in place for maintaining a detailed listing of property and equipment. Additionally, CNS does not maintain centralized records of its capital and operating leases. CNS does not maintain a central point of control or inventory of sensitive equipment issued to employees, such as laptop computers, cellular phones and paging devices.

Cause: Management has not established procedures for the maintenance of property records.

Effect: The lack of adequate property records impacts management's ability to assess the materiality of property, equipment and leases, and to determine whether such amounts require capitalization and/or disclosure. By not closely tracking sensitive assets, the risk exists that any misappropriation of property or equipment could remain undetected by employees in the normal course of performing their assigned duties.

Recommendation: Management should centralize control of all CNS property and equipment. Management should develop procedures for assessing whether property, equipment and leases require capitalization and/or disclosure. These procedures should include maintaining detailed, centralized records of property, equipment and leases.

Management's Response: Management partially agrees and partially disagrees with this recommendation.

The Corporation agrees with the need to strengthen controls over property and equipment. Current controls are described below. The Corporation disagrees that its capitalization policy should be revised.

The Corporation maintains detailed records of all computer equipment, its most significant asset. Almost all of that equipment is inventoried electronically every day through the local and wide area network. Control on all laptop computers in its Headquarters office is also maintained. Each field installation is responsible for maintaining controls over any laptop computers at those locations.

The Corporation now has an updated inventory of all audiovisual and other electronic equipment as well as leased equipment.

Other assets of the Corporation consist of small equipment and furniture, much of which was previously owned by other Federal agencies.

The Corporation agrees to develop full inventories of all sensitive property, including cellular phones, and NCCC equipment.

Management has considered its policy on capitalization. The Corporation owns no vehicles, buildings, or other things of significant individual value. Therefore, management continues to think its capitalization policy is appropriate.

Summary of Actions to be Taken:

1. Develop centralized lists of items identified above by November 1, 1996.

33. Properly Record Accounts Receivable Related to Cost-Sharing Agreements

Criteria: Accounts receivable should be recorded in the general ledger in accordance with generally accepted accounting principles.

Condition: CNS enters into agreements with other Federal agencies and not-for-profit organizations to share the expenses related to certain Volunteers in Service to America (VISTA) members. Accounting personnel manually prepare billings for shared costs on a quarterly basis. However, accounting personnel do not consistently record the billings as accounts receivable in the general ledger. In addition, the process for generating a manual billing is cumbersome.

Although accounting personnel in Headquarters were aware of billings which were not recorded, no action was taken to correct the accounts receivable balance.

Cause: CNS has inadequate supervisory controls in place to ensure that billings are properly recorded. Accounting personnel have not been properly instructed on the importance of establishing billings as accounts receivable in the general ledger.

Effect: The accounts receivable balance is understated. Further, the lack of complete accounting records impacts the ability of CNS to take collection action on these funds.

Recommendation: Management should develop and implement procedures to ensure that accounting personnel record billings for cost-sharing agreements as accounts receivable on a timely basis.

Also, CNS should consider the cost effectiveness of acquiring/developing the ability to generate billings electronically through its general ledger.

Management's Response: Management agrees with this recommendation and has implemented it.

The Corporation has taken measures to ensure that cost-sharing agreement amounts are entered into the general ledger as accounts receivable. Each of the five regionally-based Service Centers now has the responsibility for billing and collections activities for cost-sharing agreements. This responsibility includes entering the agreement amounts into the general ledger as an accounts receivable, after approval and receipt of the final agreement in the Service Center. As a part of these new procedures, this entering is done on a timely basis, usually within a matter of days from receipt of the agreement materials. Collections are entered into the general ledger upon receipt by the Service Center.

As a support to this activity, the Corporation is also currently (FY 1996) implementing a cost-sharing billing system at the five Service Centers which provides for issuing bills as well as tracking collections.

As recommended, the Corporation has considered whether bills for the current cost sharing arrangements should be generated electronically through the accounting system, and has determined that the unique characteristics of VISTA make this impractical at the present time. We will reexamine this possibility when building/acquiring a new financial system for the Corporation.

Summary of Actions to be Taken:

Implemented.

34. Properly Recognize Revenue Related to Cost-Sharing Agreements

Criteria: Revenue should be recognized in the period in which it is earned in accordance with generally accepted accounting principles.

Condition: CNS earns revenue under cost-sharing agreements with other Federal agencies and not-for-profit entities. The Accounting Division does not consistently record amounts received in advance under these agreements as refundable advances (i.e., deferred revenue). Instead, accounting personnel frequently record the amounts as revenue immediately upon receipt.

Cause: CNS does not have appropriate revenue recognition policies in place. There is no supervisory review over the accounting treatment for cash receipts related to cost-sharing agreements.

Effect: For the fiscal year 1994 financial statements, CNS recorded adjustments in the amounts of \$34.6 million to revenue and \$38.3 million to deferred revenue to correct erroneous entries related to cost-sharing agreements. However, CNS did not perform comprehensive procedures to detect all errors. Therefore, other material misstatements may have occurred and remained undetected.

Recommendation: Management should establish and implement a policy to record revenue from cost-sharing agreements as it is earned in accordance with generally accepted accounting principles. For most cost-sharing agreements, this policy should entail recognizing revenue ratably over the period of the agreement.

Management should provide adequate training to accounting personnel in Headquarters and the Service Centers to enable them to appropriately implement this policy. Finally, management should periodically evaluate the revenue balances in the general ledger for accuracy.

Management's Response: Management agrees with this recommendation and will implement it.

Management agrees that when amounts under cost-sharing agreements are received in advance we should record revenue as it is earned over the period of the agreement. The amount of revenue earned must be obtained from the Status of Funds report. Staff need to obtain amounts obligated by responsibility center code for each agreement and record the transaction in the accounting system.

We will review this matter in some depth to determine the most cost effective approach to resolution -- whether we will upgrade Federal Success or include a requirement in the new accounting system which will automate the cost-sharing/interagency agreement process. Training, as appropriate, will be provided.

Summary of Actions to be Taken:

1. Review matter and make determination of most cost effective resolution by July 1, 1996.
2. Implement decision in recommendation 1--date dependent upon plan.

35. Properly Account for M-year Funds

Criteria: In accordance with the National Defense Authorization Act of 1991 (M-year legislation), all appropriations made specifically for a fiscal year and remaining unexpended at the expiration of that fiscal year should only be applied to the payment of expenses properly incurred during that year or to the fulfillment of contracts properly made within that year. Balances not needed for these purposes should be returned to the U. S. Department of the Treasury (Treasury).

Condition: The general ledger does not properly reflect all and only the balances available to CNS. Although the Accounting Division affirms that expired funds have been returned to Treasury, the general ledger reflects cash and unexpended appropriations balances which relate to expired years' appropriations. The general ledger also reflects other asset and liability balances related to these fund years. CNS originally included in its fiscal year 1994 financial statements, but has since adjusted, cash and unexpended appropriations amounts related to expired appropriations.

Cause: CNS does not have procedures in place to properly account for expired years' funds in the general ledger. CNS does not make appropriate closing entries to record assets and liabilities in its current year accounts.

Effect: The general ledger balances are misstated, creating errors in the financial statements.

Recommendation: As part of its closing process, CNS should post entries to reflect all asset, liability and cumulative results of operations balances in the current year. CNS should verify that it has returned expired funds to Treasury and should update the balances in the general ledger accordingly.

Management's Response: Management agrees with this recommendation and will implement it.

Management agrees that the Corporation for National Service should properly account for M-year Funds. To comply with OMB "M-year legislation," ICF Technology was retained to update the general ledger accounts and transactions. Staff have begun, but not completed, testing of the upgrades they provided.

To alleviate this deficiency, management will use contractor staff to supplement the Corporation for National Service's staff, and anticipate completing testing and implementation by September 30, 1996.

Summary of Actions to be Taken:

1. Complete systems changes by September 30, 1996.
2. Include recommendations regarding the closing process by November 30, 1996.

36. Record Appropriations Expended in the General Ledger

Criteria: Appropriations expended (i.e., revenues) should be recorded in the period in which they are earned in accordance with generally accepted accounting principles.

Condition: CNS procedures are inadequate to ensure that appropriations expended are recorded in the proper period. CNS does not record entries in the general ledger to recognize appropriations expended. For the fiscal year 1994 financial statements, management recorded an entry at year-end to establish appropriations expended using data contained in its budgetary accounts.

Cause: Management has not established a proprietary account for appropriations expended in the general ledger. CNS lacks procedures to ensure that expenses are recorded in the proper accounting period, which directly affects the recognition of appropriations expended.

Effect: For financial statement purposes, failure to properly accrue appropriations expended results in an understatement of revenues and an overstatement of unexpended appropriations (a component of equity).

Recommendation: Management should establish a proprietary account for appropriations expended in the general ledger. Additionally, management should develop and implement procedures for recognizing appropriations expended in conjunction with the proper recognition of expenses. Supervisory control procedures should be developed to evaluate the accuracy and completeness of reported accruals.

Management's Response: The Corporation agrees in part, and disagrees in part, with this recommendation. Management agrees fully with the need to report accruals and to verify their accuracy. Management disagrees that individual entries are required in the general ledger to accomplish this goal in the near term, but agrees that any new accounting system should have this capacity.

Current accounting procedures and system design do not require posting of an expense in Federal Success when the receiving report or invoice is received into the Corporation. The expense is recorded when payment is posted, causing cut-off problems at the end of the accounting period. To perform this extra step in the payment process would require additional staffing resources that would, in our judgment, not be cost effective.

Management believes that we can assure proper posting of expenses (accruals) for an accounting period by establishing the appropriations expended general ledger account (see management's response to recommendation number 5). An analysis of payments made in the preceding and subsequent months will be performed and adjustments posted to appropriations expended at the end of the fiscal year. We will utilize the professional assistance of an accounting firm in determining the approach and procedures which should be followed in this effort. Our long-term goal is to acquire an accounting system which integrates the procurement process with the accounting system and automatically records the expense with little staff intervention.

Summary of Actions to be Taken:

1. Actions are the same as those in recommendation 5 to establish the appropriations expended account.
2. An analysis will be performed to assure proper posting of expenses for the 1996 financial statements. In addition, the systems change will be implemented as part of the development of a new accounting system, with a target goal of 1998.

37. Record Gift Expenses in the General Ledger

Criteria: The National and Community Service Act of 1990, as amended (the Act), requires that CNS report to Congress on a yearly basis regarding donations received and related expenditures. The Act also requires that CNS deposit all donations received in the National Service Trust (Trust Fund).

Condition: CNS receives private donations. Donors often include restrictions on how CNS may use their donations. CNS must maintain a record of donations and the related expenses incurred in order to comply with the provisions of the National and Community Service Act of 1990, as amended. CNS records gift revenues in the general ledger; however, in fiscal year 1994, CNS did not account for the related *expenses* in the general ledger. The expenses were processed through the Treasury Electronic Certification System, and thus were not recorded in the general ledger (see recommendation number 30). CNS maintained the only record of these expenses in a spreadsheet outside of the general ledger system.

Further, certain provisions of the Act are ambiguous. A provision of the Act requires CNS to deposit donations received in the Trust Fund. Another provision permits CNS management to determine an appropriate use of donations received, but restricts the use of funds held in the Trust Fund. CNS does not deposit donations received in the Trust Fund. CNS instead accounts for gifts in a separate fund.

Cause: Management was unable to record the association between expenses and particular gift revenues in the general ledger. Therefore, it chose not to record the expenses in the general ledger at all.

The Act is ambiguous in that it requires donations received to be deposited in the Trust Fund and restricts the use of funds held in the Trust Fund, yet permits management to determine an appropriate use for donations received.

Effect: Not recording expenses in the general ledger results in an overstatement of cash and an understatement of expenses. CNS recorded an adjustment to account for certain gift expenses in its 1994 financial statements.

The conflicting language in the legislation makes it difficult for management to ensure CNS compliance with the provisions of the Act.

Recommendation: Management should record *all* expenses in the general ledger. If CNS maintains a separate record to track gift revenues and related expenses, this record should be periodically reconciled to the amounts in the general ledger.

In the reauthorization process, management should seek to resolve the differences in the language of the Act. The Act should clearly state where donations received should be deposited and the restrictions, if any, on the use of the funds.

Management's Response: Management partly agrees and partly disagrees with this recommendation.

The Corporation agrees with the recording of all gift expenses in the general ledger, but disagrees that changes are required to the Act.

Concerning gift fund transactions and their recording in the general ledger, in May of 1995 the Corporation for National Service requested the general ledger contractor to make the system changes to allow the general ledger to reflect these transactions. The enhancements were completed in September, 1995, and the recommendation is therefore implemented.

The Corporation for National Service staff have researched and reversed the original deposits of gift funds from the general ledger. The contributions will then be re-entered in the manner that allows corresponding expenses to be recorded in the general ledger. All new gift amounts received will be entered in accordance with the recommendation, effective March 31, 1996.

While the transactions referred to in this recommendation were not recorded in the general ledger during the period of the audit, the information was recorded in a supplemental system on a timely basis during the period covered by the audit.

Concerning the legislative part of the recommendation, the Corporation's General Counsel has determined that the Act authorizes the receipt of gift deposits and their deposit into an account to be used for the purposes specified. OMB and Treasury have concurred with this view by setting up a separate gift account for the Corporation at the Treasury. This account has been in operation since the Corporation's start-up.

Summary of Actions to be Taken:

1. Implement above actions by March 31, 1996.

38. Request that Organizations Providing Transaction Processing Services to CNS Acquire General Controls Reviews

Criteria: CNS should ensure that an appropriate level of security is maintained at all information technology installations which process CNS transactions.

Condition: The mainframe for the CNS general ledger system, Federal Success, is operated by the U. S. Department of Transportation (DOT). A recent, comprehensive review of the DOT data center has not been performed. The scope of the limited reviews that have been performed did not adequately address critical elements of a general controls review.

CNS uses the U. S. Department of Health and Human Services (HHS) Payment Management System (PMS) to process transactions related to grants authorized under the National and Community Service Act (NCSA). The mainframe on which PMS operates is housed in the National Institutes of Health (NIH) Computer Center. However, no data center review of the NIH computer center has been conducted, nor has a general controls review over PMS been performed.

Cause: CNS contracted with DOT and HHS without requiring that comprehensive information systems reviews of their data centers and processing services be performed.

Effect: These systems produce information which is used by CNS to prepare its financial statements. Without comprehensive internal control reviews of the installations housing these systems, CNS has no assurance that adequate controls exist to safeguard data from unauthorized access and modification.

Recommendation: CNS should request that DOT and HHS acquire independent data center internal control reviews of their processing facilities. Additionally, CNS should request evidence that reviews are performed of PMS and its processing environment. If DOT and HHS do not acquire such reviews, CNS should make other arrangements for the performance of the reviews. Such reviews should occur periodically as well as after major modification of the systems or data center procedures.

Management's Response: Management agrees with this recommendation and has implemented it.

The Corporation sent letters to the Department of Health and Human Services and the Department of Transportation requesting that general control reviews be performed on the Payment Management System and the DOT Computer Center respectively. However, the Corporation is a small customer at both of these Departments and our ability to either get those large organizations to do what their own audits have not required or to fund such large reviews ourselves is very limited.

Summary of Actions to be Taken:

Implemented.

BUDGET

39. Enforce Procedures to Reduce Ratifications

Criteria: The Federal Acquisition Regulation (FAR) stipulates that agencies should preclude, to the extent possible, the need for ratification actions. A “ratification” is the approval of an unauthorized purchase after it has occurred.

Condition: Purchases on behalf of the government must be approved in advance by an authorized procurement official. However, CNS ratified numerous purchases in fiscal years 1994 and 1995.

Cause: While personnel in the CNS Procurement Division generally refuse to ratify purchases, certain CNS management officials are willing to approve them. This has created an atmosphere in which employees are less likely to avoid making unauthorized purchases.

In addition, purchasers have cited that, under tight deadlines, they have made unauthorized purchases in order to circumvent the procurement process.

Effect: Circumvention of the procurement process increases the risk that CNS purchases will not comply with the provisions of the FAR. For example, purchasers could use unauthorized vendors or fail to obtain competitive quotes. In addition, purchases could be made for which funds were unavailable.

Recommendation: CNS should enforce the requirement that all purchases be authorized in advance. Management should inform all personnel that ratifications will not occur except in rare instances and for supportable causes. Then, all CNS officials should strictly adhere to this policy.

Additionally, CNS should establish procedures to be followed for emergency purchases. These procedures should provide for an expedited purchasing process. Management should document the procedures and distribute them to all personnel. Management should then comply with and actively enforce the established procedures.

The CNS Procurement Division should establish and adhere to service commitments to its customers (i.e., CNS purchasers). The commitments should outline the time frame in which purchases will be processed under various circumstances. These commitments should be measurable and monitored. CNS procurement personnel should be held accountable for meeting the established commitments and their performance should be evaluated accordingly.

Management's Response: Management agrees with this recommendation and will implement it.

The Corporation's goal is to preclude ratification actions to the extent possible. In both fiscal years 1994 and 1995, all ratifications were reviewed by a cognizant contracting officer and approved for payment as being in the interest of the government by the Acting Chief Financial Officer of the Corporation, as provided for under the Federal Acquisition Regulation. In general, the ratifications were required because many staff were new to government service or were unfamiliar with certain procurement requirements.

The Corporation has been aware of the ratifications problem. Employees involved were apprised of the applicable requirements, were required to prepare detailed justifications for their actions, and were instructed to follow applicable guidelines in the future.

Beginning in fiscal year 1995, the Corporation took proactive measures, including the issuance of credit cards to employees in accordance with government reinvention efforts in order to streamline procurement processes. Many of the ratifications were small purchases that could be made with credit cards. Training for employees was an integral part of the credit card program.

To address this finding further, management will promulgate policies and procedures tailored to the Corporation's contracting activity by April 15, 1996. The guidance will caution employees about ratifications. The guidance will also contain procedures for emergency purchases. The Office of Procurement and Administrative Services has established timeframes for processing purchases. Management will continue to monitor performance in this area.

Summary of Actions to be Taken:

1. Promulgate procurement policies by April 15, 1996.

40. Strengthen Procedures for Tracking Commitments

Criteria: CNS should maintain an accurate and complete record of commitments of funds.

Condition: CNS procedures require that budget officers maintain cuff records to track the dollar amounts of procurement requests for which they have certified funds availability. These cuff records are to be reconciled to the Status of Funds report which details obligations and related expenditures recorded in the general ledger. However, certain 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.

Cause: CNS has not established supervisory-level controls over the performance of these procedures.

Effect: The lack of adequate cuff records impairs the budget officers' ability to ensure that funds are available for each purchase and that amounts for approved purchases have been properly obligated in the general ledger.

Recommendation: Management should establish uniform procedures for the creation and maintenance of cuff records. Management should also establish procedures over the performance and documentation of monthly reconciliations of cuff records to the Status of Funds report. CNS should provide adequate training to budget officers to enable them to follow the established procedures. Management should monitor and enforce the compliance of budget officers with established procedures related to cuff records.

In the long-term, CNS should consider integrating its system for tracking commitments with its general ledger system. This should allow budget officers to directly input commitments into the general ledger and to access up-to-date information on-line. The system should require that a commitment be established prior to recording an obligation. This would ensure the completeness of data used by budget officers in certifying funds availability.

Management's Response: Management agrees with this recommendation and will implement it.

Management agrees with the long-term recommendation on integrating a system for tracking commitments in its general ledger. This will be a consideration in any system change contemplated by the Corporation.

The Corporation has consolidated cuff recordkeeping and reduced the number of people maintaining cuff records. The quality of cuff records has improved significantly during the past year. The Corporation will develop written directives on cuff records and reconciling them to the Status of Funds report and will meet periodically with budget officers to discuss those procedures by May 31, 1996. However, this problem will not be solved without the long-term solution discussed above.

Summary of Actions to be Taken:

1. Develop and distribute written directives for maintaining cuff records and reconciling those records to the Status of Funds report by May 31, 1996.
2. Incorporate commitment tracking into the general ledger in any long-term accounting system change.

41. Ensure Certification of Funds Availability for All Purchases

Criteria: CNS should ensure that funds are available for all purchase commitments.

Condition: CNS procedures require that a budget officer certify funds availability for all procurement requests. However, there have been instances in which a procurement official has approved a purchase order without first obtaining a budget officer's approval on the procurement request.

Cause: In these instances, purchasing officials have not complied with established procedures.

Effect: This condition increases the risk that CNS could enter into purchase commitments for which funds were unavailable.

Recommendation: Management should monitor and enforce the procedures over certification of funds availability for purchase commitments. Supervisory personnel should periodically review purchase orders to ensure compliance with established procedures.

Management's Response: Management partially agrees and partially disagrees with this recommendation.

Management agrees that certification of funds must precede all purchases, but disagrees with the finding's implication that this is a systemic problem in the Corporation.

Procedures have been in place whereby a purchasing official should not approve a purchase order without first obtaining a budget officer's approval on the procurement request. Management has determined that all purchasing officials are aware of this requirement.

The finding states that "there have been instances in which a procurement official has approved a purchase order without first obtaining a budget officer's approval on the procurement request." Upon request, the auditors identified two instances where a signature of funds availability was missing and identified these as having occurred in the Pacific Service Center. Management reviewed these items and determined that both procurements (worth \$50 and \$2,633 respectively) were appropriate. Officials at that facility have been informed of and have corrected the omission.

Management's view is that these errors were unusual occurrences, and do not reflect systemic problems.

Summary of Actions to be Taken:

Implemented.

42. Establish Obligations in the General Ledger Before Issuing Purchase Orders

Criteria: Obligations should be recorded in the general ledger on a timely basis.

Condition: CNS has inadequate procedures to ensure that obligations for purchases are established in the general ledger on a timely basis. Once a purchasing official approves a purchase order, it is sent to the vendor. Simultaneously, the purchase order is sent to the Accounting Division for input of the obligation into the general ledger. The design of this process results in a delay in the recording of obligations. In addition, we noted instances of obligations which were not recorded on a timely basis due to processing delays in the Accounting Division.

Cause: Management has not implemented a properly designed process to ensure that obligations are recorded on a timely basis.

Effect: Since the obligation is not established prior to the issuance of the purchase order, the risk exists that CNS could enter into a purchase order or contract for which funds were unavailable, resulting in a violation of the Antideficiency Act.

Recommendation: CNS should revise the current process to allow the issuance of purchase orders only after the obligation is established in the general ledger. The purchase order should be mailed to the vendor only after the Accounting Division has recorded the obligation in the general ledger.

Management's Response: Management partially agrees and partially disagrees with this recommendation.

By law, obligations should not be established and recorded prior to their taking place. Generally, the obligations should be recorded as close as possible to their occurrence. The Corporation disagrees that this recommendation should be put in place immediately under the current accounting system, as it would be cost prohibitive. The Corporation agrees, however, that the new accounting system should have a requirement to record an obligation at the time the purchase order is issued.

Controls exist to prevent any over-obligation of funds constituting a violation of the Antideficiency Act. Adding an additional step to the procurement process, that is, entering information into the official accounting system prior to issuing a purchase order, would unnecessarily delay the procurement process without a clear and demonstrable benefit in terms of reduced risks.

When the Corporation moves to adopt a new financial management and accounting system, an element will be an integrated budgeting and procurement system, which will record both commitments and obligations into the system prior to the issuance of a purchase order. The implementation schedule is tied to the development of a new accounting and financial management system for the Corporation.

Summary of Actions to be Taken:

1. Include requirement in new accounting system to be implemented by 1998.

43. Properly Establish Obligations for Travel

Criteria: Obligations should be recorded in the period in which they are incurred.

Condition: The San Francisco Service Center does not establish obligations in the general ledger when travel orders are processed. Instead, the obligation is recorded when a travel voucher is submitted for payment. Although the Service Center maintains cuff records to monitor commitments, obligations are not recorded in the general ledger on a timely basis.

The Atlanta and San Francisco Service Centers do not record an obligation in the general ledger prior to the occurrence of travel related to the Volunteers in Service to America (VISTA) program. This is because travel orders are not issued for VISTA travel in these Service Center areas. A VISTA travel voucher is submitted after the travel has occurred, and this is the point at which the obligation is recorded.

Cause: Management has not monitored and enforced the requirement that all obligations be recorded on a timely basis.

Effect: Since the obligation is not established prior to the occurrence of the travel, the risk exists that CNS could enter into obligations for which funds were not available, resulting in a violation of the Antideficiency Act.

Recommendation: Appropriate Headquarters financial management personnel should develop a detailed understanding of the policies and procedures followed by the Service Centers. This will allow management to monitor the activities of the Service Centers, and to ensure compliance with established procedures.

Management should require that travel orders be submitted prior to all VISTA travel. CNS should record an obligation in the general ledger when the travel order is received.

The San Francisco Service Center should record travel-related obligations in the general ledger upon receipt of the travel orders.

Management's Response: Management agrees with this recommendation and has implemented it.

This recommendation relates to the operations of the Pacific Service Center. Service Centers have been given flexibility to establish procedures that are cost effective and meet customer needs.

The finding deals with both staff travel and travel by VISTA Members.

With respect to staff travel, the recommendation has been adopted as specified. The Service Center will record obligations against blanket purchase orders.

With respect to the travel of VISTA Members, the Service Center does not believe it to be cost effective to issue individual travel authorizations. Instead, miscellaneous obligating documents will be issued for pre-service training and in-service training prior to the commencement of travel. For emergency and end-of service travel, the Center will use an obligating document developed specifically for this purpose.

Summary of Actions to be Taken:

Implemented.

GRANTS MANAGEMENT

44. Require Approval of Changes to Grant Documents

Criteria: Changes to official grant documents should be documented and approved.

Condition: During our testing of CNS grants, we noted several instances in which changes had been made to the original procurement requests, grant applications and budgets in the grant files. Neither the justification for the change nor who approved the change was documented.

We also noted instances in which corrections to grantee Requests for Advance or Reimbursement (RARs) had been made. In these instances, there was no evidence in the file that the grantee had approved the change. In addition, neither the justification for the change nor who approved the change had been documented.

Cause: Management has not established adequate controls over the documentation and authorization of changes to grant documents.

Effect: Critical data on source documents does not show evidence of proper authorization. Unauthorized changes to official documents could occur and remain undetected, resulting in unauthorized purchases being made.

Recommendation: Management should require that significant changes to grant documents receive the same level of approval as the original documents. The employee making the change should initial the change and route the revised document for approval. The Accounting Division and grants management officers should process only grant documents that are properly authorized.

Management's Response: Management agrees with this recommendation.

The Corporation agrees that significant changes to grant documents must be approved and that all modifications should be duly noted with the initials of the person making the change, the date the change was made, and notations or a memo documenting why grant documents were modified. Major changes to grant documents may also require the document be returned and the full approval process be utilized. The Corporation believes the grants management officer must use some discretion in making these determinations.

The Corporation has reminded all appropriate staff of the requirements to document significant changes to grants documents via a memorandum dated March 20, 1996.

Summary of Actions to be Taken:

Implemented.

45. Implement Procedures to Ensure Completeness of Grant Files

Criteria: Official grant files should contain the complete grant application and other essential documents.

Condition: In our review of grant files, we noted numerous instances of missing documents. The missing documents included Financial Status Reports, Requests for Advance or Reimbursement and grantee budgets.

Cause: Grants management officers do not ensure that complete documentation is maintained in the grant files. Grant files are not subject to periodic supervisory review.

Effect: There is inadequate support for grant-related transactions. This impairs management's ability to ensure that all and only authorized grant transactions occur and are properly recorded in the general ledger.

Recommendation: Management should implement procedures to ensure the completeness of documentation in the grant files. Specifically, grants management officers should perform a review of the information contained in the grant files. For Domestic Volunteer Service Act (DVSA) grants, grants management officers should compare the documentation in the files to the file checklist. Management should develop and implement the use of a checklist for National and Community Service Act (NCSA) grants.

In addition, management should perform a periodic supervisory review of grant files for completeness. Personnel responsible for maintaining the grant files should be held accountable for their work and their performance should be evaluated accordingly.

Management's Response: Management agrees with this recommendation and will implement it.

The responsible grants officials for the Domestic Volunteer Service Act (DVSA) and National and Community Service Act (NCSA) programs agree that "official grant files should contain complete grant application and other essential documents." Complete grant files for DVSA programs are defined and required by an applicable grants management handbook. For NCSA programs, grant files typically contain the complete grant application (original) and other essential documents.

The Corporation will develop a checklist of grant documents to ensure complete NCSA grant files are maintained. In addition, the NCSA grants official and applicable Service Center directors will review periodically these files for completeness and ensure appropriate accountability of responsible personnel.

Summary of Actions to be Taken:

1. Develop grants checklist by June 1, 1996.

46. Establish Unused or Misapplied Grant Funds as Accounts Receivable

Criteria: At the termination of a grant, funds which the grantee has received but not used and/or funds which were determined to be improperly applied by the recipient should be established as accounts receivable in accordance with generally accepted accounting principles.

Condition: CNS does not record all funds due from grantees as accounts receivable in the general ledger. For National and Community Service Act (NCSA) grants, CNS has no procedures in place for consistently reporting to the Accounting Division any accounts receivable for unused and/or improperly applied funds at the termination of a grant. Domestic Volunteer Service Act (DVSA) grants management officers do not consistently record such funds in the general ledger.

Cause: Management has not established adequate procedures for NCSA grants over the reporting of funds due from grantees. For DVSA grants, grants management personnel do not consistently follow the established procedures outlined in the DVSA Grants Management Handbook.

Effect: Not recording accounts receivable results in a misclassification of assets in the financial statements for amounts previously advanced to grantees. For funds misapplied by grantees, not recording accounts receivable results in an understatement of assets and an overstatement of expenses in the financial statements. In addition, the lack of complete accounting records impacts the ability of CNS to enforce collection actions on these funds.

Recommendation: For NCSA grants, CNS should establish and document procedures requiring that grants management personnel report to the Accounting Division on a timely basis any amounts due from grantees. Grants management officers should enter DVSA grant amounts receivable from grantees into the general ledger on a timely basis. Management should monitor and enforce compliance with established procedures.

Management's Response: Management agrees with this recommendation.

The Corporation does have informal procedures for NCSA grants to establish an account receivable due from grantees. These procedures need to be formalized and documented.

DVSA grant procedures with respect to establishing accounts receivable are documented and function on an integrated basis with the accounting and financial management system. There is a need for more timely input of required data.

Summary of Actions to be Taken:

1. Document formal procedures for NCSA grants by October 31, 1996.
2. Remind DVSA officers about the timeliness by April 30, 1996.

47. Record Complete Information for Grant Obligations in the General Ledger

Criteria: Grant activity should be completely and accurately recorded in the general ledger.

Condition: Our review of the open obligations report from the general ledger revealed numerous grant obligations for which the vendor was listed as the Corporation for National Service or the Commission on National and Community Service.

Cause: 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.

Effect: The CNS record of open obligations is inaccurate. Incomplete grantee information would increase the complexity of a reconciliation between obligating documents and the open obligations report, thus increasing the risk that errors in the open obligations records could occur and remain undetected.

Recommendation: CNS should correct the obligations currently recorded in the general ledger to reflect the proper grantee information. In the future, the Accounting Division should enter only accurate and complete grantee information into the general ledger.

Management's Response: Management agrees with the recommendation and has implemented it.

Management agrees that accurate and complete grantee information should be entered into the general ledger. Although problems were encountered with employee identification numbers (EINs), this situation was remedied in early 1995. Since then we have required the grantee's correct EIN on documentation prior to entering information to the general ledger.

Summary of Actions to be Taken:

Implemented.

48. Strengthen Security Controls over the Grants Management Database

Criteria: An effective management control process should ensure that appropriate safeguards are incorporated into application systems. At a minimum, a system that processes sensitive information should limit update access and have the ability to provide an audit trail for input transactions.

Condition: CNS maintains grant information in a Grants Management database. Management relies on this database to provide critical information about its grants, including information about grants authorized under the National and Community Service Act (NCSA). Management obtained the NCSA grant data which was reported in the 1994 financial statements from the Grants Management database. However, the Grants Management database does not provide audit trails for input transactions. At least six grants management staff have read/write access to the database.

Cause: The developers of the Grants Management database did not include audit trail functionality in the database.

Effect: Without the ability to link changes to a specific user, the Grants Management database is vulnerable to unauthorized changes.

Recommendation: CNS should modify the Grants Management database to provide audit trails for input transactions. All updates to the database should be traceable to the user that made the updates. Additionally, information in the database should be subject to periodic supervisory review.

Management's Response: Management agrees with this recommendation and will implement it.

The Corporation has included an audit trail function in the development of an integrated grants management database for the Corporation. This recommendation will therefore be implemented upon implementation of the new integrated grants management database.

Summary of Actions to be Taken:

1. Implement requirement as part of integrated grants management database by January 31, 1997.

49. Record Obligations in the General Ledger Before Issuing NCSA Grant Awards

Criteria: Obligations should be promptly and accurately recorded in the general ledger.

Condition: CNS has inadequate procedures to ensure that obligations for grant awards are established in the general ledger on a timely basis. Grant award letters and cooperative agreement contracts undergo an internal approval process, then are sent to the grantees for signature. At that time, grants management personnel also send copies of the grant award letter and cooperative agreement contract to the Accounting Division. The Accounting Division uses these documents to input the obligation into the general ledger. The design of this process results in a delay in the recording of obligations.

Cause: Management has not implemented a properly designed process to ensure that obligations are recorded on a timely basis.

Effect: Since the obligation is not established prior to the issuance of the grant award letter, the risk exists that CNS could enter into a cooperative agreement contract for which funds were unavailable. This could result in a violation of the Antideficiency Act. Additionally, management uses the amount of obligations to determine the total grants liability reported in the financial statements. Timing differences between incurring obligations and recording obligations in the general ledger could cause the grants liability reported in the financial statements to be misstated.

Recommendation: CNS should revise the current process to allow the issuance of grant award letters and cooperative agreement contracts only after the corresponding obligations are recorded in the general ledger. The grant award letter and cooperative agreement contract should be mailed to the grantee only after the Accounting Division has entered the obligation into the general ledger.

Management's Response: Management partially agrees and partially disagrees with this recommendation.

The Corporation agrees with the need to promptly record obligations for grant awards in the general ledger, but disagrees that the notice of grant award cannot be mailed before those obligations are posted. The obligation occurs at the time the grant award is signed and not prior to that event. We agree also that the Corporation's new accounting and grants systems will record the obligation simultaneously with the signature of the grant document.

As background, the conditions leading to this finding and recommendation were a significant problem in 1994 resulting from start-up activities; it has been addressed by new procedures in fiscal year 1995.

Currently, the grants office obtains the program budget officer's signature certifying funds availability and then the grants officer signs the award letter (if the grant exceeded funds availability, the program budget officer would not sign and no obligation would result). At that point, two copies of the grant award are hand-carried to the central budget office which reviews for proper coding and insures that all items are included for accurate entry into Federal Success. The central budget office staff member hand-carries the grant award to Accounting within 24 hours of receipt. Accounting enters the grant award into Federal Success within one week of receipt. Without regard to the one week maximum input time limit, all grants received in the Accounting office prior to the end of the month are entered before close-of-business on the last day to ensure they appear in that month's status of funds reports.

In brief, therefore, the obligations are generally recorded prior to the signature and return of the grant award document from the grantee. The Corporation does not believe that further steps are required at this stage, pending development of the system described below.

The Corporation for National Service is currently developing a new Program/Grants Management System, one feature of which will be for the grants office to enter the grant obligation on-line into this new system after the grants officer approves (the program budget officer will enter the proper coding and funding amount online prior to final grants officer approval). The Program Management System will then update Federal Success with the obligation data, thus eliminating much of the paper going to Accounting and decreasing the time it takes for a grant award to become obligated in Federal Success.

Summary of Actions to be Taken:

1. Implement new system with this requirement by January, 1997.
2. Integrate with new financial system by 1998.

50. Standardize and Document Procedures over NCSA Grant Processing and Monitoring

Criteria: Processing procedures should be established and maintained in accordance with laws, regulations and management's policy.

Condition: CNS has no formal, standardized procedures over the administration and transaction processing functions related to NCSA grants. The pre-grant award and authorization processes are documented; however, grants management and accounting personnel have no comprehensive, documented procedures to follow related to processing and monitoring NCSA grants. In addition, CNS has no standardized procedures for the review of grantee Financial Status Reports (FSRs), or for the selection of and procedures for conducting grantee site visits.

Cause: Management has not formalized and documented these procedures.

Effect: Personnel involved in grants management functions may be unaware of certain procedures and controls. This impacts the effectiveness and efficiency of program and administrative operations.

In the absence of established procedures, management may not effectively assess relevant risks in determining which grantee sites to visit and what procedures to perform. Ineffective monitoring procedures may result in errors or irregularities occurring and remaining undetected by employees in the normal course of performing their duties.

Recommendation: Management should formalize and document comprehensive procedures over the processing and monitoring of NCSA grants. The procedures should encompass the functions related to approval, input, substantiation and evaluation of grant information in the general ledger and the U. S. Department of Health and Human Services Payment Management System. In addition, management should establish procedures 1) over the review of grantee FSRs and 2) for the selection and performance of grantee site visits.

Management's Response: Management partially agrees and partially disagrees with this recommendation.

NCSA Grants Management does have procedures that are followed in the processing and monitoring of its grants. While all of these procedures are not fully documented, they nevertheless have been described in detail in staff meetings and training. All grants officers follow the same procedures in processing grants for award and monitoring grants after award.

Management is currently developing policies and procedures that will lead to documentation of this entire process. These procedures should be in place by September 30, 1996.

Examples of current documentation are standardized computer generated award letters and the recent completion of a standardized process for the review and evaluation of grantee financial status reports (FSRs).

Presently, the grants office and program office are developing a site visit protocol.

Summary of Actions to be Taken:

1. Finalize site visit and monitoring procedures by May 31, 1996.
2. Document grants processing procedures by September 30, 1996.

51. Improve Procedures over Accuracy of DVSA Grant Award Amounts

Criteria: Grant obligations recorded in the general ledger should be accurate and complete.

Condition: Grants management officers input Domestic Volunteer Service Act (DVSA) grant award amounts into the general ledger to obligate funds and to produce the Notice of Grant Award. In our testing of grant files, we noted instances in which the grant amount on the Notice of Grant Award did not equal the amount on the procurement request. The procurement request contains the formally approved grant amount for which availability of funds has been certified.

Cause: CNS does not adequately train grants management personnel regarding which document should be used to input data and obligate funds in the general ledger.

Effect: The use of documents other than the procurement request as the source for the grant award amounts in the general ledger could result in inaccurate obligation and award amounts. Management uses the amount of the obligation to determine the total grants liability reported in the financial statements. Inaccurate obligations in the general ledger would cause the grants liability reported in the financial statements to be misstated.

Recommendation: Management should standardize procedures regarding the data source for grant award amounts. Grants management officers should use the procurement request as the source of data input into the general ledger to record the obligation and to produce the Notice of Grant Award. Management should periodically review grant award amounts input into the general ledger for accuracy.

Management's Response: Management agrees with this recommendation and has implemented it.

The Corporation agrees that Grants Management Officers should use the procurement request as the source of data input into the general ledger to record the obligation and to produce the Notice of Grant Award (NGA). Presently, this is standard procedure as defined in the Grants Management handbook for Domestic Volunteer Service Act programs.

There may be occasions when the procurement request (PR) will reflect an amount different than the NGA; e.g., quarterly funding when the PR will represent 100% fund request, but the NGA will indicate 25% funding. Changes and modifications discussed in recommendation 44 must be followed.

The Corporation has informed all grants officers of the requirement and will monitor performance.

Summary of Actions to be Taken:

Implemented.

PROCUREMENT AND GENERAL EXPENDITURES

52. Require Approval of Changes to Procurement Documents

Criteria: Changes to official procurement documents should be documented and approved.

Condition: During our testing of CNS procurements, we noted several instances in which changes had been made to procurement requests and purchase orders. Neither the justification for the change nor who approved the change was documented.

Cause: Management has not established adequate controls over the documentation of changes to procurement documents.

Effect: Data on source documents does not show evidence of proper authorization. Unauthorized changes to official documents could occur and remain undetected.

Recommendation: Management should require that changes to procurement documents receive the same level of approval as the original document. The employee making the change should initial the change and route the revised document for approval. The Accounting Division should process only procurement documents that are properly authorized.

Management's Response: Management agrees with this recommendation and has implemented it.

The Corporation for National Service understands the importance of documenting and approving any changes to procurement requests, purchase orders and contracts. Pen and ink changes to accounting data on official Government purchase orders or contract award documents are no longer accepted. The Procurement Office ensures that all changes to a purchase order or contract be made in the form of a modification. Further, the Procurement Office insists that any changes made to a procurement request be initialed by the customer and budget officer before the request is processed.

Summary of Actions to be Taken:

Implemented.

53. Allow Only Properly Authorized Personnel to Approve Procurement Actions

Criteria: Pursuant to the provisions of the Federal Acquisition Regulation (FAR), only personnel who have been granted procurement authority should obligate CNS funds.

Condition: In our review of certain CNS procurements, we noted instances in which purchase orders had been signed by a CNS official who had not been delegated the authority to approve procurements.

Cause: Our discussions with personnel in the Procurement Division indicated that procurement officials were unwilling to sign certain purchase orders because, in the opinion of those personnel, the procurements did not comply with the requirements of the FAR. These purchase orders were instead signed by a management official outside of the Procurement Division.

Effect: Funds were obligated by an official who had not been granted purchasing authority pursuant to the provisions of the FAR. Procurement actions could be taken by someone who lacks the requisite training and experience.

Recommendation: Management should enforce its procedures regarding authorized procurement officials. Management should ensure that only properly authorized contracting actions occur.

Management's Response: Management partially agrees and partially disagrees with this recommendation.

The Corporation agrees to further enforce its procedures as described below, but disagrees with the finding's assertion, except as described below, that officials without authority signed purchase orders.

As management understands the verbal information from the auditors supporting this finding, instances occurred when someone who did not have procurement authority signed for, in the absence of, a senior management official with procurement authority. The acting official, a deputy, did not have specifically-delegated procurement authority but assumed that all authorities were available because of the acting status. In the future, management will not allow a deputy or someone who does not have specifically-delegated procurement authority to sign in the absence of individuals with such authority.

The finding also noted instances where individuals in the Procurement Office did not sign documents but a senior management official did sign them. In fact, in these instances (other than those described above) the officials signing the documents did have procurement authority and exercised appropriate action with regard to these items.

The Corporation has reiterated guidance specifying that only individuals with specifically-delegated procurement authority may approve purchase orders and will monitor implementation of this guidance.

Summary of Actions to be Taken:

Implemented.

54. Segregate Imprest Fund Duties in Headquarters and NCCC Campus

Criteria: Internal controls should be designed to ensure that assets are safeguarded. Reconciliations should be performed by persons with no other duties related to the transactions being reconciled.

Condition: CNS maintains imprest funds at Headquarters and at the NCCC campuses. At Headquarters and the San Diego NCCC Campus, imprest fund cashiers reconcile the cash and document any overages or shortages. Accounting Division or Service Center personnel review the resulting documentation as part of the normal replenishment process. However, the cash in the imprest fund is not counted by an independent party on a routine basis.

Cause: Management has not sufficiently analyzed and segregated responsibilities among CNS employees.

Effect: Inadequate segregation of duties may result in errors or irregularities occurring and remaining undetected by employees in the normal course of their duties.

Recommendation: Someone other than the imprest fund cashier should reconcile the imprest fund and complete the forms required to request replenishment.

Management's Response: Management partly agrees and partly disagrees with this recommendation.

The Corporation agrees with the need for further segregation of duties as described below and to increase unannounced reconciliations. The Corporation notes, however, that the finding failed to describe the procedures in place in each of the locations covered.

The Corporation believes the duties for cashiers and supervisory reviews at the Headquarters are generally adequate to safeguard the imprest fund assets. Headquarters has a primary and alternate cashier. Imprest fund cash is maintained by both the primary and alternate cashiers. Each cashier maintains their cash in a separate safe deposit drawer with its own combination lock. The cashiers do not have access to the others' safe drawer or cash. The alternate cashier performs the functions in the absence of the primary cashier.

Supervisory reviews of the imprest fund cash transactions have been performed when the imprest funds are replenished. The replenishment form, reimbursement vouchers, and cash count forms are reviewed and approved by a Certifying Officer prior to replenishment by Treasury. We will examine whether separate reconciliation, in addition to this step, is appropriate. In addition, unannounced cash counts are performed as often as quarterly, but not less than once every year.

The imprest fund at the San Diego NCCC campus is a sub-cashier of the Headquarters imprest fund cashier. As such, the sub-cashier is precluded from requesting replenishment funds directly from Treasury. Instead, the fund cashier submits replenishment forms and supporting documentation to Headquarters or the Pacific Service Center in San Francisco. The documentation is reviewed, and approved by a Certifying Officer prior to replenishment.

Each Campus Director will assign an alternate sub-cashier, and designate a Corporation official who is responsible for performing cash counts and unannounced audits.

Reviews of the imprest fund operations at Headquarters and the NCCC have not indicated any discrepancies or irregularities. However, we concur with the need to perform more frequent on-site unannounced cash counts for the imprest fund operations.

Summary of Actions to be Taken:

1. Designate a sub-cashier and a Corporation official who will perform unannounced audits at all NCCC campuses by May 31, 1996.
2. Examine specifics related to additional reconciliation and implement decision by May 31, 1996.

55. Document and Distribute All Changes to General Ledger Budget and Accounting Codes

Criteria: Budget and accounting codes in the general ledger should be accurate, complete and supported by source documentation. Budget officers should use updated budget and accounting codes.

Condition: Budget officers review all procurement requests to ensure that the budget and accounting codes are proper and to certify that funds are available for the purchase. In our review of CNS expenditures, we noted instances in which the budget and accounting codes on procurement requests and purchase orders were inconsistent with the information recorded in the general ledger. No documentation was available to support the budget and accounting codes recorded in the general ledger for these transactions.

In addition, Service Center personnel do not always receive updates to budget and accounting codes on a timely basis.

Cause: Management has not established adequate controls over the documentation and maintenance of changes to budget and accounting codes. Where we noted differences, the budget and accounting codes on the purchase order may have been outdated, necessitating a change to the codes. Or, if the budget and accounting codes on the purchase order were proper, the Accounting Division may have incorrectly input the codes into the general ledger.

Effect: The availability of funds for the affected budget and accounting codes could be misstated, either in the budget officers' records or in the general ledger. This could impair management's ability to properly allocate resources to programs and to ensure that funds are spent within budgetary parameters.

Recommendation: The Accounting Division should document on the purchase order any changes made to the budget and accounting codes. Prior to inputting the budget and accounting codes into the general ledger, the Accounting Division should return the revised purchase order to the appropriate budget officer. The budget officer should certify availability of funds in the revised budget and accounting codes. In addition, the budget officer should update the record of commitments accordingly.

Additionally, the Accounting Division should ensure that updates to budget and accounting codes are distributed to all budget officers nationwide on a timely basis.

Management's Response: Management agrees with the recommendation and will implement it.

The Corporation has completed a number of tasks related to this recommendation. An additional step will be taken as described below.

Budget codes are, and have been, provided to each budget holder (and his/her respective budget officer) on the office budgets and are updated (if necessary) with each subsequent issuance of the budgets. Additionally, both procurement and accounting staff have been provided a listing of all budget codes and the budget officer responsible for each code as a further precaution against errors. As stated in recommendation 52, pen and ink changes to accounting data are no longer accepted and all changes must be in the form of a modification.

Management will again update the listing of accounting codes by October 1, 1996 and will put the listing on the local area network where it can be accessed by all Corporation employees.

Summary of Actions to be Taken:

1. Publish an updated listing of accounting codes by October 1, 1996 and maintain that list on the local area network.

56. Segregate Procurement-Related Duties

Criteria: The duties of signing a purchase order or contract and certifying receipt of the related goods or services should be segregated.

Condition: 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. Prior to processing a payment for goods or services, the Accounting Division does not ensure that different individuals have signed 1) the purchase order or contract and 2) the receiving report.

Cause: Management has not sufficiently analyzed and segregated responsibilities among CNS employees.

Effect: Inappropriate or unauthorized transactions could occur and remain undetected by employees in the normal course of performing their duties.

Recommendation: CNS should implement policies and procedures that prohibit the same individual from both approving a purchase order or contract and certifying that the goods or services have been received. Before paying an invoice, the Accounting Division should ensure that different individuals approved the purchase order or contract and certified the receiving report.

Management's Response: Management agrees with this recommendation.

The Corporation believes that segregation of duties in the procurement area is essential, and that the procedures followed by the Corporation are routinely followed in government and are sufficient. Specifically, it is acceptable, in our view, for an approving official (supervisor) who is also the customer to certify receipt of the goods and services. However, it would be unacceptable for the approving official to either: (1) sign the purchase order; or (2) certify the invoice for payment. The Corporation for National Service has sufficient checks and balances in place to ensure that customers who do not have a delegation of procurement authority (e.g., for use of the small purchase credit card) do not sign purchase orders or contracts or certify payment for the same. Generally, contracting officers who sign purchase orders or contracts do not receive, accept or inspect the goods or services. While they may review an invoice for accuracy and completeness, they do not certify the invoice for payment. In these few instances where this has not occurred, we will change procedures to prevent the contracting officer signing a purchase order or contract from also certifying an invoice for payment.

Summary of Actions to be Taken:

1. Institute new procedures by June 30, 1996.

57. Maintain Updated Listing of Procurement Request Approval Authority

Criteria: All purchases should be properly approved in accordance with policies and procedures established by management.

Condition: CNS procedures require that a supervisor approve all procurement requests. Contracting officers in the Procurement Division review each procurement request for evidence of proper approval before processing a purchase. However, CNS does not maintain an updated listing of who has the supervisory authority to approve procurement requests. Therefore, contracting officers have no formal method for determining whether a procurement request has been properly authorized.

Cause: Management has not provided a current list of authorized supervisors to procurement officials to permit them to adequately perform their duties.

Effect: The creation of CNS merged a wide range of programs with varying hierarchies of supervisors and directors. Procurement officials may not be completely familiar with the levels of supervisory control in all of the programs that comprise CNS. The absence of a listing of supervisors could impair the ability of a procurement official to determine whether a procurement request has been properly approved.

Recommendation: Management should maintain and regularly update a listing of personnel who may authorize procurement requests. Procurement officials should ensure that each procurement request has been properly approved by comparing the approving official on the procurement request to the list of authorized supervisors.

Management's Response: Management agrees with this recommendation and has implemented it.

The Corporation for National Service understands the importance of having an updated list of supervisors authorized to sign procurement requests. We have established and will maintain such a list and use this list when reviewing procurement requests for evidence of proper approval.

Management has also provided procurement staff with a listing of updated budget codes and the budget officers authorized to certify availability of funds for those codes.

Summary of Actions to be Taken:

Implemented.

58. Comply with Prompt Payment Act Reporting Requirements

Criteria: The Prompt Payment Act requires that CNS submit payment performance data to the Office of Management and Budget (OMB) on an annual basis. The information in the report should be accurate and complete.

Condition: In 1994, CNS did not submit payment performance data to OMB as required by the Prompt Payment Act. The report which CNS submitted for fiscal year 1995 contained incomplete and inaccurate data.

The general ledger tracks the number and amount of payments made and interest penalties paid to vendors. However, the general ledger data for 1995 was inaccurate. For example, according to the general ledger, the Atlanta Service Center made only six payments in fiscal year 1995 that were subject to the Prompt Payment Act. However, the majority of payments to vendors are subject to the Prompt Payment Act.

Cause: CNS has determined that the information was incomplete, in part, because personnel in the Atlanta Service Center did not correctly input into the general ledger whether payments were subject to the Prompt Payment Act. In addition, payments not recorded in the general ledger were not included in the payment performance data (see recommendation number 30 regarding payments made through the Electronic Certification System).

Effect: CNS does not have an accurate record of prompt payment performance data. This impacts management's ability to monitor the frequency of late payments to vendors and, if necessary, take steps to reduce the amount of penalty interest paid. In addition, the existence of incorrect payment indicators in the general ledger increases the risk that not all vendors were properly paid interest in accordance with the provisions of the Prompt Payment Act.

Recommendation: CNS should notify OMB that the 1995 payment performance data submitted by CNS was inaccurate and incomplete.

CNS should instruct personnel in Atlanta on how to correctly determine and input information regarding whether a payment is subject to the Prompt Payment Act. Management should review the payment performance data reported by the general ledger on a periodic basis to 1) detect and correct any obvious errors in the data on a timely basis and 2) monitor the frequency of late payments to vendors.

Management's Response: Management agrees with the recommendation and will implement it.

As background, there was some confusion in FY 1994 and FY 1995 about the requirement for Prompt Pay reporting since neither OMB nor Treasury had issued a call for the report as they had done in previous years. The report was, however, submitted in FY 1995.

The FY 1995 report was generated automatically from the Corporation's accounting system, Federal Success (FS). However, Accounting staff modified the system generated report to include payments made outside FS, through the Electronic Certification System (ECS). This procedure is appropriate and necessary for completeness and accuracy.

Prior to the Prompt Pay report submission, Accounting staff distributed the report results to all Service Centers to review and confirm the payment data. It was apparent that the report data for the Southern Service Center was incorrect.

Headquarters and Southern Service Center staff also identified an error resulting in the payment data report discrepancy. The cause for the error was an incorrect setting of the prompt pay "flag." The flag had been set in FS for the Southern Service Center to the off position. This error did not impact on any data in FS except the generation of the Prompt Pay Report and the error did not result in any instance of an incorrect payment to a vendor or employee. Management will correct the report and resubmit to Treasury.

Summary of Actions to be Taken:

1. Provide information to staff on the requirement by June 1, 1996.
2. Resubmit FY 1995 Prompt Pay Report to Treasury by May 31, 1996.

PAYROLL

59. Improve Procedures for Substantiating Personnel and Payroll Records

Criteria: 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 management.

Condition: Supervisors initiate, and department heads approve and submit to the Human Resources Office, Personnel Action Requests (SF-52s) for such actions as appointments, promotions or reassignments of personnel. If the request is approved, the Human Resources Office generates a Notice of Personnel Action (SF-50) which is filed in the employee's Official Personnel File. A copy is also sent to the employee. However, CNS has no procedures in place to ensure that officials requesting such actions are notified of the results of their requests. The SF-50s are not returned to the requesting official.

In addition, supervisors and department heads do not routinely review and substantiate data related to employee grade levels, pay rates and assignments within the organization.

Cause: Management has not implemented procedures to ensure that supervisors requesting personnel actions are properly notified of the status of their requests. CNS has no procedures in place for distributing critical payroll data to management and requiring management to review such data for propriety.

Effect: The absence of these procedures increases the risk that unauthorized personnel actions could occur and remain undetected or that authorized personnel actions would not be properly processed.

Recommendation: CNS should notify requesting supervisors of completed personnel actions. Supervisors should monitor the status of requested actions and follow-up on any actions for which confirmation has not been received within a specified time period. In addition, CNS should distribute to supervisors information regarding their employees' pay rates, grade levels and organizational assignments on a periodic basis. Supervisors should review this information in detail and follow-up on any discrepancies or questions about the information.

Management's Response: Management agrees with this recommendation and will implement it.

Procedures addressing this recommendation will be instituted by the Human Resources Office by March 31, 1996.

Summary of Actions to be Taken:

1. Implement procedures by March 31, 1996.

60. Resolve NFC Payroll Suspense Items on a Timely Basis

Criteria: Internal controls should be in place and operating effectively to verify the accuracy and completeness of transfers of data between electronic data processing (EDP) systems.

Condition: CNS payroll processing is performed by the U. S. Department of Agriculture National Finance Center (NFC). CNS does 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.

To reduce the number of items in suspense, a CNS employee has recently begun reviewing the transactions in the electronic file in detail and making changes to the file prior to uploading the data into the general ledger. However, CNS has no procedures in place to ensure that the data in the electronic file is accurate and complete. CNS does not compare the data in the electronic file to hard copy reports provided by NFC to the Human Resources Office. The manipulation of the electronic file makes such procedures especially critical.

Cause: Management has not required the timely resolution of suspense items. The suspense items often result from differences between the budget and accounting codes input by CNS into the NFC payroll system and updated budget and accounting codes in the general ledger.

Effect: By not resolving suspense items on a timely basis, management risks materially misstating payroll expense in the financial statements and in other internal and external reports. By not reconciling data processed by NFC with the data recorded in the general ledger, CNS cannot verify the accuracy of such information. Data could be incompletely or inaccurately recorded in the general ledger and remain undetected.

Recommendation: Management should implement procedures to ensure the timely resolution of suspense items resulting from the transfer of data from NFC. These procedures should ensure that payroll data input by CNS into the NFC payroll system includes accurate and up-to-date budget and accounting codes. Personnel with no other payroll-related duties should investigate and resolve suspense items on a bi-weekly basis.

In addition, to ensure the completeness of the data transfer, CNS should reconcile the payroll amounts transmitted by NFC and the amounts recorded in the CNS general ledger.

Management's Response: Management agrees with this recommendation and has implemented it.

The Corporation for National Service has had procedures in place to ensure the timely resolution of items in a suspense file created during the upload of NFC payroll information since early 1995. When the NFC payroll file is posted to the Corporation for National Service's accounting system (Federal Success), a batch transaction error report is generated. That report is given to the budget office -- budget has no other payroll-related duties -- who researches and corrects the errors on the hard copy report and provides to Accounting within 24 hours of receipt. Accounting then takes the items off suspense and corrects per the batch transaction report.

Additionally, to cut the number of errors appearing on the batch transaction report, payroll staff in the Human Resources Office provide budget with a biweekly accounting data report listing all Corporation for National Service employees with their payroll codes. Within 24 hours of receipt, budget reviews this report and provides any changes/corrections to Human Resources who update the NFC PC-TARE system. In recent weeks, there have been no legitimate errors to correct.

The Corporation for National Service employee who was reviewing the transactions in the electronic detail was largely doing so as a result of our changing the Service Center coding structure. Field staff had not had a chance to enter the information and the Headquarters employee would correct the information in the electronic file to avoid the old codes appearing as errors. The field codes have since been resolved and no errors appear.

Summary of Actions to be Taken:

Implemented.

INVESTMENTS AND TRUST FUND EXPENDITURES

61. Strengthen Procedures Related to Investment Decisions

Criteria: Investment decisions should be made in accordance with established criteria and subjected to supervisory review.

Condition: The sole authority to make all decisions related to the investments of the National Service Trust resides with one CNS official. This authority includes the decisions over what type of investment (either Treasury bond, bill or note), how much to invest and the time period of the investment.

Cause: Management has not established adequate supervisory controls related to investment transactions.

Effect: When authority for initiating and approving transactions resides with only one employee, it increases the risk that errors or irregularities could occur and remain undetected.

Recommendation: CNS should establish procedures to require a concurring review of all investment decisions. Once management establishes this requirement, the Accounting Division should only process investment transactions for which there is evidence of proper review.

Management's Response: Management agrees with the recommendation and has implemented it.

Prior to the period of the audit, there were detailed procedures established, in writing, governing the Corporation's investments related to the National Service Trust, as authorized by the National and Community Service Act of 1990, as amended. By memorandum, following consultation with the Department of the Treasury, the Office of Management and Budget, and an outside contractor, the Corporation established its policy of linking investment decisions to anticipated cash flow requirements under the National Service Trust. The Corporation made the decision that it would not attempt to maximize interest earnings by making investment decisions solely to achieve such an objective. Further, by law, the Corporation may only invest in securities offered by the Department of the Treasury and secured by the full faith and credit of the United States Government, and the Corporation must use the Department of the Treasury to execute all investments.

All investment decisions are currently made, and have been made, in accordance with these procedures. The decision concerning which Treasury securities to purchase or redeem are made by the Acting Chief Financial Officer, the highest level person in the Corporation charged with financial management responsibilities. The decisions are issued in writing to the Accounting and Financial Management Team, which in turn executes the decisions through communications with the Department of the Treasury in accordance with their established procedures and systems, all documented in writing. The Acting Chief Financial Officer does not have authority to order investments through the Treasury Department; only designated employees in the Accounting and Financial Management Team have this authority. Treasury provides the results of all investment transactions to the Corporation for accounting purposes.

Accounting personnel in the Corporation have not, and will not, process investment transactions without the explicit authority provided in writing from the Acting Chief Financial Officer. The Corporation is unaware of any instance when Accounting personnel have processed transactions without proper authorization.

The finding does raise the question of whether the investment decisions by the Acting Chief Financial Officer need to be reviewed. The audit identified no irregularities in these decisions, nor did it question either the policy in effect nor the Corporation's execution of the policy. Rather, the finding is that "when the authority for initiating and approving transactions resides with only one employee, it increases the risks that errors or irregularities could occur."

It is the Corporation's view that investment decisions should be made within the Office of the Chief Financial Officer. In order to address the recommendation that there be a review of all investment decisions, the Corporation has, effective March 1, 1996, determined that all subsequent investment decisions will be routed from the Acting Chief Financial Officer through the Deputy before being delivered to the Accounting and Financial Management Team for execution. The Deputy will exercise review authority of all investment decisions, and the Accounting and Financial Management Team is instructed not to execute any decision until this review has occurred.

Summary of Actions to be Taken:

Implemented.

III. Other Observations and Recommendations

62. Execute Year-end Closing Process on a Timely Basis

Criteria: Transactions should be promptly and accurately recorded in the general ledger. Financial statements should be prepared on a timely basis.

Condition: The CNS general ledger system, Federal Success, allows access to only two months of cumulative accounting balances at any one time. For the fiscal year ended September 30, 1995, the Accounting Division did not close the general ledger accounts until the second week of November. This prohibited personnel in the Accounting Division and Service Centers from entering November 1995 transactions until after CNS had processed the year-end closing entries.

Cause: CNS did not execute its closing process on a timely basis.

Effect: In 1995, accounting personnel could not input transactions encompassing at least five business days on a timely basis. This could impact the accuracy of information available for management decision making. In addition, transaction backlogs could result in increased data input errors or omissions.

The timing of the year-end closing process directly affects the speed with which the annual financial statements are produced. Only financial statements produced on a timely basis are relevant for management and external decision making and analysis.

Recommendation: The Accounting Division should complete the year-end closing process on a timely basis. The timeframe for closing should be planned to accommodate the limitations of the general ledger system, and to eliminate the need to withhold transactions from the system for any extended period of time.

Management's Response: Management agrees with the recommendation and will implement it.

As a result of planned actions stated in the response to recommendation 5, (Evaluate and Correct Year-end Closing Entries), year-end closing will be completed on a timely basis for fiscal year 1996.

Summary of Actions to be Taken:

None other than those included in response to recommendation 5.

63. Consider Adopting FASAB Standards

Criteria: Financial statements should be presented using accounting standards that provide useful and meaningful information to its readers.

Condition: As a government corporation, CNS is currently subject to generally accepted accounting principles (GAAP) for commercial enterprises. Although CNS was established as a government corporation, it operates a Federal grant program and its accounting and reporting conventions more closely match those of other Federal entities (i.e., traditional Federal entities rather than government corporations).

Cause: Unlike most government corporations, CNS is not a business-type enterprise engaged in commercial activities. CNS administers Federal grant programs and its activities are funded by Congressional appropriations rather than through user fees.

Effect: The accounting standards CNS follows may not provide its readers with the most useful and meaningful information relative to its grant activities.

Recommendation: The Federal Accounting Standards Advisory Board (FASAB) is developing a comprehensive set of accounting standards applicable to government entities. Currently, these standards do not apply to government corporations. However, CNS should consider seeking legislation which permits it to follow FASAB standards.

Management's Response: Management disagrees with this recommendation.

It is our understanding that FASAB explicitly precludes the standards from applying to government corporations. As a government corporation, we are required to adhere to Generally Accepted Accounting Principles (GAAP). Following FASAB standards would be a departure from GAAP and thus is not appropriate for government corporations. However, in any instance where GAAP does not address an accounting issue, we will review other authoritative sources, including FASAB standards, to determine the most appropriate application of accounting principles.

Management, with the assistance of the Office of General Counsel, examined FASAB standards, GAAP, and current government reporting requirements and concluded that GAAP is the most appropriate to use. The Government Corporation Control Act, 31 U.S.C. Sec. 3511(a), requires that the Comptroller General prescribe accounting principles, standards, and requirements that the agency shall observe.

Pursuant to this authority, the Comptroller General has declared that federal departments and agencies follow "generally accepted accounting principles for the federal government. Government corporations {,however,}...follow generally accepted accounting principles promulgated by the Financial Accounting Standards Board (FASB) and its predecessors." (quoted from General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies, Title 2, Chapter 1, p. 2-1).

Summary of Actions to be Taken:

None required.

64. Assess Business Processes

Criteria: Transaction flows and business processes should be economical and efficient.

Condition: The conditions described within this report indicate that there are opportunities for improving the efficiency and cost effectiveness of CNS activities.

Cause: CNS, like other Federal agencies, is being required to do more with less in an era of government downsizing and shifting funding priorities. Management has not analyzed its core administrative processes to identify ways to improve the efficiency and effectiveness of these processes.

Effect: Management has the ability to take a proactive role in assessing opportunities for change and improving the cost effectiveness of CNS accounting and other support functions.

Recommendation: CNS should undertake a comprehensive examination of its business processes, employing management techniques such as business process reengineering. Through this examination, management should determine how best to implement critical management controls in its accounting, financial reporting and other administrative processes.

Management's Response: Management agrees with this recommendation and will implement it.

Management will redesign its processes with the assistance of an outside contractor, with some changes to be completed by the fourth quarter of fiscal year 1997 and others to be implemented with the new accounting and financial management system by 1998.

Summary of Actions to be Taken:

1. Revise processes and implement agreed upon changes by September 30, 1997.
2. Implement new accounting and financial management system by 1998.

65. Establish Performance Measures

Criteria: Performance of individual employees, financial management activities and administrative functions should be measured against established standards.

Condition: CNS has not established measurable standards of performance with which to evaluate its financial management activities and administrative functions and the performance of individual employees.

Cause: Performance measures have not been implemented by management.

Effect: Without defined standards, it is difficult to objectively measure the operating effectiveness and efficiency of various functions. This impacts management's ability to identify potential areas for improvement or where there is a need for additional resources.

Recommendation: CNS should establish measurable standards of performance for its financial management activities, administrative functions and employees. Performance evaluations, salary increases and promotions should be driven by employee performance as measured by the established standards. Such standards should also assist in rewarding employees for exemplary performance.

Management's Response: Management partially agrees and partially disagrees with this recommendation. The Corporation agrees that further performance standards need to be established and implemented for its accounting and financial management functions. The Corporation disagrees, however, that these standards should be assigned at an individual level. Rather, the Corporation believes that fiscal and administrative employees should be responsible for implementation as teams.

The Corporation will establish certain standards of performance by June 1, 1996.

The portions of the recommendation dealing with performance, particularly the emphasis on individual performance, conflict with current personnel practices. The Corporation, which developed an alternative personnel system as authorized by its enabling legislation, modeled the performance appraisal process on those recommendations of the National Performance Review and the National Partnership Council that promote team performance and that separate individual appraisals from cash awards. Thus, individual work plans focus on the mission of the Corporation and the employee's work unit and use two rating levels of successful and unsuccessful. The separate awards process recognizes accomplishments that improve service, foster teamwork, save money, and improve morale.

Summary of Actions to be Taken:

1. Establish performance standards by June 1, 1996.

66. Consider Merging NCSA and DVSA Grants Processing and Administration

Criteria: Procedures used to review, process and report grants and related transactions should be economical and efficient.

Condition: Congress authorized CNS grant programs through the Domestic Volunteer Service Act (DVSA) and the National and Community Service Act (NCSA). CNS has different frameworks in place for processing and administering grants authorized under each of these acts.

DVSA grants are administered by five Service Centers, five Cluster Offices, fifty State Offices and program staff in Headquarters. Personnel in the State Offices oversee the day-to-day administration of these grants. Grants management officers in the Service Centers perform the grant payment functions through the general ledger.

NCSA grants are administered by grants management staff in Headquarters and five Cluster Offices. CNS contracts with the U. S. Department of Health and Human Services (HHS) for NCSA grant payment functions. Grantees access funds through the HHS Payment Management System. The CNS Accounting Division then enters NCSA grant accounting data into the general ledger using reports provided by HHS.

Cause: Management established the organization described above at the inception of CNS. Furthermore, CNS authorizing legislation requires that CNS maintain offices in every state.

Effect: CNS has not analyzed whether efficiencies might be gained through the centralization and/or merging of functions for NCSA and DVSA grants.

Recommendation: CNS should consider evaluating the processes that it uses to administer and process DVSA and NCSA grants. This evaluation should identify whether there are opportunities for potential cost-savings in the administration of these programs.

Management's Response: Management agrees with this recommendation and will implement it.

In 1995, the Corporation streamlined its grant processing functions under the Domestic Volunteer Service Act of 1973, as amended (DVSA), by closing the former nine regional offices and establishing five Service Centers at an annual savings estimate in excess of \$1 million. The Corporation also eliminated the grants management position at Headquarters having responsibility for DVSA programs.

The Corporation will continue to examine opportunities for streamlining all operations, including grants processing, on an ongoing basis. At the beginning of 1996, the Corporation announced its intent to eliminate five cluster management offices that, among other responsibilities, was involved in program approvals under the DVSA.

The Corporation's total staffing in the area of grants processing remains relatively small. Further, the functions performed by the grants staff at Headquarters for programs under the National and Community Service Act of 1990, as amended, are not identical to the functions performed by grants staff in the Service Centers related for programs under the DVSA.

The Corporation does not agree with centralizing the grants function in a single location, since the Service Centers are established to support the Corporation's State Offices and the programs they administer, which are grouped in clusters consistent with Service Center responsibility. It should also be noted that the responsibilities of the grants management staff in the Service Centers are not simply to "perform the grant payment functions through the general ledger;" rather, this staff performs the full range of responsibilities of grants officers, including assuring compliance with all applicable regulations and requirements. The decentralized Service Center operations allow them to be highly responsive to their State Office and project customers.

The Corporation will continue to explore workload distribution among all administrative components, including grants management, in order to achieve maximum efficiencies.

Summary of Actions to be Taken:

1. Review opportunities for further improvements and implement by January 1, 1997.

67. Improve Processing of RARs

Criteria: Transactions should be promptly and accurately recorded.

Condition: In our review of Domestic Volunteer Service Act (DVSA) grantee Requests for Advance or Reimbursement (RARs), we noted RARs on which there was no indication of review and approval for payment, or of entry into the general ledger.

Cause: Grants management officers are not following established procedures for processing RARs.

Effect: There is a risk that RARs may be input twice or not at all. This would result in duplicate payments or lack of payment to grantees.

Recommendation: CNS should enhance procedures to ensure that grants management officers mark all RARs to indicate that 1) review of the RAR has occurred and 2) RAR payment data has been entered into the general ledger. Management should periodically review RARs for compliance with established procedures.

Management's Response: Management agrees with this recommendation.

Management will issue guidance reinforcing current procedures with respect to entering RARs into the general ledger.

Summary of Actions to be Taken:

1. Issue guidance reinforcing current procedures by June 1, 1996.

68. Select, Appoint and Terminate Contracting Officers in Accordance with the FAR

Criteria: The Federal Acquisition Regulation (FAR) requires that 1) each contracting officer be appointed in writing on a Certificate of Appointment (SF-1402) that establishes any limitation on the scope of authority to be exercised, 2) termination of a contracting officer appointment be by letter and 3) the agency establish a system for the selection, appointment and termination of contracting officers.

Condition: CNS does not have a formal, documented system for the selection, appointment and termination of contracting officers. CNS personnel no longer involved with the procurement process still retain contracting authority. Additionally, certain procurement personnel who act as contracting officers have not been issued a Certificate of Appointment.

Cause: Management has not implemented policies and procedures to ensure that CNS complies with the FAR related to contracting officers.

Effect: CNS is not in compliance with certain provisions of the FAR.

Recommendation: Management should design and implement procedures to ensure that procurement authority is delegated only to authorized personnel that are adequately trained and experienced. In addition, CNS should issue a Certificate of Appointment to all personnel who have procurement authority. This should specify a limit on the dollar amount of contracting authority. Management should allow only personnel who have been formally appointed to participate in contracting activities.

Management's Response: Management partially agrees and partially disagrees with this recommendation.

Management agrees that a separate system was not established in the Corporation for National Service in this area during the period covered by the audit and that there is the need to establish a system. However, the Corporation disagrees with the finding underpinning the recommendation that no system was in place as management has followed the practices described below.

The Corporation for National Service adopted the ACTION agency's procurement training program outlined in a letter to the Office of Federal Procurement Policy (OFPP) dated October 27, 1992. This letter responded to OFPP Policy Letter 92-3 which established a Government-wide standard for contracting officials and required that agencies certify that their contracting officials in the GS-1102 and GS-1105 series have demonstrated competence under this standard, including such duties as negotiating contracts, evaluating offers and monitoring contractor performance. The October 27, 1992, letter to OFPP describes how the Corporation for National Service evaluates requests for Contracting Officer Warrants based on certain creditable training and experience. Where gaps exist in this plan, the Corporation has followed a competency-based contracting officer warrant model developed by the U.S. Department of Agriculture.

During FY 1996, updated warrants were issued to Grants Management Officers in the Service Centers who have authority to make small purchases up to \$50,000. Updated warrants were also issued to GS-1102 personnel in Headquarters to reflect the new simplified acquisition threshold. At this time, we are aware of no procurement personnel who act as contracting officers that have not been issued a Certificate of Appointment.

By June, 1996, we will implement our own formal, documented system for the selection, appointment and termination of contracting officers. Certificates of Appointment which do not specify a dollar limit of authority will be reissued to specify a limit. Warrants will be terminated for those personnel who are no longer involved in the procurement process.

Summary of Actions to be Taken:

1. Establish a separate Corporation system by June 30, 1996.

69. Selectively Review Travel Vouchers

Criteria: Procedures used to review and process transactions should be economical and efficient.

Condition: Accounting personnel currently audit 100 percent of employee travel vouchers submitted for payment.

Cause: Current CNS procedures require the performance of audits of all travel vouchers.

Effect: CNS devotes considerable resources to travel voucher audits. However, our discussions indicate that few audits result in cost savings to CNS. The audits also cause significant delays in processing travel payments to employees.

Recommendation: CNS should selectively perform audits of travel vouchers. The selection process should be designed to address the risks associated with travel voucher payments.

Management's Response: Management agrees with the recommendation and has implemented it.

As background, due to the start-up of the Corporation, it was necessary to perform complete audits of all travel vouchers, given the unfamiliarity with new Corporation staff of these requirements set in the Federal Travel regulations. This 100 percent review has occurred up to the present time.

The processing and payment of travel vouchers currently requires between 10-14 days upon receipt in Accounting. This standard has been in effect since January 1995, and for the most part has been consistently attained since March 1995. Throughout 1994 there were backlogs in travel processing. Exceptions to this standard are mostly a result of delays by offices or employees in submitting timely and complete vouchers, not a 100 percent travel voucher audit review.

As part of reinvention efforts, and in accordance with new initiatives recommended by GSA, the Corporation has begun to audit less than 100 percent of the travel vouchers based on identified criteria for voucher audit selection.

Summary of Actions to be Taken:

Implemented.

70. Eliminate Redundant Logs and Cuff Records

Criteria: Procedures for recording transactions should be economical and efficient.

Condition: The San Francisco and Atlanta Service Centers, as well as the San Diego NCCC Campus, maintain several logs and cuff records which duplicate information in the general ledger and/or other cuff records. These include manual logs of 1) travel by individuals, 2) grant and general payment files and 3) procurement requests (i.e., in addition to the commitment cuff records).

Cause: ACTION, a CNS predecessor entity, established the procedures for maintaining manual records for the Service Centers. CNS has not evaluated the necessity of these records in its current operating environment.

Effect: Maintaining duplicate records unnecessarily increases employee workloads and reduces efficiency.

Recommendation: CNS should evaluate the necessity for all logs and cuff records maintained outside of the general ledger. Management should eliminate redundant records.

Management's Response: Management agrees with this recommendation and will implement it.

This recommendation will be implemented when the new systems for grants and program management are operational.

The Corporation notes that some redundancy in records is inevitable and, in some cases, provides enhanced security and accuracy of information.

Summary of Actions to be Taken:

1. Implement as part of new grants/program system by January 31, 1997.

71. Develop Comprehensive Procurement Policies

Criteria: CNS should have procedures in place for employees to follow in performing their assigned duties.

Condition: CNS has no comprehensive policies and procedures over the procurement process. Such guidelines ensure that processes are consistently followed by employees and comply with the Federal Acquisition Regulation (FAR).

Cause: Management has not implemented these policies and procedures.

Effect: A lack of operating procedures impacts the ability of employees to consistently follow established policies and procedures and the FAR.

Recommendation: CNS should establish written policies and procedures over the procurement process. These policies should be formally approved by management. Once established, management should periodically review and update the policies and procedures and monitor compliance therewith .

Management's Response: Management agrees with this recommendation and will implement it.

In addition to following the Federal Acquisition Regulation, the Corporation for National Service has written a new Procurement Manual. This manual will be published by April 15, 1996, and will serve as the central point of reference for customers in performing their assigned duties. In June of 1995, the Corporation for National Service also published its first Small Purchase Credit Card Guide which describes the Corporation's policies and procedures on the proper use of GSA's Government-wide commercial credit card. Management will periodically review and update these procedures manuals as needed to reflect new regulations or trends in the procurement area.

Summary of Actions to be Taken:

1. Distribute procurement manual by April 15, 1996.

72. Provide Payroll Time and Attendance Training

Criteria: Management should ensure that employees involved in personnel and payroll processing are adequately trained to perform their assigned duties.

Condition: CNS designates certain employees as timekeepers and payroll input technicians. The timekeepers review the time and attendance records of other employees. Input technicians enter time and attendance data into the Personal Computer Time and Attendance Remote Entry (PC-TARE) database. PC-TARE is the software used to transmit data to the National Finance Center for processing.

Through interviews with personnel involved in the payroll function, we noted instances in which employees were unaware of certain CNS policies and procedures governing their work. These employees had received no comprehensive training.

Cause: CNS has not provided to personnel the training which they need in order to effectively perform their assigned duties.

Effect: The controls over payroll processing are not operating effectively. For example, input technicians do not fully utilize PC-TARE database controls designed to help detect data entry errors, such as transaction batch totals. Also, errors in recorded leave balances are not being resolved on a timely basis.

Recommendation: Management should establish comprehensive, written procedures for timekeepers and input technicians to follow. CNS should provide timekeepers with adequate training to enable them to perform their duties effectively. In addition, supervisors should periodically review time and attendance data for compliance with established procedures.

Management's Response: Management agrees with this recommendation and will implement it.

The Human Resources Office will initiate development of a comprehensive time and attendance manual for timekeepers and PC-TARE input technicians. In preparation for the manual timekeepers and input technicians will be surveyed to ascertain their needs. In-person training will be presented to the Headquarters group. Supervisors with authority to sign time and attendance data will also be notified that they must periodically review timesheets for compliance with established procedures. These actions will be taken by September 30, 1996.

Summary of Actions to be Taken:

1. Develop manual and conduct training by September 30, 1996.

73. Enforce Timely Submission of Time and Attendance Data to Headquarters

Criteria: Time and attendance data should be submitted for processing in accordance with established procedures.

Condition: Timekeepers at Headquarters and input technicians at the Service Centers do not consistently submit employee time and attendance data to the Personal Computer Time and Attendance Remote Entry (PC-TARE) input technician at Headquarters within the established timeframe. Time and attendance data is to be submitted to the National Finance Center (NFC) by the Tuesday following the end of the pay period. However, the PC-TARE input technician at Headquarters does not receive all of the required data on a timely basis.

Cause: All employees do not submit their timesheets to the timekeepers and input technicians on a timely basis. Also, supervisors do not effectively monitor the compliance of timekeepers and input technicians with the established deadlines.

Effect: These delays can result in increased errors as the payroll technician at Headquarters attempts to input and transmit time and attendance data to NFC in a limited period of time.

Recommendation: Employees should complete their timesheets and forward them to the timekeepers at the end of each pay period on a timely basis. Timekeepers, and input technicians in the Service Centers, should transmit time and attendance data to the Headquarters input technician within the established timeframe.

Supervisors should monitor employee compliance with established procedures. CNS timekeepers and input technicians should be held accountable for meeting the established deadlines and their performance should be evaluated accordingly.

Management's Response: Management disagrees with this recommendation.

Management's view is that the timeliness of this data has not been a problem. We share the view that this activity should be done in a timely fashion.

Payroll is regularly transmitted within NFC timelines. In the exceptional circumstances when time sheets are not submitted within internal time frames set by the Human Resources Office, the supervisor of the payroll operation informs the manager involved of the late submission, and they are asked to advise these employees of the risk of not being paid on a timely basis.

Summary of Actions to be Taken:

None required.

74. Designate a Contact Person for Payroll System Problems

Criteria: Problems with time and attendance data input and transmission should be identified and resolved on a timely basis.

Condition: CNS does not have a dedicated system administrator for the Personal Computer Time and Attendance Remote Entry (PC-TARE) database. As a result, PC-TARE input technicians do not know to whom to communicate problems encountered while performing their payroll-related duties.

Cause: Management has not appointed a contact person to deal with payroll system problems. Input technicians have not been adequately informed of the means available to them for resolving payroll system problems.

Effect: Problems in transmitting data through the system frequently go unreported, and thus remain unresolved. This results in delays in the reporting of time and attendance data by the Service Centers to Headquarters.

Recommendation: CNS should designate a systems administrator to respond to problems with the entering of time and attendance data in PC-TARE and the transmission of time and attendance data to Headquarters. Management should inform input technicians of the resources available for resolving such problems.

Management's Response: Management agrees with this recommendation and has implemented it.

The Payroll Supervisor is the system administrator for PC-TARE and is the first point of contact for input technicians. When problems are encountered with PC-TARE transmissions, field input technicians typically alert the Headquarters input technician or the Payroll Supervisor in the Human Resources Office. Staff ascertain the nature of the problem and either resolve it directly or work with the NFC Security Officer and/or the Office of Automation for resolution. Since the person who has been the payroll supervisor for a number of years is leaving, a new employee has been assigned these responsibilities. Field input technicians have been reminded through a memorandum that their first point of contact for reporting problems should be the new payroll supervisor or the Headquarters input technician.

Summary of Actions to be Taken:

Implemented.

75. Acquire a Comprehensive Financial Management System

Criteria: Financial management systems should be economical and efficient, and should provide the information necessary for management decision making and for other internal and external reporting.

Condition: CNS relies on numerous financial management and information systems, none of which completely fills the information needs of management. The plethora of systems necessary to provide the required data for adequate control over transactions is not cost effective. Additionally, management has inadequate information to measure and evaluate the full cost of its programs.

Cause: CNS has not allocated the resources to improve its financial management systems.

Effect: The costs of maintaining numerous systems are high. Potential efficiencies in transaction processing are not achieved. Relevant information related to the costs of programmatic and administrative activities is not available to management on a timely and cost effective basis.

Recommendation: CNS should consider acquiring or entering into a cross-servicing agreement for a comprehensive financial management system to replace its general ledger system (Federal Success) and the other systems which are currently used to provide management information and to maintain financial accounting data. The system should be capable of providing relevant and timely cost accounting data for management decision making and external reporting.

Management's Response: Management agrees with this recommendation and will implement it.

The Corporation has made this part of its long-range financial management improvement plan.

The Corporation is seeking outside assistance to correct a number of the findings of this auditability study. Because many of the findings are at least partially the result of the Corporation's current accounting system and the interface between that system and related feeder systems, a major effort will be undertaken to explore systems solutions. The Corporation will explore both using some other Federal agency's system on a cross-servicing basis and acquiring a new comprehensive financial management system. But even a preliminary review of options available lead us to note the following:

- a. The Corporation's current accounting system incorporates the Government's Standard General Ledger and meets most of the current Federal accounting standards. But it has many shortcomings. Also, the standards are changing and the Corporation must meet new standards as a Government corporation.
- b. The current system was a Joint Financial Management Improvement Program approved system when it was acquired. The system is no longer on the GSA schedule of approved systems. In fact, the GSA schedule has fewer systems on it than it did two years ago. Federal accounting is quite different from commercial accounting and the Federal market is quite small in terms of the number of Federal agencies which may become customers. Many vendors are reluctant to be in the market. All of these facts make individual systems expensive to purchase and install.
- c. Cross-servicing arrangements are available from several Federal sources. As a small customer in some large agency's system, it may be difficult to get the kind of customization which would be required given some of the Corporation's unique requirements. The experiences of other small agencies, it is important to note, has been mixed, at best.

The Corporation is committed to exploring these options. There is certainly a need, but Federal accounting is a market in great flux. Few Federal agencies are happy with their current arrangements or have ready solutions. If other agencies' experience is at all relevant, changing systems is a two- to five-year proposition and involves an enormous commitment of people and funds. Nevertheless, the Corporation's current plan is to implement and install such a system by 1998.

Summary of Actions to be Taken:

1. Implement new system by 1998.

76. Develop and Implement a Formal Security Awareness and Training Program

Criteria: CNS should ensure that employees and contractors involved in the management, operation, programming, maintenance or use of information technology are aware of their security responsibilities and know how to fulfill them. Users of information technology systems should be apprised of the vulnerabilities of such systems and trained in techniques to enhance security.

Condition: CNS does not have a formal security awareness and training program in place to provide training to employees and contractors.

Cause: Management has not designed and implemented such a program.

Effect: CNS has not provided adequate security awareness and training for its employees and contractors. This situation renders CNS vulnerable to security violations and irregularities.

Recommendation: CNS management should develop and implement a formal security awareness and training program. Training should be provided to all employees and contractors who are involved in the management, operation, programming, maintenance or use of information technology.

Management's Response: Management agrees with this recommendation and will implement it.

The Office of Automation is currently developing a formal security awareness training program for the Corporation. The Automation Office recently received the latest revision to OMB's security directives in Circular A-130, dated February 8, 1996, and will incorporate the new requirements into our training program. Management expects this program to be in place by September 30, 1996, the end of the current fiscal year.

While this formal program is being developed, the Chief Operating Officer and the Acting Chief Financial Officer have issued a number of computer security related directives to all Corporation for National Service staff highlighting computer security concerns. The Automation Help Desk also informs each new Corporation employee of the importance of password, systems, and file security before access to any of the Corporation's LANs and/or computer systems is granted.

The security training being developed is designed to reach the Corporation's field staff as well as those in our Washington Headquarters. Many Corporation staff are assigned to our more than 50 field offices. None of these are large, and many have only two or three staff. Logistics and resource constraints require an alternative strategy for field staff, since the approach which will be used in Headquarters, involving a "live" instructor using audiovisual aids, is not feasible. The Automation Office is currently developing alternative approaches for field staff, including preparing a Corporation for National Service systems-specific security videotape, and developing a workbook-based self-study program.

Summary of Actions to be Taken:

1. Implement enhanced program by September 30, 1996.

77. Secure the Computer Room Door During Business Hours

Criteria: Management should ensure that an appropriate level of security is maintained over its information technology installations.

Condition: During our tour of the CNS Headquarters computer room, we noted that the door to the computer room remains closed but unlocked during business hours. The general area is secure from the public; however, all CNS personnel have access to the computer room regardless of their business need for such access.

Cause: The Automation Division had previously requested cipher locks to secure the computer room door, but the request was denied due to budget constraints.

Effect: The unlocked computer room is vulnerable to unauthorized access. This situation also renders the computer room vulnerable to theft or accidental damage to computer equipment.

Recommendation: Management should secure the computer room by locking the door and providing access only to computer operations personnel.

Management's Response: Management agrees with this recommendation and has implemented it.

Installation of secure cipher locks for the computer and equipment storage rooms in the Automation Office was completed in November of 1995. These two doors are always kept locked, whether or not any staff member is inside and knowledge of the cipher lock combinations is restricted.

The Corporation's Office of Automation was aware of the need for these locks prior to this audit, and had requested such items in its budget. Again, due to the budgetary constraints, this recommendation was not implemented until fiscal year 1996.

Summary of Actions to be Taken:

Implemented.

78. Improve Safeguards Against Fire in the Computer Room

Criteria: Information technology installations should have easily accessible hand-held fire extinguishers to safeguard equipment and data.

Condition: During our work, we noted the absence of fire extinguishers in the computer room. In addition, there were several boxes of computer equipment and empty boxes stored in the computer room. The computer room contains inadequate space for moving about in the event of an emergency.

Cause: According to the Automation Division, a fire extinguisher should be present in the computer room. Management was not aware that it had been removed. CNS uses the computer room as a temporary storage area for computer equipment and boxes due to a lack of storage space at the Headquarters building.

Effect: The absence of fire extinguishers increases the risk of damage to equipment and the loss of data in the event of a fire. Using the computer room for storage space reduces the ability of technicians to gain access to critical computer equipment in the event of an emergency.

Recommendation: CNS should improve the safeguards against fire in the computer room by installing easily accessible, hand-held fire extinguishers. The fire extinguishers should be inspected and certified annually. Management should establish alternative storage areas for items not needed in the computer room.

Management's Response: Management agrees with this recommendation and has implemented it.

Management was aware of this issue but had not implemented it prior to this date due to budgetary constraints. Fire extinguishers were purchased and were installed.

The Corporation for National Service is well aware that computers and other theft-prone equipment must be kept in lock storage. A locked room dedicated to this purpose is located opposite the computer room, but that storage is filled to capacity. Therefore some items must be kept in the only other room adjacent to Automation, the computer room. Stored items in the computer room do not prevent access to operating equipment, which is fully accessible at all times.

The only boxes allowed inside the computer rooms are those in which personal computers specifically designated to be shipped to field offices are packed.

Summary of Actions to be Taken:

Implemented.

79. Document and Maintain a Systems Development Life Cycle Methodology

Criteria: CNS should document the requirements that each major information system is intended to serve and provide for periodic review of those requirements over the life of the system to determine whether the requirements continue to exist and the system continues to meet the purpose for which it was developed.

Condition: The Automation Division has the responsibility for meeting the information systems needs of CNS. CNS has developed or acquired several critical information systems which it relies upon in its daily operations. However, CNS does not have a documented systems development life cycle methodology.

Cause: Automation Division management informed us that due to a lack of personnel resources, they have not documented and formalized their systems development life cycle methodology.

Effect: Policies, standards and regulations are not applied consistently during the system development phase of CNS information systems.

Recommendation: In order to effectively manage information resources, management should document and maintain a formal systems development life cycle methodology in accordance with information systems development principles and practices.

Management's Response: Management disagrees with this recommendation.

The Corporation has in place a systems development methodology. The Corporation uses an approach to systems development that is more appropriate for today's technological environment than the older systems development life cycle methodology. Since development efforts are in Oracle, the Corporation has adopted Oracle methodology as the Corporation's structured approach to systems development. Systems requirements, and all systems documentation, are documented on Oracle tools. These tools allow the Corporation to model, design and generate applications economically, efficiently, and effectively.

The Corporation for National Service's systems development approach also incorporates CASE*Method, which is a true information engineering methodology. This involves a series of stages, with distinct tasks, milestones, and deliverables identified for each stage. Intensive end user analysis meetings are held at the beginning of each phase, and often during the development stages to secure the approval and understanding of the project sponsors. This life cycle, a tier approach, is a very effective way to manage projects. The built-in quality assurance cross checks are a valuable tool for checking for completeness and correctness.

CASE*Method relies on teams to carry out the tasks of a particular development stage. Using a team provides for a range of skills and perspectives that no single individual could provide. Currently, the Corporation is holding a Joint Application Design (JAD) session with the users involved in the Program Management System. The structured stages being used are highlighted below:

DATABASE PHASE

Identify needs
Requirements
Analysis
Design
Develop
Alpha Test
Beta Test
Operational

PROCESS PRODUCTS

Messages, notes, chronology
Scope document (E/R diagram)
User view documentation
Document transactions and processes
Create working menus, forms, reports
Messages, notes populating database w/data
Agreement for first production version
Release notices, installation instructions

The methodology also includes the Oracle Process Modeller. This developmental tool creates an on-screen representation of all the business processes defined in the process model. Another component, Systems Modeller, records a detailed description of all business requirements. The next tool, Systems Designer, records a design for a system that meets the defined business requirements.

In addition to these tools, the Corporation also uses Oracle Generators, which create complete systems comprising both the serve-side components and the client-side applications from definitions recorded in the Repository. The Oracle Repository Administrator maintains the data dictionary and database.

By adopting this structured systems methodology, the Corporation can quickly update and change on line documentation as our needs change.

The Corporation believes this approach allows us building systems that are closely aligned with the current business needs of the Corporation, while providing the flexibility of changes systems quickly as needs evolve.

Summary of Actions to be Taken:

None required.

80. Develop and Maintain a Disaster Recovery and Continuity Plan

Criteria: CNS should maintain disaster recovery and continuity of operations plans for its information technology installations to provide reasonable continuity of data processing support should events occur that prevent normal operations.

Condition: CNS does not have a disaster recovery and continuity plan.

Cause: Management has not made the development of a disaster recovery and continuity plan a priority.

Effect: A recovery of critical systems relied upon by CNS would be difficult, if not impossible, to perform without a documented disaster recovery and continuity plan. CNS is vulnerable to lengthy delays or loss of critical data in the event of a natural disaster or some other event that prevents normal operations.

Recommendation: The Automation Division should develop, document and maintain a disaster recovery and continuity plan for its support operations, including the computer room. In addition, the Automation Division should assist end-users in developing their own contingency plans to ensure that users can continue to perform essential functions in the event that their information technology support is interrupted.

Management's Response: Management agrees with this recommendation and will implement it.

Corporation management has always given a high priority to the development of a disaster recovery and continuity plan. The effort to secure the contractor support necessary to develop the plan was initiated in FY 1994. However a decision was made to defer development of the plan until after the relocation of Corporation Headquarters in November of 1994.

The decision was appropriate, since the office move coincided with significant changes in the Corporation's network and computer systems. The old IBM System 36 which had been used by the Corporation and a predecessor agency for many years was replaced. The methodology used to connect the Corporation with its two outside mainframe systems (Federal Success and the National Finance Center) was completely redesigned and the Corporation changed the methodology used to connect its remote field networks with the Corporation Wide Area Network.

With those major changes in place, the Corporation completed contracting and work began on the plan on October 1, 1995. Completion is expected by June 30, 1996.

The SunGard Corporation's disaster recovery center in Herndon, VA, has been selected as the site where critical portions of the Corporation's networks would be replicated and operations continued in the event of a major disaster at Corporation Headquarters. This facility would be temporarily used until the Headquarters facility was restored or a semi-permanent facility was identified if Headquarters was unavailable for a protracted period. SunGard's Comprehensive Business Recovery Planning software has been procured to facilitate producing the disaster recovery and continuity plan and keeping it updated.

There are additional steps that could be taken to strengthen this area, such as hiring a computer security officer. However, the budget constraints faced by the Corporation will preclude this action in the immediate future.

Summary of Actions to be Taken:

1. Complete plan by June 30, 1996.

81. Install Anti-Virus Software on ECS-Dedicated Microcomputer

Criteria: CNS should ensure that there are appropriate environmental safeguards over its automated information systems.

Condition: CNS has a microcomputer which is dedicated to accessing the U. S. Department of the Treasury (Treasury) Electronic Certification System (ECS). CNS has not installed anti-virus software on this microcomputer to protect the system from viruses.

Cause: CNS management has not chosen to install anti-virus software on this microcomputer.

Effect: The microcomputer dedicated to ECS processing is vulnerable to virus attacks that can cause destruction or loss of data. This can, in turn, cause temporary delays in processing.

Recommendation: Management should install anti-virus software on the microcomputer dedicated to ECS processing. The Automation Division has licenses to use McAfee's anti-virus software.

Management's Response: Management disagrees with this recommendation.

Specifically, we have examined the issues associated with the Electronic Certification System (ECS) processing computer carefully and believe that anti-virus software should not be placed on that particular machine at this time.

Concerning ECS, that system is a responsibility of the Financial Management Service (FMS) of the Department of the Treasury, and the Corporation's use of the system is dependent upon following strictly the Treasury guidelines. To date, it is FMS' judgment that the ECS online accounts payable system is not vulnerable to viruses and that fraud prevention is a higher priority concern. FMS therefore focused its attention on countermeasures on fraud in the system.

The ECS system is operated by FMS, which supplies the Corporation with ECS hardware and software. While the system is run on a personal computer, it really operates as a communications terminal to Treasury and is not connected with any Corporation systems. Its only connection with the local area network is when data disks are used to print files and reports. These files are automatically scanned by anti-virus software when connected.

Nevertheless, to respond to this recommendation Management tested the recommended software on this old stand alone computer and found it required an additional ten minutes per day to operate. Management determined that this was not cost effective and that there are minimum risks to this Treasury system.

Concerning the larger issue of protection against viruses, the Corporation places a high priority on the need to protect computer systems against virus attack and all our networked computers nationwide are continually scanned for viruses. The Corporation subscribes to the McAfee anti-virus software service, which provides updated versions on a monthly basis to reflect countermeasures to all viruses currently known.

Summary of Actions to be Taken:

None required.

Glossary of Acronyms and Abbreviations

the Act	National and Community Service Act of 1990, as amended
ACTION	The former Domestic Volunteer Service Agency
the Corporation	Corporation for National and Community Service
CNS	Corporation for National and Community Service
DOT	U. S. Department of Transportation
DVSA	Domestic Volunteer Service Act
ECS	Electronic Certification System of the U. S. Department of the Treasury
EDP	Electronic data processing
EFT	Electronic funds transfer
EIN	Employer identification number
FAR	Federal Acquisition Regulation
FS	Federal Success (general ledger system)
FSR	Financial Status Report (submitted by grantees)
FY	Fiscal year
GAAP	Generally accepted accounting principles
GOALS	Government On-line Accounting Link System of the U. S. Department of the Treasury
GSA	U. S. General Services Administration
HHS	U. S. Department of Health and Human Services
NCCC	National Civilian Community Corps
NCSA	National and Community Service Act of 1990, as amended
NFC	National Finance Center of the U. S. Department of Agriculture
NGA	Notice of Grant Award
NIH	National Institutes of Health
OCA	CNS Office of Corporate Analysis
OMB	Office of Management and Budget
OPAC	On-line Payment and Collection System of the U. S. Department of the Treasury
PC-TARE	Personal Computer Time and Attendance Remote Entry database (i.e., payroll software used by CNS to transmit data to the National Finance Center of the U. S. Department of Agriculture)
PMS	Payment Management System of the U. S. Department of Health and Human Services
RAR	Request for Advance or Reimbursement (submitted by grantees)
SF-50	Standard Form for Notice of Personnel Action
SF-52	Standard Form for Personnel Action Request
SF-1402	Certificate of Appointment (for contracting officers)
Treasury	U. S. Department of the Treasury
Trust Fund	National Service Trust
USDA	U. S. Department of Agriculture
VISTA	Volunteers in Service to America
VMS	VISTA Management System

C O R P O R A T I O N

F O R N A T I O N A L



S E R V I C E

**Report on the Results of the
Auditability Survey**

Volume II

**Management Control Review of the
VISTA Management and Trust Fund Systems**

March 29, 1996

Submitted by:

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WILLIAMS, ADLEY & COMPANY, LLP

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Exhibit A Training Matrix

EXECUTIVE SUMMARY

The Inspector General of the Corporation for National Service (CNS) engaged Williams, Adley & Company, LLP (WA&Co.) to conduct a management control review of the VISTA Management System (VMS) and the Trust Fund System. The review focused on the general control environment. More specifically, we reviewed preventive, detective, manual, computer and management controls over these systems. Our review identified reportable conditions related to the above stated controls. In summary, we found that:

- The VMS payroll processing function is incomplete and inadequate. The system was developed by multiple vendors, under severe time constraints, and has a history of problems. The Automation Services division currently maintains and supports the system. Until recently, the system could not record returned payroll checks. Further, procedures to monitor and track returned checks do not exist, therefore, we were unable to determine the magnitude of, or the absence of, returned checks. We also found that the reports available in the VMS do not fully provide management and staff with information needed to manage and measure program results.
- Current enrollees were not entered into the Trust Fund System. The interface software that updates the information from the scanner equipment to the Trust Fund System was not completely developed. As a result, CNS is unable to produce accurate and current information.
- CNS has not developed an Automated Information Security Plan. As a result, generally accepted information security policies and procedures are not in place. To assist CNS in implementing a Security Awareness and Training Program, we have provided a training matrix depicting an overview of the content, target population, and training levels for staff as Exhibit A of this document.

Our findings and recommendations describe the reportable conditions as they existed when the matters first came to our attention. In instances where management has since taken corrective action, management has detailed such corrective action in the segment of each finding labeled “Management’s Response.” We have not performed any procedures to assess the adequacy of the corrective actions taken by management.

I. BACKGROUND

A. OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this task were to conduct a management control review of the VISTA Management System (VMS) and the Trust Fund System, identify vulnerable areas, and make appropriate recommendations to management on actions needed to improve internal controls and security measures.

The scope of our review included the manual and administrative functions directly associated with each system's security and controls. The review covered all system functions (manual and automated) from receipt of data for input into the system through processing and production of system output. For VMS, we reviewed system operations from input of the National Service Enrollment Form for VISTA Volunteers through processing of the file for the creation of paychecks. For the Trust Fund System, we reviewed system operations from input of the End of Term of Service Form through creation of the file to enable processing of educational awards.

We performed our review from September, 1995 through January, 1996. We met with VMS and Trust Fund System managers to obtain an understanding of the systems and determine where processing activities are conducted. Site visits were conducted at the California Service Center located in San Francisco, California, and Cluster and State Offices located in Los Angeles. We also visited the Florida State Office located in Orlando, Florida. We conducted interviews of key personnel identified by the systems managers to gain a more detailed understanding of the systems, particularly their strengths and weaknesses.

Through inquiry and observation, we evaluated the systems' processing controls, reporting capabilities and output distribution processes to determine whether user reporting needs and requirements for CNS Headquarters, Field Offices, and Service Centers were met.

Our review addressed overall system security, adequacy of automated controls and controls over data integrity from input to final output. The review focused on the following:

- Accuracy of source data once entered into the system,
- Adequacy of controls,
- System integrity,
- Applications security, and
- Systems Management.

To determine CNS compliance with applicable laws and regulations, we compared management controls that the Corporation has implemented to the requirements of Section 2 of the Federal Managers' Financial Integrity Act (FMFIA); Office of Management and Budget (OMB) Circular A-123, *Internal Control Systems*; OMB Circular A-130, *Management of Federal Information*

Resources, Appendix III, Security of Federal Automated Information Systems; OMB Bulletin No. 90-08, Guidance for Preparation of Security Plans for Federal Computer Systems That Contain Sensitive Information; the Computer Security Act of 1987; Section 4 of FMFIA; and OMB Circular A-127, Financial Management Systems.

B. GENERAL DESCRIPTION OF THE VISTA MANAGEMENT SYSTEM

The Volunteers in Service to America (VISTA) Management System is an automated system designed specifically for the characteristics of the VISTA program. VMS records and reports key information for projects, volunteers and payroll. VMS, implemented in October, 1994, replaced the System 36 for payroll processing. VMS enables State Offices to enter data for the VISTA Volunteers directly into the system.

Payroll processing is performed by VMS for volunteers who receive fixed amounts on a biweekly basis. Program assistants at the State Offices input updates, such as changes in payroll withholdings, end of service dates, etc., each pay period. The payroll office at Headquarters processes the payroll on the Monday after the end of the pay period. A file is created that is sent electronically to the Department of the Treasury where the checks are produced. VMS processes approximately four thousand checks totaling about \$1,200,000 on a biweekly basis. During 1994, total payroll processed through VMS was approximately \$26 million.

VMS is composed of the following five major subsystems:

- Project Subsystem
- Volunteer Subsystem
- Payroll Subsystem
- Report Subsystem
- Administration Subsystem

VMS resides on CNS' Local Area Network (LAN) and can be accessed by the Service Centers via the Wide Area Network and by the State Offices via dial-up access. There are approximately 200 VMS users spread across State Offices, the five Service Centers, and Headquarters.

C. GENERAL DESCRIPTION OF THE TRUST FUND SYSTEM

The Trust Fund System is an information system custom developed for the Corporation for National Service. Implemented in September, 1995, the system was developed to process educational award payments under AmeriCorps, the National Service Program. The system was developed with the use of Computer-Aided Software Engineering (CASE) tools. The system maintains in a database information about CNS applicants, participants, programs and institutions.

The Trust Fund System processes awards to pay for educational expenses at an authorized institution of higher education or to pay outstanding qualified student loans. The educational awards are processed upon successful completion of a year of service in the VISTA program. Payments are made directly to the institution of higher learning or to the loan holder, not to the individual. The award must be used within seven years of the member's completion of service.

The End of Term of Service Form initiates enrollment into the Trust Fund System. Approximately three hundred payments totaling about \$500,000 are processed weekly. The trust fund office receives and responds to approximately 130 telephone inquires from the enrollees per day in reference to their educational awards. The Trust Fund System is also used as a management information system to report program data.

II. Recommendations Related to Material Weaknesses

1. Management controls for the VMS payroll process should be strengthened.

Criteria: To obtain reasonable assurance that authorized procedures and controls are followed, the process and controls, together with the responsibilities of individuals performing the tasks, should be defined and documented. Effective internal control procedures include adequate separation of duties and effective supervision and oversight.

Condition: During our review, we found that sound management controls for the VMS payroll processes do not exist. Only one person has the knowledge to perform the payroll process. The payroll process is not documented and there is no review and approval of payroll analysis and reconciliation.

Cause: VMS was developed and implemented under severe time constraints and by more than one vendor. As a result, standard system development practices and techniques were not used. Emphasis seemed to have been placed upon developing a system to meet CNS' immediate needs, as opposed to developing a system with good management controls.

Effect: Controls designed to provide assurance on the validity, accuracy and completeness of processed data, including post-event management reviews are not present, therefore, the payroll processing function is extremely vulnerable and a high risk for fraud. The current processing environment places undue reliance on one individual. The lack of documentation renders the system susceptible to incomplete and inconsistent processing. The lack of proper segregation of duties increases the risk that someone can commit or conceal errors or irregularities in the normal course of duties.

Recommendation: We recommend that the Corporation immediately develop and implement compensating management controls for the payroll process. The newly developed compensating controls should be considered short-term improvements until decisions are made regarding the future of VMS. These compensating controls should include the following:

- Additional staff trained to perform the payroll process,
- Adequate documentation of the payroll process, and
- Supervisory review and approval of payroll analysis and reconciliation.

Management's Response:

Management agrees with the recommendation.

Management controls over the VISTA payroll process should be strengthened. The finding does not mention existing controls. For example, certifying officers always confirm that the number of payments and amount disbursed being certified to the Treasury are the same

amounts and the same number of items generated in the payroll process and are reasonable in quantity.

To overcome the excessive reliance on one employee noted in the finding, training other employees to operate the payroll process has begun and will be complete within a month. Furthermore, we agree that the documentation on the system should be revised and improved. See the response to item 14.

Summary of Actions to be Taken:

1. Training of a second individual capable of running the VMS payroll process will be completed by April 30, 1996.
2. Design and implement procedures by June 30, 1996.
3. Current VMS documentation will be reviewed and augmented with instructions as needed by November 30, 1996.

2. VMS payroll personnel rely on nonstandard reports to verify and reconcile the payroll process.

Criteria: Financial management systems should process, track, and provide accurate, timely, internally consistent, and readily accessible information on financial activity in the most cost effective and efficient manner.

Condition: VMS does not provide the capability of selecting an option whereby reports needed to validate and list the payroll totals are produced. During our observation and walk through of VMS payroll processing, we found that payroll reports needed to verify, reconcile and provide totals for the payroll process are executed through Structured Query Language (SQL) statements. SQL is a software programming tool that is used for nonstandard reporting. These reports are used by the payroll office for exception reporting to validate the payroll amounts and to determine the outcome of the payroll run.

Cause: Standard payroll reports have not been programmed as part of the VMS system, nor is there a single report that can be produced by the system that lists the total payroll in dollars and number of transactions. The required reports were not programmed as part of the reporting process when the system was developed, or subsequently during the system life cycle. As a result, alternative procedures had to be employed to produce nonstandard reports.

Effect: Basic payroll reporting does not exist and payroll results are determined based upon the summation of information from several reports. The current process is very complex and it would be difficult to train other personnel to perform the VMS payroll analysis and reconciliation function. This current situation increases the risk of errors, omissions and miscalculations.

Recommendation: We recommend that CNS management automate the VMS payroll exception and reconciliation reporting process and further simplify the reconciliation process by using a single report, if possible.

Management's Response:

Management agrees with the recommendation and will implement it.

Management believes there is enough automation in the process, but the process could be improved. The reports used to reconcile and verify the payroll runs are standard and not changed from pay period to pay period. The reports originally programmed into the system for those purposes proved to be inadequate and new SQL scripts were written to generate the required data. These report programs were not placed on a menu, but are invoked by payroll personnel from the keyboard. However, we agree that it would be easier if the initiation of these reports could be menu-based. The development of such a menu-based process is planned and should be completed by October 1, 1996.

3. Procedures for verifying the official enrollment of VISTA volunteers should be developed.

Criteria: Management should establish methods to obtain reasonable assurance of the actual enrollment of VISTA Volunteers. The enrollment process should be authorized in accordance with laws, regulations and management's policies and plans.

Condition: During the course of our review, we noted that procedures are not in place to verify the official enrollment of VISTA volunteers. At the beginning of the program year, an orientation session is held at the State Office for volunteers of the VISTA program. During orientation, each volunteer completes an enrollment form. Enrollment forms for volunteers added after orientation are submitted to the State Office from the project site. Orientation by the State Office is not required for those enrollees added to the program after the initial orientation. Payroll checks for enrollees of the program are sent directly to the project site for distribution. We noted that one State Office maintains a manual log of the volunteers attending the orientation, and verifies this list to the payroll report.

Cause: Management has not provided guidelines to the State Offices for the development and implementation of procedures to verify the official enrollment of VISTA volunteers.

Effect: Management does not have a system in place to verify that VISTA volunteers receiving checks are officially enrolled in the VISTA Program. The absence of controls in this area increases the potential for fraud and abuse.

Recommendation: Management should determine and develop an effective means of verifying that VISTA volunteers entered into VMS are officially enrolled in the program. For example, a policy could be developed requiring every State Office to review and verify payroll reports, as well as, periodically distribute payroll checks to the volunteers at selected program sites.

Management's Response:

Management agrees with the recommendation and will implement it.

Management will implement a process for State Office and project site verification of VISTA payroll reports. The Corporation for National Service's policy provides that new members attend a pre-service orientation at which the Corporation's field staff interact directly with each new trainee. During this orientation, the Corporation's field staff collect the final enrollment forms and forward them to appropriate State Offices for entry into VMS. In the few cases where new VISTAs are unable to attend such formal training events, VISTAs are required to interact directly with State Office staff to enroll in the program. This direct interaction of Corporation staff and new VISTA members is intended to eliminate the possibility of fraudulent enrollment of new VISTAs.

As indicated in the response to Item 29 of Volume I of the report, to assure that VISTA allowances are only paid to members who are serving, we will develop a report to be sent to

project directors biweekly which will identify members serving on the project. Project directors will be required to return that listing to our State Offices with any changes or errors annotated. This response will be used to immediately update our automated records.

Summary of Action to be Taken:

1. Implement a biweekly report for verification by project directors by November 1, 1996.

4. Returned payroll checks are not recorded in VMS.

Criteria: All authorized events should be identified, converted into transactions, properly processed, added to files in the appropriate systems and accurately reported in a timely manner. Sufficient data should be maintained on each record to provide a history of all activity related to amounts paid, returned or due. Additionally, adequate procedures should exist to obtain a timely accounting of overpayments so that recovery can be expedited.

Condition: Currently, returned VISTA payroll checks are not recorded in VMS. Payroll checks generated in error or after an enrollee leaves the program prematurely are returned by the program site or member to the State Office. The State Offices send the returned check to the Service Centers which forward the checks to the Treasury. Copies of returned checks are sent to Headquarters by the Service Center and are maintained by the Payroll Office.

Cause: CNS' current procedures do not include entering returned checks onto the VMS system. Until recently, the VMS system could not process returned checks. However, during the course of our review, CNS enhanced VMS capability to perform this function.

Effect: Instances where checks are returned, the recorded amount of payroll for VISTA members are incorrect. Project expenditures are overstated and budgets are projected based upon inaccurate information. The system re-calculates the pay amount when a termination date is entered for an enrollee when the date is other than the official end of service date. W2 statements will reflect the correct pay amount, however, it will be understated if the checks were not returned by the enrollee. The amount and number of returned checks are not known, therefore, the extent and severity of the problem cannot be determined.

Recommendation: We recommend that CNS management establish a procedure for processing returned checks within the VMS system and develop a plan for updating the system to reflect returned checks already received.

Management's Response:

Management agrees with the recommendation and is implementing it. Procedures have been developed and are now being implemented to record these events.

Summary of Action to be Taken:

1. Returned checks will be recorded as received effective April 1, 1996.

5. Current enrollee data has not been entered onto the Trust Fund System.

Criteria: The Trust Fund System should contain all data needed to achieve the purposes for which it was created and provide accurate and timely information to management.

Condition: Current enrollee data, 20,000 enrollees, has not been entered onto the Trust Fund System. Because the system does not include these enrollees, a separate database is maintained by CNS for processing enrollees forbearance request. Forbearance letters are sent by CNS to the enrollees' lenders asking them to forbear receiving principal payments from the enrollee while they are enrolled in the AmeriCorps program. CNS pays the interest on the enrollees' loans.

Cause: The Trust Fund system was developed recently, however, the interface software which updates the information from the scanner equipment to the Trust Fund System was not completely developed. As a result, CNS could not input the enrollees' data.

Effect: CNS is unable to produce accurate and current program information from the Trust Fund System. This hinders CNS' ability to properly manage the program. Additionally, CNS is unable to process forbearance forms for AmeriCorps volunteers without a telephone call to verify the enrollee eligibility.

Recommendation: We recommend that CNS complete the development of the Trust Fund System so that it will accept current year enrollees. This will enable CNS to provide accurate enrollment data and statistics.

Management's Response:

Management agrees with the recommendation and has implemented it.

To simplify enrollment of AmeriCorps members, the two forms used with first year members were consolidated into one. At the time of this survey, modification of the software to get information from the new form into the database had not been completed. It has been completed and information is added to the database as it is received.

Summary of Actions to be Taken:

Implemented.

III. Recommendations Related to Other Reportable Conditions

6. CNS should develop and implement an Automated Information Security Program.

Criteria: Computer systems, databases, and communication networks are key components of the information technology infrastructure upon which financial management systems depend. Computer security is an important element of internal control; it is essential for the operations of systems and the accuracy of the financial data collected, stored, and reported. System security must be established and maintained in accordance with the computer security policies set forth in Appendix III to OMB Circular A-130, "Security of Federal Automated Information Systems." Computer security must include assignment of responsibility for security, environmental security plans, review of security controls, training, and personnel screening.

Condition: CNS does not have a comprehensive information security program and as a result the following are missing or inadequate:

- An employee security awareness and training program
- The assignment of sensitivity designations to every employee position
- A detailed risk management program
- A Computer Systems Security Plan (CSSP) for systems processing sensitive information
- Record retention procedures
- Security reviews
- Required background investigations for all employees
- Required background investigations for all contractor personnel
- A detailed fire emergency plan
- A written contingency plan
- A risk analysis
- A systems inventory

During our site visit to the California Service Center, we noted the absence of physical controls over the operation of system facilities and equipment. The daily tape backups were left near the file server on a regular basis. We also noted that there were no working smoke detectors in the facility. This situation renders the entire installation, including the information system, vulnerable to fire threat.

During our review of VMS, we noted that the users of VMS at Headquarters, Service Centers and State Offices do not have a documented contingency/business recovery plan. We also noted that security screening was not performed for the contractors that are involved in the design, development, operation and maintenance of the systems.

VMS and the Trust Fund System's security level designations are high sensitivity. The high sensitivity designation was determined for these systems because they maintain information that is used to authorize or make cash payments to individuals or organizations. Such

information includes databases that the user has the authority and capability to use or alter to cause an improper payment. The category of high sensitivity requires the most stringent security safeguards at the user level. These safeguards are usually addressed in security programs.

Cause: CNS management has not developed an Automated Information Systems Security Program, or identified a Systems Security Officer.

Effect: Without an Automated Information Security Program, the framework for security policies, standards, and procedures does not exist. Consequently, CNS does not have generally accepted information security policies and procedures in place. The lack of adequate contingency/business recovery plans renders CNS vulnerable to loss of productivity due to disaster, errors and other events that may interrupt normal operations.

Recommendation: We recommend that CNS develop an Automated Information Security Plan. This plan would form the foundation for the development and implementation of security policies, standards, and procedures. We also recommend that CNS designate an Information Systems Security Officer (ISSO) with primary responsibility for systems security. The ISSO's responsibilities include ensuring that security plans are developed, reviewed, implemented, and revised, as needed. ISSO responsibilities also include providing advice and assistance to managers and organizational personnel, identifying security weaknesses and coordinating security training activities.

We also recommend that the San Francisco Service Center authorize the installation of smoke detectors for the facility and take steps to ensure that the on-site backup tapes are stored in the fire-proof safe.

The Computer Security Plan, should at a minimum, include the following:

Application Security

Controls to ensure that appropriate administrative, physical and technical safeguards are incorporated into all new applications and significant modifications.

Personnel Security

Personnel security policies covering all individuals participating in systems design, operation and maintenance, or having access to data from such systems.

Information Technology Installations

Risk analyses for each system facility and appropriate security requirements for the acquisition or operation of system facilities, equipment, software packages and related services.

Contingency/Business Recovery Plans

A Contingency/Business Recovery Plan to assure that the users of automated systems can continue to perform essential functions in the event that processing capability is interrupted. The contingency/business recovery plan should be developed, documented and tested by Headquarters, and then distributed to the Field Offices.

Information Systems Inventory

A current inventory of all information systems.

Security Awareness and Training Program

A Security Awareness and Training Program to provide training for employees and contractors involved in the operation, development and maintenance of CNS' information systems. In developing and implementing training programs, consideration should be given to the use of electronic media and other uses of technology. A Training Matrix depicting an overview of the content, target populations, and training levels for a Security Awareness and Training Program is included as Exhibit A of this document.

Reporting

Security reporting, as the Corporation deems necessary, to include at a minimum, an access violation report and application system security certification.

Management's Response:

Management agrees with the recommendation and its implementing it.

The Corporation for National Service is a low-sensitivity Federal agency. Its operations are entirely domestic, and it does not receive, process or store classified or market-impacting data. Its sensitive data are limited to those found in any Government and private-sector organization: budgets, payroll, accounts payable, etc. Our security measures which have been installed, and those scheduled to be installed, were chosen to meet the Corporation's needs.

For example, pending the development of the formal Corporation security plan, management continually evaluates the risks concerning each of the Corporation's systems, including networks, communications, and applications. Before any of the systems were procured, the risk assessment level and feasibility of risk were evaluated. The most serious threat to our systems is through an outside modem connection into the Corporation's networks. In order to minimize that risk, Automation purchased and implemented the SecurID token card-based security system. This system is in use at such high security agencies such as the Central Intelligence Agency, the Securities and Exchange Commission, and others. This security system has never been defeated by hackers.

Another potential vulnerability that was evaluated was the use of network dial out/fax modems. When we implemented dial-out communications and faxing, we also set our network modems to be "send only", eliminating the possibility of someone breaking into our network by unauthorized dial-up communications. The modems will not answer a dial-in call.

All of our computer systems are password protected, along with a need-to-know access level of control. If an individual doesn't use the Trust Fund system, they will not have the necessary client software, nor the file access rights required to access that system.

The Corporation's security measures can be improved, and programs to that end are underway. A Network and Computing Security Plan has been prepared, and implementation of those measures that were not already implemented began on February 12, 1996. It covers substantially all of the points recommended for such a plan in the survey. In addition, as discussed in our response to Volume I, Item 84, development of a comprehensive disaster recovery and continuity plan is also under way with the on-site assistance of contractors experienced in developing and implementing such plans.

We agree that an Information Systems Security Officer should be designated, and accordingly a provision for such a position was included in the Corporation's FY 1996 budget request. It is now doubtful that an individual can be hired to serve in this capacity on a full-time basis. Current staff probably will have to continue to fill this role.

We also agree that backup media should be stored off-site if possible, or in fireproof containers if not. A policy statement to that effect will be developed for the San Francisco Service Center, and all of our other locations by April 30, 1996.

We are aware of our obligations under the Computer Security Act of 1987 and various policy documents to provide security training. As discussed in our response to Item 80 in Volume I, planning for such training nationwide is now well underway. We believe, however, that the relatively low sensitivity of most of the Corporation's data raises questions of cost-effectiveness as regards measures such as full background investigations for all employees and contractors, formal detailed risk management programs, and some other mentioned in this Item.

Summary of Actions to be Taken:

Most corrective actions have been taken. Management also will:

1. Assess user access, in its entirety, on a quarterly basis.
2. Issue policy statement on the storing of backup media by April 30, 1996.
3. Review whether system changes to remove access are cost effective and make a determination on any further changes by June 30, 1996.

7. CNS management should conduct a cost benefit analysis for the payroll and payroll related systems.

Criteria: Systems operations should be conducted in the most economic and efficient manner to achieve the goals defined by law, regulation and policy. To be effective, systems planning must support the overall strategic direction of the Corporation and be consistent in approach and timing. Systems planning efforts must consider the possibilities and implications of data employed by separately developed systems.

Condition: There are two payroll or payroll related systems that are operated by or on the behalf of CNS. (1) The VMS which is used to support the VISTA volunteers, processing their allowances and stipends. There are approximately 4,000 VISTA volunteers. (2) The National Finance Center (NFC) which processes payroll for NCCC volunteers and Program Leaders. There are approximately 870 NCCC volunteers and 50 Program Leaders.

The Trust Fund System is comprised of information for AmeriCorps members, to include, information that is maintained in the systems mentioned above. Information on program participants and institutions are also contained in the Trust Fund System. Currently, there are approximately 37,000 participants in the Trust Fund database.

Cause: Currently, payroll for CNS is processed by two systems: (1) the VMS, and (2) the National Finance Center. The Trust Fund System is used for other reporting purposes in addition to administering the National Service Trust Fund, and contains historical program data. CNS did not conduct a cost benefit analysis before developing the Trust Fund System.

Effect: The possibility of redundant processing between the payroll systems exists. Also, the Trust Fund System extracts and maintains some of the same data as the two payroll systems. System development efforts should support maintaining a single, integrated financial management system.

Recommendation: CNS has prepared a functional requirements document for a system that will satisfy all payroll processing requirements and have identified the need for a management information system. We recommend that CNS conduct a cost benefit analysis to determine the most appropriate system acquisition efforts. The cost benefit analysis should provide alternative strategies for development and/or acquisition approaches. An analysis of alternatives based on objective criteria and identifying pros and cons of all feasible alternatives should be prepared. Costs, benefits, and risks associated with all feasible alternatives should be compared and the most advantageous approach determined.

Management's Response:

Management agrees with the recommendation and will implement it prior to any decision being made concerning a replacement to the VMS system. The Corporation has been researching alternative strategies for this payroll system. We conducted a full analysis of the needs of our pay systems in order to evaluate our options, called the Participant Payment System. Since our systems design methodology is to use Oracles's design tools for such

systems, we have already built an entity relationship diagram, function hierarchy, and cross reference matrices which can be used to guide the selection and implementation of an off-the-shelf package or as a basis for a design and build of a custom Participant Payment System.

During this analysis the VISTA Management System was also reviewed. Oracle's CASE Tools were used to reverse engineer the VMS database. This involved taking the existing database and loading it into a CASE tool to analyze and document it. This analysis was needed before any decisions could be made concerning the Corporation's direction on these systems, and a cost benefit analysis will be conducted before a decision is made on how best to resolve this need.

Management has concluded that it will defer any decision about replacing the VMS system until some future point.

Summary of Actions to be Taken:

1. Prepare a cost benefit analysis before any decisions are made concerning a replacement for the VMS system. Budget considerations and completing needs make the exact date that this will be undertaken difficult to predict.

8. VMS reporting should be enhanced.

Criteria: Financial management systems must process, track, and provide accurate, timely, internally consistent, and readily accessible information on financial activity in the most cost effective and efficient manner. Reporting needs to be at a proper level of detail, timing, content, and format to provide information of real value to its users. Reporting should provide sufficient information to measure program performance.

Condition: During the course of our review, we noted that VMS reporting is cumbersome and limited. In the State Offices, VMS reports are used extensively to respond to telephone inquiries from the VISTA volunteers when access to the system is unavailable (see Delayed Access to VMS from User Site finding). For example, the State Office may receive a telephone call from a member with a question regarding the payroll. When the system is unavailable, the State Office staff person begins to search through the payroll report for the name of the volunteer. The report is sorted by program code. The Los Angeles office, for example, has 41 active programs. Staff must look through each of the 41 programs until the name of the volunteer is found.

The Service Centers generate reports which include all of the State Offices they support. When these reports are generated, all of the detail is printed, listing each volunteer. However, in most cases only program totals are required. We also understand that there are reports available at Headquarters that are not available to the Service Centers.

Modifications to existing reports have been identified by the Program office at Headquarters to accommodate their information needs.

Cause: VMS reporting has not been enhanced to provide information to meet user needs.

Effect: A significant amount of time is spent by State Offices attempting to use existing reports to respond to the many phone calls received daily from VISTA volunteers. Furthermore Service Centers spend a lot of time creating reports in the format they need. VMS reporting does not provide CNS management with the necessary information to evaluate, measure and report program data.

Recommendation: We recommend that CNS management determine the reporting needs of Headquarters, State Offices and Service Centers and enhance existing reports or develop new ones accordingly. We also recommend that Headquarters make available all existing reports to the Service Centers.

Management's Response:

Management agrees that all reporting needs should be reassessed and will do so.

However, management believes all reports available to Headquarters currently are available to Service Centers. The specific problem cited, the need for state staff to review paper reports to respond to inquiries from members concerning pay, is a result of the problem

noted under Item 9. See the response to that issue. Once that problem has been resolved, there will be no need for state staff to print out and examine the voluminous reports referred to in the finding. Rather, the answers to questions can be more easily found by interrogating the system online.

Summary of Actions to be Taken:

1. Assess all reporting needs by October 1, 1996.
2. Future actions and dates dependent on needs assessments results.

9. VMS users at State Offices experience delays in gaining access to the system.

Criteria: Information systems should be available to all users as the need arises.

Condition: During our site visits to the California and Florida State Offices, we observed personnel as they accessed VMS and performed various routine functions. In both Los Angeles and Orlando, users had to wait to acquire access to the system. When access to the system was attempted, the message “NO AVAILABLE HOST” was received in some instances. We were informed that the wait lasts from ten minutes to an hour on a regular basis. The WA&Co. team experienced a 20 minute delay at the Los Angeles office for access to the system. The State Offices view this practice as normal and do not inform Automation Services at Headquarters of the problem. There are currently 16 ports available for access to the system by the State Offices.

Cause: The scope of our review did not include determining the actual cause for the delayed access.

Effect: Users have to wait up to an hour, in some cases, to access VMS. This causes delays in providing support to the volunteers and program project leaders.

Recommendation: We recommend that CNS management require the State Offices to notify Automation Services at Headquarters of delays encountered so that the reasons for delayed access can be determined and corrected.

Management’s Response:

Management agrees with the recommendation and has implemented it.

The State Office dial-in system was designed to support up to sixteen simultaneous State Offices connections. The number of dial-in connections was determined based upon a systems study conducted by the Department of Transportation for the old ACTION agency. While the study predicted a maximum need of 8-10 simultaneous connections, we implemented a 16 port solution to provide an extra margin of access.

The Automation Help Desk checks twice a day to verify that all of the access ports are available. We have never observed an occurrence when all 16 ports were in simultaneous use. Also not a single State Office called reporting that they were unable to access either the LAN or VMS.

Since the State Office user must identify which of the 16 hosts he/she intends to use during that session, we can only conclude that the user is not reviewing the listing of available hosts, and instead is typing in the name of a specific host each time. Automation has provided a step-by-step instruction manual to the State Offices detailing the correct steps to determine the names of the available hosts during each connection. This information is detailed on page six of the State Office User Manual.

Summary of Action to be Taken:

1. Develop a menu-based process of generating the needed reports by October 1, 1996.

9. VMS users at State Offices experience delays in gaining access to the system.

Criteria: Information systems should be available to all users as the need arises.

Condition: During our site visits to the California and Florida State Offices, we observed personnel as they accessed VMS and performed various routine functions. In both Los Angeles and Orlando, users had to wait to acquire access to the system. When access to the system was attempted, the message "NO AVAILABLE HOST" was received in some instances. We were informed that the wait lasts from ten minutes to an hour on a regular basis. The WA&Co. team experienced a 20 minute delay at the Los Angeles office for access to the system. The State Offices view this practice as normal and do not inform Automation Services at Headquarters of the problem. There are currently 16 ports available for access to the system by the State Offices.

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Management's Response:

Management agrees with the recommendation and has implemented it.

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This situation can be avoided by following the instructions provided in the State Office User Manual, or by calling the Automation Help Desk.

Summary of Actions to be Taken:

Implemented.

10. Integration to the Cost Sharing Billing System should be automated.

Criteria: Input into information management systems should occur once and the information should be shared with or passed to other systems or components that need the same information.

Condition: CNS participates in projects with other organizations in which they agree to share the costs of the project. Information for cost sharing agreements between CNS and sponsoring organizations requires the entry of the same data into VMS and FOXPRO. The California Service Center use FOXPRO, a micro computer spreadsheet program designed to process the invoicing of the cost sharing billing process. Using FOXPRO involves entering into the system data that has already been entered into VMS.

Cause: Currently, VMS does not allow for the extraction of data from VMS to FOXPRO to facilitate cost sharing billing. VMS was not enhanced to handle the billing function for these agreements.

Effect: Service Centers and State Offices are developing systems to process invoices for the cost sharing billing that require redundant input. These systems are costly not only in dollars for software and equipment but also for personnel time allotted to the development process. We understand that CNS is in the process of establishing additional cost sharing billing programs and will most likely use FOXPRO in all Service Centers in the near future.

Recommendation: We recommend that CNS automate the download of necessary information to FOXPRO to prevent the Service Centers from having to reenter information. Data needed by the system to support the financial function should be entered only once. Other parts of the system should be updated through electronic means.

Management's Response:

Management agrees with the recommendation and will implement it.

Initial discussions on this issue have taken place with the Service Center Directors. We intend to incorporate this automation download capability into the system as it is fully implemented for each Service Center nationally.

Summary of Actions to be Taken:

1. Automate the download of information to the Cost Billing System by January 1, 1997.

11. VMS test work should not be performed in the production environment.

Criteria: Accepted automated information system procedures prescribe a separate test system that is independent of the existing production system. This is necessary to allow tests to be conducted without interfering with production activities.

Condition: During the course of our review we found that VISTA payroll test work is performed in the VMS production system environment. This test work involves verification of processing after software changes and modifications have been made.

Cause: Test work is performed in the production environment due to the lack of a suitable test system that simulates the production environment.

Effect: Conducting tests in the production environment increases the risk of unexpected or unexplained system operation and may corrupt production system data.

Recommendation: We recommend that CNS management develop a test system that simulates the production environment to facilitate all VMS test work.

Management's Response:

Management has established a test environment for all of the Corporation's Oracle applications. While we already had a test environment for VMS modifications at the Department of Transportation, we also wanted to create a test environment at the Corporation for all of our Oracle development.

While this test environment could have been established as an additional Oracle session on our production server, we believed that the safest way to protect the production environment was to implement a separate test server. In mid-1995 this server was purchased, configured, and made available for Oracle testing and development work.

Once available, the Automation Office's management directed that all testing of new production program codes or modifications to be conducted on the test server first, before being implemented in the production system. This is standard operating procedures for all of our Oracle systems.

Summary of Actions to be Taken:

Implemented.

12. The VMS/Trust Fund electronic link should be reviewed to verify that it is operating appropriately.

Criteria: Systems must be constantly reviewed to determine what adjustments are necessary to meet the needs of the organizational and functional environments.

Condition: The Trust Fund System obtains pertinent information for VISTA members from VMS. This information is retrieved via an interactive link between VMS and the Trust Fund System. A review of the information flow between VMS and the Trust Fund System has not been performed since the Trust Fund System was implemented in September of 1995.

Cause: CNS management has not reviewed the electronic link between VMS and the Trust Fund System to determine accuracy of the data.

Effect: Failure to review the electronic transmission of data increases the risk of errors resulting from data loss and data errors.

Recommendation: We recommend that CNS management plan and review the information received via the interactive link. The review should determine that the desired information is linked appropriately. Common data exchanges should be examined, as well as exception scenarios. An example of an exception is a change in the type of award from stipend to educational, or vice versa, when it happens at the end of the year of service. The review should include the impact on the Trust Fund System when a member enrolls in the VISTA program for an additional term at completion of a term of service.

Management's Response:

Management agrees with the recommendation and has implemented it.

We are fully satisfied that, in the case of transactions which affect both VMS and Trust Fund data, both sets of data are fully updated. As with all major system's changes, standard operating procedures are to have someone other than the original programmer review any changes. The triggers specified within this finding received such a review. The triggers are Projects_update_trust, Proj_pers_insert_trust, Proj_pers_update_trust, and volunteers_updated_trust.

Summary of Actions to be Taken:

Implemented.

13. An audit trail of updates to records in the Trust Fund database is not maintained.

Criteria: Standards for updates to records should be in agreement with the organizations technical architecture and should be consistent across all financial applications.

Condition: During the course of our review, we noted that corrections are made to actual records in the Trust Fund System to process updates that cannot be made through normal data entry means. Changes and corrections are made directly to the database, bypassing data entry screens and all edit routines. An audit trail of these updates does not exist. These changes and corrections are performed by the System Administrator.

Cause: Changes are made to the database because the Trust Fund System is unable to accommodate all updates to enrollee information. This is due largely to the first year trust fund data which was entered manually and with extensive errors.

Effect: In some cases, updates made directly to the database result in records being deleted from the files. Changes occur without any audit trail or documentation because no before and after images of the records changed or deleted are taken. Significant risk is associated with updating records directly to the database and this process could cause file corruption.

Recommendation: We recommend that CNS maintain an audit trail of corrections made to the actual records. The audit trail should be reviewed to determine if enhancements to the software are necessary to accommodate updates and corrections through the normal data entry process.

Management's Response:

Management agrees with the recommendation listed above and has implemented it. During the analysis phase of the Trust Fund System, management decided that before and after update log capability was not required in the production system. Under the present production system, the only audit trail is a record of who made the most recent change to a given record, and when (date and time) that change was made. In lieu of that automated record, the decision was made that the Trust Fund Data Administrator would keep all change request in a file to maintain a physical record of such requests. This procedure is currently in place. The operational experiences of the Trust Fund Data Administrator and others involved in the system's operation do lead to suggestions for improvements.

Summary of Actions to be Taken:

Implemented.

IV. Other Observations and Recommendations

14. CNS should develop and maintain system and other supporting documentation.

Criteria: Documentation must be geared to the levels of the end users and their roles and responsibilities within an organization. Documentation must be user friendly, kept up-to-date, and include all of the information needed to operate the software effectively within the agency environment.

Condition: We noted the following conditions as a result of our site visits to the California Service Center, the California State Office, the Florida State Office, and the Pacific Cluster Office:

- 1) Written policies and procedures to reflect the assigned duties of VMS personnel do not exist.
- 2) The VMS manual is outdated and does not accurately reflect the current functionality of the system.
- 3) There are no procedures for handling incorrect social security numbers that result in duplicate records and duplicate pay checks.

Cause: The above stated documentation and maintenance was never developed or performed.

Effect: The lack of adequate and updated documentation renders CNS vulnerable to loss of productivity due to disasters, errors and other events that may interrupt normal operations.

Recommendation: Documentation should be developed to assist all users of the system, from computer specialists to financial management and program personnel. It should be "user friendly" and represent a useful tool, rather than simply a book that sits on a shelf. Quality, up-to-date documentation should be used on a regular basis and is critical to supporting the ongoing operations of the system.

CNS management should, at a minimum, develop documentation to address the following:

1. Job descriptions and responsibilities for Service Centers and State Offices personnel.
2. A policy to update the VMS user manual as system upgrades and enhancements are made.
3. Procedures on how to handle the occurrence of an incorrect social security number entry.

Management's Response:

Management agrees with the recommendation and will implement it.

As mentioned in an earlier item, the Corporation for National Service's management has conducted an extensive analysis of the payroll needs of our programs. Management has decided that VMS would be maintained in its present state, without substantial additional expenditure of funding, until a future direction for such services is determined. In the interim, management will review its present instructional material on VMS and augment it with instruction sheets as needed. There are position descriptions for Service Center and State Office personnel.

Summary of Actions to be Taken:

1. Review current VMS documentation and augment with instructions as needed by November 30, 1996.

15. A formal requirement for a second review and approval of Trust Fund Payments should be implemented.

Criteria: Segregation of duties controls are designed to reduce the opportunity for someone to commit or conceal errors or irregularities in the normal course of business. Approval controls provide reasonable assurance that appropriate individuals approve recorded transactions in accordance with management's general or specific criteria.

Condition: During our review, we noted that one individual is able to carry out every function of the Trust Fund payment process. While a second review and approval of Trust Fund payments is currently performed, a formal requirement or documented procedure for the second review does not exist.

Cause: CNS has not required or documented the procedures for a second review and approval of the Trust Fund payments.

Effect: The absence of formal procedures may result in inconsistent application of management policies and guidelines, and improper segregation of duties. Furthermore, the absence of formal procedures places the system at risk for fraud and abuse.

Recommendation: We recommend that CNS develop a documented procedure to ensure that payments generated by the Trust Fund System are reviewed and approved by someone other than the individual processing the payment.

Management's Response:

Management agrees with the recommendation and will implement it.

This is essentially the same finding as Item 31 in Volume I. In the response to that finding management noted that two individuals review all individual payments before a schedule of payment is approved. However, as noted in the finding, because of the volume of work and the size of the staff, sometimes one of those individuals may have been involved in creating some of those payments. Procedures will be put into place whereby the individuals who approve schedules of payments are not individuals who create payments. It should be noted that different individuals certify the schedule of payments to the Treasury Department.

Summary of Actions to be Taken:

1. By June 30, 1996, have in place procedures whereby individuals who create Trust Fund payments do not approve a schedule of payments.

16. VMS lock-out execution during payroll processing should be evaluated.

Criteria: Lock-out procedures should be executed effectively and efficiently. The procedures should be documented and available to authorized personnel.

Condition: Prior to beginning the payroll process, Automation Services removes a critical file from the production environment. This must be done to prevent users from accessing and updating the system during VMS payroll processing. Problems were encountered in the past when access to VMS from user sites were allowed during the payroll process. Without this file, users are unable to access VMS. After the payroll process is completed, Automation Services, at the request of VMS payroll personnel, restores the file to allow users to resume access to VMS.

Cause: The automation of VMS lock-out was not included in the development of the system nor has VMS been enhanced or modified to include this feature.

Effect: Lack of an automated lock-out process renders VMS vulnerable to errors and mistakes by personnel performing the process.

Recommendation: We recommend that CNS determine the necessity of the lock-out process. If this process is deemed necessary, CNS should document and automate the lock-out procedures.

Management's Response:

Management does not agree with the recommendation.

Normally, lock-out is not necessary during the running of the payroll process. In fact, lock-out leads to a degradation in the usefulness of the system. If data about a VISTA is changed after the payroll process has been initiated but before the individual's allowance payment is calculated, the calculation will be based upon the new data. Locking out field access to the data will cause inaccurate payments for these VISTAs. If the payment amount has already been calculated, the changed data with any adjustments will be used in the subsequent payroll run. Furthermore, locking out field access to the data will prevent anyone from interrogating the files for information, thus reducing the usefulness of VMS during the lockout period.

Summary of Actions to be Taken:

None required.

17. VMS should require users to change their password upon initial sign-on to the system.

Criteria: Good access control security should include the ability of the system to force the users to change their passwords at the first access attempt and periodically thereafter.

Condition: The VMS system 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 (id).

Cause: The forced password change feature was not programmed into VMS when it was developed and was not included in any subsequent enhancement or modification.

Effect: Several users of VMS can easily guess the password of other users because many users do not change their default password. This situation can negatively impact user accountability.

Recommendation: We recommend that CNS modify VMS to require users to change their password upon initial sign-on to the system and periodically thereafter.

Management's Response:

Management agrees with the recommendation and has implemented it.

While this was a problem when VMS was first placed into production, it is no longer an issue. The administrator routines that DOT originally provided to the Corporation for National Service created end user accounts with the same password as the account name. Due to the potential vulnerability of this approach, Automation now provides random passwords for VMS users.

We agree that it would be ideal to have Oracle force users to change their passwords after a set period of time, as the Corporation's network operating system currently provide, but this is not a function presently available within Oracle. Implementing such a requirement would require customized programming for each individual Oracle application.

We also agree that many users are likely to leave their passwords unchanged unless they are forced to change them, and that unchanged passwords in time turn into a security vulnerability. We will continue to investigate whether software which adds a mandatory password change facility to Oracle is available. If such a product becomes available we will acquire and install it.

Summary of Actions to be Taken:

Implemented.

18. CNS should secure or properly dispose of sensitive documents and/or reports.

Criteria: The Privacy Act requires that sensitive documents and information be safeguarded from unauthorized disclosure, alteration or destruction.

Condition: During our review, we noted that sensitive documents such as VISTA volunteers' W2 Forms and other reports displaying the enrollee social security number were unsecured in the office of VMS payroll personnel. Additionally, we noted printed W2 forms remaining on the printer and W2 Forms which had been returned. These documents were exposed in open view.

Cause: Procedures for securing sensitive VISTA payroll documents and information have not been developed and implemented.

Effect: Failure to properly safeguard sensitive payroll documents and information is a violation of the Privacy Act.

Recommendation: We recommend that CNS management develop a policy requiring that sensitive documents be secured in locked cabinets or properly disposed of when no longer needed. Shredding is an acceptable way to properly dispose of unwanted sensitive reports and documents.

Management's Response:

Management agrees with the recommendation and will implement it.

The Corporation for National Service's policy is to secure or properly dispose of sensitive documents. Shredding is the usual way for disposing of these documents. In places where we have identified that the policy is not consistently followed by some staff, the need to adhere to the policy has been emphasized. A formal reminder to all Corporation staff about this policy will be provided to all employees by April 30, 1996.

Summary of Actions to be Taken:

1. By April 30, 1996, a general notice to all employees about the treatment of sensitive documents will be issued.

Training Matrix

Audience Category	Computer Security Basics	Security Planning & Management	Computer Security Policy & Procedures	Contingency Planning	Systems Life Cycle Management
Executives	Awareness	Policy	Awareness	Awareness	Awareness
Program & Functional Managers	Awareness	Implementation	Implementation	Performance	Performance
IRM, Security & Audit Personnel	Awareness	Performance	Performance	Performance	Performance
ADP Management Operations & Programming	Awareness	Performance	Performance	Performance	Performance
End Users	Awareness	Awareness	Performance	Performance	Awareness
<p>Four general levels of training that are appropriate for different target audiences are as follows:</p> <ol style="list-style-type: none"> a. Awareness level training creates sensitivity to threats, vulnerabilities, and the need to protect data and data processing activities. b. Policy level training provides the ability to understand computer security principles so that executives can make informed decisions about computer and information security programs. c. Implementation level training provides the ability to recognize and assess the threats and vulnerabilities to automated information resources so that the responsible managers can set security requirements that implement Agency security policies. d. Performance level training provides the employee with skill to design, execute, or evaluate Agency computer security policies and practices so that employees will be able to apply security concepts while performing tasks that relate to their duties and positions. <p>1. Five general subject areas should be addressed by the training:</p> <ol style="list-style-type: none"> a. Computer Security Basics: Introduces the concepts behind computer security practices and the importance of the need to protect information from known threats. 					

Training Matrix

- b. **Security Planning and Management:** Concerns risk analysis, the determination of security requirement, security training, and internal agency organization to carry out the computer security function.
 - c. **Computer Security Policy and Procedure:** Examines security practices in the areas of physical, personnel, software, communications, data and administrative security.
 - d. **Contingency Planning:** Covers the concepts behind emergency planning, backup, response, and recovery; identifies the role and responsibilities of involved personnel.
 - e. **Systems Life Cycle Management:** Discusses the ways in which security is addressed during each phase of the system life cycle, including initiation, definition, system design, programming and training, evaluation and acceptance, and installation and operations; addresses procurement, certification and accreditation.
2. Five target populations for training have been defined by the Office of Personnel Management (OPM). A sixth group, contractors, may fit into any one of the five target populations. These groups and their training needs are described below:
- a. Executives are senior managers who set Agency computer security policy, assign responsibility for implementation policy, determine acceptable risk levels, and provide the resources for the computer security program. Executives need training to understand their responsibility for implementing the security program.
 - b. Program and Functional Managers who have a program or functional responsibility that is not in the area of computer security, but who have primary responsibility for the security of their data. These managers need to understand the criticality of systems which support their functions, and in ensuring that cost-effective security controls are implemented to protect data from unauthorized disclosure, modification, or destruction. Functional managers should understand the need/requirements for contingency and disaster recovery planning and for the issuance of security procedures, guidelines, or standards directed toward protecting the daily operations for which they are responsible.
 - c. Information Resource Managers, Security and Audit Personnel are involved with the daily management of information resources, including availability, and safety of these resources. Although the roles and responsibilities of these officials differ depending upon their organizational location, they require extensive training to ensure comprehensive knowledge of the organizations security discipline, program security requirements, policies, and procedures. ISO's need training in the technical aspects of system vulnerabilities risks and safeguards.
 - d. Automated Data Processing (ADP) Management, Operations, and Programming Staff are involved with the daily management and operations of ADP services. These managers and specialists need technical training commensurate with their responsibilities for

Training Matrix

implementing security policy and for providing security controls to ensure the protection of information and applications.

e. End Users are employees who have access to a computer system that processes sensitive information. This group is large and diverse. All users of automated information must be provided with some kind of general security awareness orientation or training, whether they use computers on a full or part-time basis to perform their jobs. Contractors need security training commensurate with their responsibilities for performing work under the terms and conditions of a contractual agreement.

Training is an ongoing process and, at a minimum, should be provided whenever there is a significant change in the organization's information security environment or procedures, or when an employee enters a new position that deals with sensitive information. Computer security refresher training should be provided as frequently as determined necessary by the organization.

References

Law and Regulation

Computer Security Act of 1987

Privacy Act of 1974

OPM Regulations, Training Requirement for the Computer Security Act

C O R P O R A T I O N

F O R N A T I O N A L

 S E R V I C E

**Report on the Results of the
Auditability Survey**

Volume II

**Management Control Review of the
VISTA Management and Trust Fund Systems**

March 29, 1996

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Exhibit A Training Matrix

EXECUTIVE SUMMARY

The Inspector General of the Corporation for National Service (CNS) engaged Williams, Adley & Company, LLP (WA&Co.) to conduct a management control review of the VISTA Management System (VMS) and the Trust Fund System. The review focused on the general control environment. More specifically, we reviewed preventive, detective, manual, computer and management controls over these systems. Our review identified reportable conditions related to the above stated controls. In summary, we found that:

- The VMS payroll processing function is incomplete and inadequate. The system was developed by multiple vendors, under severe time constraints, and has a history of problems. The Automation Services division currently maintains and supports the system. Until recently, the system could not record returned payroll checks. Further, procedures to monitor and track returned checks do not exist, therefore, we were unable to determine the magnitude of, or the absence of, returned checks. We also found that the reports available in the VMS do not fully provide management and staff with information needed to manage and measure program results.
- Current enrollees were not entered into the Trust Fund System. The interface software that updates the information from the scanner equipment to the Trust Fund System was not completely developed. As a result, CNS is unable to produce accurate and current information.
- CNS has not developed an Automated Information Security Plan. As a result, generally accepted information security policies and procedures are not in place. To assist CNS in implementing a Security Awareness and Training Program, we have provided a training matrix depicting an overview of the content, target population, and training levels for staff as Exhibit A of this document.

Our findings and recommendations describe the reportable conditions as they existed when the matters first came to our attention. In instances where management has since taken corrective action, management has detailed such corrective action in the segment of each finding labeled "Management's Response." We have not performed any procedures to assess the adequacy of the corrective actions taken by management.

I. BACKGROUND

A. OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this task were to conduct a management control review of the VISTA Management System (VMS) and the Trust Fund System, identify vulnerable areas, and make appropriate recommendations to management on actions needed to improve internal controls and security measures.

The scope of our review included the manual and administrative functions directly associated with each system's security and controls. The review covered all system functions (manual and automated) from receipt of data for input into the system through processing and production of system output. For VMS, we reviewed system operations from input of the National Service Enrollment Form for VISTA Volunteers through processing of the file for the creation of paychecks. For the Trust Fund System, we reviewed system operations from input of the End of Term of Service Form through creation of the file to enable processing of educational awards.

We performed our review from September, 1995 through January, 1996. We met with VMS and Trust Fund System managers to obtain an understanding of the systems and determine where processing activities are conducted. Site visits were conducted at the California Service Center located in San Francisco, California, and Cluster and State Offices located in Los Angeles. We also visited the Florida State Office located in Orlando, Florida. We conducted interviews of key personnel identified by the systems managers to gain a more detailed understanding of the systems, particularly their strengths and weaknesses.

Through inquiry and observation, we evaluated the systems' processing controls, reporting capabilities and output distribution processes to determine whether user reporting needs and requirements for CNS Headquarters, Field Offices, and Service Centers were met.

Our review addressed overall system security, adequacy of automated controls and controls over data integrity from input to final output. The review focused on the following:

- Accuracy of source data once entered into the system,
- Adequacy of controls,
- System integrity,
- Applications security, and
- Systems Management.

To determine CNS compliance with applicable laws and regulations, we compared management controls that the Corporation has implemented to the requirements of Section 2 of the Federal Managers' Financial Integrity Act (FMFIA); Office of Management and Budget (OMB) Circular A-123, *Internal Control Systems*; OMB Circular A-130, *Management of Federal Information*

Resources, Appendix III, Security of Federal Automated Information Systems; OMB Bulletin No. 90-08, Guidance for Preparation of Security Plans for Federal Computer Systems That Contain Sensitive Information; the Computer Security Act of 1987; Section 4 of FMFIA; and OMB Circular A-127, Financial Management Systems.

B. GENERAL DESCRIPTION OF THE VISTA MANAGEMENT SYSTEM

The Volunteers in Service to America (VISTA) Management System is an automated system designed specifically for the characteristics of the VISTA program. VMS records and reports key information for projects, volunteers and payroll. VMS, implemented in October, 1994, replaced the System 36 for payroll processing. VMS enables State Offices to enter data for the VISTA Volunteers directly into the system.

Payroll processing is performed by VMS for volunteers who receive fixed amounts on a biweekly basis. Program assistants at the State Offices input updates, such as changes in payroll withholdings, end of service dates, etc., each pay period. The payroll office at Headquarters processes the payroll on the Monday after the end of the pay period. A file is created that is sent electronically to the Department of the Treasury where the checks are produced. VMS processes approximately four thousand checks totaling about \$1,200,000 on a biweekly basis. During 1994, total payroll processed through VMS was approximately \$26 million.

VMS is composed of the following five major subsystems:

- Project Subsystem
- Volunteer Subsystem
- Payroll Subsystem
- Report Subsystem
- Administration Subsystem

VMS resides on CNS' Local Area Network (LAN) and can be accessed by the Service Centers via the Wide Area Network and by the State Offices via dial-up access. There are approximately 200 VMS users spread across State Offices, the five Service Centers, and Headquarters.

C. GENERAL DESCRIPTION OF THE TRUST FUND SYSTEM

The Trust Fund System is an information system custom developed for the Corporation for National Service. Implemented in September, 1995, the system was developed to process educational award payments under AmeriCorps, the National Service Program. The system was developed with the use of Computer-Aided Software Engineering (CASE) tools. The system maintains in a database information about CNS applicants, participants, programs and institutions.

The Trust Fund System processes awards to pay for educational expenses at an authorized institution of higher education or to pay outstanding qualified student loans. The educational awards are processed upon successful completion of a year of service in the VISTA program. Payments are made directly to the institution of higher learning or to the loan holder, not to the individual. The award must be used within seven years of the member's completion of service.

The End of Term of Service Form initiates enrollment into the Trust Fund System. Approximately three hundred payments totaling about \$500,000 are processed weekly. The trust fund office receives and responds to approximately 130 telephone inquiries from the enrollees per day in reference to their educational awards. The Trust Fund System is also used as a management information system to report program data.

II. Recommendations Related to Material Weaknesses

1. Management controls for the VMS payroll process should be strengthened.

Criteria: To obtain reasonable assurance that authorized procedures and controls are followed, the process and controls, together with the responsibilities of individuals performing the tasks, should be defined and documented. Effective internal control procedures include adequate separation of duties and effective supervision and oversight.

Condition: During our review, we found that sound management controls for the VMS payroll processes do not exist. Only one person has the knowledge to perform the payroll process. The payroll process is not documented and there is no review and approval of payroll analysis and reconciliation.

Cause: VMS was developed and implemented under severe time constraints and by more than one vendor. As a result, standard system development practices and techniques were not used. Emphasis seemed to have been placed upon developing a system to meet CNS' immediate needs, as opposed to developing a system with good management controls.

Effect: Controls designed to provide assurance on the validity, accuracy and completeness of processed data, including post-event management reviews are not present, therefore, the payroll processing function is extremely vulnerable and a high risk for fraud. The current processing environment places undue reliance on one individual. The lack of documentation renders the system susceptible to incomplete and inconsistent processing. The lack of proper segregation of duties increases the risk that someone can commit or conceal errors or irregularities in the normal course of duties.

Recommendation: We recommend that the Corporation immediately develop and implement compensating management controls for the payroll process. The newly developed compensating controls should be considered short-term improvements until decisions are made regarding the future of VMS. These compensating controls should include the following:

- Additional staff trained to perform the payroll process,
- Adequate documentation of the payroll process, and
- Supervisory review and approval of payroll analysis and reconciliation.

Management's Response:

Management agrees with the recommendation.

Management controls over the VISTA payroll process should be strengthened. The finding does not mention existing controls. For example, certifying officers always confirm that the number of payments and amount disbursed being certified to the Treasury are the same

amounts and the same number of items generated in the payroll process and are reasonable in quantity.

To overcome the excessive reliance on one employee noted in the finding, training other employees to operate the payroll process has begun and will be complete within a month. Furthermore, we agree that the documentation on the system should be revised and improved. See the response to item 14.

Summary of Actions to be Taken:

1. Training of a second individual capable of running the VMS payroll process will be completed by April 30, 1996.
2. Design and implement procedures by June 30, 1996.
3. Current VMS documentation will be reviewed and augmented with instructions as needed by November 30, 1996.

2. VMS payroll personnel rely on nonstandard reports to verify and reconcile the payroll process.

Criteria: Financial management systems should process, track, and provide accurate, timely, internally consistent, and readily accessible information on financial activity in the most cost effective and efficient manner.

Condition: VMS does not provide the capability of selecting an option whereby reports needed to validate and list the payroll totals are produced. During our observation and walk through of VMS payroll processing, we found that payroll reports needed to verify, reconcile and provide totals for the payroll process are executed through Structured Query Language (SQL) statements. SQL is a software programming tool that is used for nonstandard reporting. These reports are used by the payroll office for exception reporting to validate the payroll amounts and to determine the outcome of the payroll run.

Cause: Standard payroll reports have not been programmed as part of the VMS system, nor is there a single report that can be produced by the system that lists the total payroll in dollars and number of transactions. The required reports were not programmed as part of the reporting process when the system was developed, or subsequently during the system life cycle. As a result, alternative procedures had to be employed to produce nonstandard reports.

Effect: Basic payroll reporting does not exist and payroll results are determined based upon the summation of information from several reports. The current process is very complex and it would be difficult to train other personnel to perform the VMS payroll analysis and reconciliation function. This current situation increases the risk of errors, omissions and miscalculations.

Recommendation: We recommend that CNS management automate the VMS payroll exception and reconciliation reporting process and further simplify the reconciliation process by using a single report, if possible.

Management's Response:

Management agrees with the recommendation and will implement it.

Management believes there is enough automation in the process, but the process could be improved. The reports used to reconcile and verify the payroll runs are standard and not changed from pay period to pay period. The reports originally programmed into the system for those purposes proved to be inadequate and new SQL scripts were written to generate the required data. These report programs were not placed on a menu, but are invoked by payroll personnel from the keyboard. However, we agree that it would be easier if the initiation of these reports could be menu-based. The development of such a menu-based process is planned and should be completed by October 1, 1996.

3. Procedures for verifying the official enrollment of VISTA volunteers should be developed.

Criteria: Management should establish methods to obtain reasonable assurance of the actual enrollment of VISTA Volunteers. The enrollment process should be authorized in accordance with laws, regulations and management's policies and plans.

Condition: During the course of our review, we noted that procedures are not in place to verify the official enrollment of VISTA volunteers. At the beginning of the program year, an orientation session is held at the State Office for volunteers of the VISTA program. During orientation, each volunteer completes an enrollment form. Enrollment forms for volunteers added after orientation are submitted to the State Office from the project site. Orientation by the State Office is not required for those enrollees added to the program after the initial orientation. Payroll checks for enrollees of the program are sent directly to the project site for distribution. We noted that one State Office maintains a manual log of the volunteers attending the orientation, and verifies this list to the payroll report.

Cause: Management has not provided guidelines to the State Offices for the development and implementation of procedures to verify the official enrollment of VISTA volunteers.

Effect: Management does not have a system in place to verify that VISTA volunteers receiving checks are officially enrolled in the VISTA Program. The absence of controls in this area increases the potential for fraud and abuse.

Recommendation: Management should determine and develop an effective means of verifying that VISTA volunteers entered into VMS are officially enrolled in the program. For example, a policy could be developed requiring every State Office to review and verify payroll reports, as well as, periodically distribute payroll checks to the volunteers at selected program sites.

Management's Response:

Management agrees with the recommendation and will implement it.

Management will implement a process for State Office and project site verification of VISTA payroll reports. The Corporation for National Service's policy provides that new members attend a pre-service orientation at which the Corporation's field staff interact directly with each new trainee. During this orientation, the Corporation's field staff collect the final enrollment forms and forward them to appropriate State Offices for entry into VMS. In the few cases where new VISTAs are unable to attend such formal training events, VISTAs are required to interact directly with State Office staff to enroll in the program. This direct interaction of Corporation staff and new VISTA members is intended to eliminate the possibility of fraudulent enrollment of new VISTAs.

As indicated in the response to Item 29 of Volume I of the report, to assure that VISTA allowances are only paid to members who are serving, we will develop a report to be sent to

project directors biweekly which will identify members serving on the project. Project directors will be required to return that listing to our State Offices with any changes or errors annotated. This response will be used to immediately update our automated records.

Summary of Action to be Taken:

1. Implement a biweekly report for verification by project directors by November 1, 1996.

4. Returned payroll checks are not recorded in VMS.

Criteria: All authorized events should be identified, converted into transactions, properly processed, added to files in the appropriate systems and accurately reported in a timely manner. Sufficient data should be maintained on each record to provide a history of all activity related to amounts paid, returned or due. Additionally, adequate procedures should exist to obtain a timely accounting of overpayments so that recovery can be expedited.

Condition: Currently, returned VISTA payroll checks are not recorded in VMS. Payroll checks generated in error or after an enrollee leaves the program prematurely are returned by the program site or member to the State Office. The State Offices send the returned check to the Service Centers which forward the checks to the Treasury. Copies of returned checks are sent to Headquarters by the Service Center and are maintained by the Payroll Office.

Cause: CNS' current procedures do not include entering returned checks onto the VMS system. Until recently, the VMS system could not process returned checks. However, during the course of our review, CNS enhanced VMS capability to perform this function.

Effect: Instances where checks are returned, the recorded amount of payroll for VISTA members are incorrect. Project expenditures are overstated and budgets are projected based upon inaccurate information. The system re-calculates the pay amount when a termination date is entered for an enrollee when the date is other than the official end of service date. W2 statements will reflect the correct pay amount, however, it will be understated if the checks were not returned by the enrollee. The amount and number of returned checks are not known, therefore, the extent and severity of the problem cannot be determined.

Recommendation: We recommend that CNS management establish a procedure for processing returned checks within the VMS system and develop a plan for updating the system to reflect returned checks already received.

Management's Response:

Management agrees with the recommendation and is implementing it. Procedures have been developed and are now being implemented to record these events.

Summary of Action to be Taken:

1. Returned checks will be recorded as received effective April 1, 1996.

5. Current enrollee data has not been entered onto the Trust Fund System.

Criteria: The Trust Fund System should contain all data needed to achieve the purposes for which it was created and provide accurate and timely information to management.

Condition: Current enrollee data, 20,000 enrollees, has not been entered onto the Trust Fund System. Because the system does not include these enrollees, a separate database is maintained by CNS for processing enrollees forbearance request. Forbearance letters are sent by CNS to the enrollees' lenders asking them to forbear receiving principal payments from the enrollee while they are enrolled in the AmeriCorps program. CNS pays the interest on the enrollees' loans.

Cause: The Trust Fund system was developed recently, however, the interface software which updates the information from the scanner equipment to the Trust Fund System was not completely developed. As a result, CNS could not input the enrollees' data.

Effect: CNS is unable to produce accurate and current program information from the Trust Fund System. This hinders CNS' ability to properly manage the program. Additionally, CNS is unable to process forbearance forms for AmeriCorps volunteers without a telephone call to verify the enrollee eligibility.

Recommendation: We recommend that CNS complete the development of the Trust Fund System so that it will accept current year enrollees. This will enable CNS to provide accurate enrollment data and statistics.

Management's Response:

Management agrees with the recommendation and has implemented it.

To simplify enrollment of AmeriCorps members, the two forms used with first year members were consolidated into one. At the time of this survey, modification of the software to get information from the new form into the database had not been completed. It has been completed and information is added to the database as it is received.

Summary of Actions to be Taken:

Implemented.

III. Recommendations Related to Other Reportable Conditions

6. CNS should develop and implement an Automated Information Security Program.

Criteria: Computer systems, databases, and communication networks are key components of the information technology infrastructure upon which financial management systems depend. Computer security is an important element of internal control; it is essential for the operations of systems and the accuracy of the financial data collected, stored, and reported. System security must be established and maintained in accordance with the computer security policies set forth in Appendix III to OMB Circular A-130, "Security of Federal Automated Information Systems." Computer security must include assignment of responsibility for security, environmental security plans, review of security controls, training, and personnel screening.

Condition: CNS does not have a comprehensive information security program and as a result the following are missing or inadequate:

- An employee security awareness and training program
- The assignment of sensitivity designations to every employee position
- A detailed risk management program
- A Computer Systems Security Plan (CSSP) for systems processing sensitive information
- Record retention procedures
- Security reviews
- Required background investigations for all employees
- Required background investigations for all contractor personnel
- A detailed fire emergency plan
- A written contingency plan
- A risk analysis
- A systems inventory

During our site visit to the California Service Center, we noted the absence of physical controls over the operation of system facilities and equipment. The daily tape backups were left near the file server on a regular basis. We also noted that there were no working smoke detectors in the facility. This situation renders the entire installation, including the information system, vulnerable to fire threat.

During our review of VMS, we noted that the users of VMS at Headquarters, Service Centers and State Offices do not have a documented contingency/business recovery plan. We also noted that security screening was not performed for the contractors that are involved in the design, development, operation and maintenance of the systems.

VMS and the Trust Fund System's security level designations are high sensitivity. The high sensitivity designation was determined for these systems because they maintain information that is used to authorize or make cash payments to individuals or organizations. Such

information includes databases that the user has the authority and capability to use or alter to cause an improper payment. The category of high sensitivity requires the most stringent security safeguards at the user level. These safeguards are usually addressed in security programs.

Cause: CNS management has not developed an Automated Information Systems Security Program, or identified a Systems Security Officer.

Effect: Without an Automated Information Security Program, the framework for security policies, standards, and procedures does not exist. Consequently, CNS does not have generally accepted information security policies and procedures in place. The lack of adequate contingency/business recovery plans renders CNS vulnerable to loss of productivity due to disaster, errors and other events that may interrupt normal operations.

Recommendation: We recommend that CNS develop an Automated Information Security Plan. This plan would form the foundation for the development and implementation of security policies, standards, and procedures. We also recommend that CNS designate an Information Systems Security Officer (ISSO) with primary responsibility for systems security. The ISSO's responsibilities include ensuring that security plans are developed, reviewed, implemented, and revised, as needed. ISSO responsibilities also include providing advice and assistance to managers and organizational personnel, identifying security weaknesses and coordinating security training activities.

We also recommend that the San Francisco Service Center authorize the installation of smoke detectors for the facility and take steps to ensure that the on-site backup tapes are stored in the fire-proof safe.

The Computer Security Plan, should at a minimum, include the following:

Application Security

Controls to ensure that appropriate administrative, physical and technical safeguards are incorporated into all new applications and significant modifications.

Personnel Security

Personnel security policies covering all individuals participating in systems design, operation and maintenance, or having access to data from such systems.

Information Technology Installations

Risk analyses for each system facility and appropriate security requirements for the acquisition or operation of system facilities, equipment, software packages and related services.

Contingency/Business Recovery Plans

A Contingency/Business Recovery Plan to assure that the users of automated systems can continue to perform essential functions in the event that processing capability is interrupted. The contingency/business recovery plan should be developed, documented and tested by Headquarters, and then distributed to the Field Offices.

Information Systems Inventory

A current inventory of all information systems.

Security Awareness and Training Program

A Security Awareness and Training Program to provide training for employees and contractors involved in the operation, development and maintenance of CNS' information systems. In developing and implementing training programs, consideration should be given to the use of electronic media and other uses of technology. A Training Matrix depicting an overview of the content, target populations, and training levels for a Security Awareness and Training Program is included as Exhibit A of this document.

Reporting

Security reporting, as the Corporation deems necessary, to include at a minimum, an access violation report and application system security certification.

Management's Response:

Management agrees with the recommendation and its implementing it.

The Corporation for National Service is a low-sensitivity Federal agency. Its operations are entirely domestic, and it does not receive, process or store classified or market-impacting data. Its sensitive data are limited to those found in any Government and private-sector organization: budgets, payroll, accounts payable, etc. Our security measures which have been installed, and those scheduled to be installed, were chosen to meet the Corporation's needs.

For example, pending the development of the formal Corporation security plan, management continually evaluates the risks concerning each of the Corporation's systems, including networks, communications, and applications. Before any of the systems were procured, the risk assessment level and feasibility of risk were evaluated. The most serious threat to our systems is through an outside modem connection into the Corporation's networks. In order to minimize that risk, Automation purchased and implemented the SecurID token card-based security system. This system is in use at such high security agencies such as the Central Intelligence Agency, the Securities and Exchange Commission, and others. This security system has never been defeated by hackers.

Another potential vulnerability that was evaluated was the use of network dial out/fax modems. When we implemented dial-out communications and faxing, we also set our network modems to be "send only", eliminating the possibility of someone breaking into our network by unauthorized dial-up communications. The modems will not answer a dial-in call.

All of our computer systems are password protected, along with a need-to-know access level of control. If an individual doesn't use the Trust Fund system, they will not have the necessary client software, nor the file access rights required to access that system.

The Corporation's security measures can be improved, and programs to that end are underway. A Network and Computing Security Plan has been prepared, and implementation of those measures that were not already implemented began on February 12, 1996. It covers substantially all of the points recommended for such a plan in the survey. In addition, as discussed in our response to Volume I, Item 84, development of a comprehensive disaster recovery and continuity plan is also under way with the on-site assistance of contractors experienced in developing and implementing such plans.

We agree that an Information Systems Security Officer should be designated, and accordingly a provision for such a position was included in the Corporation's FY 1996 budget request. It is now doubtful that an individual can be hired to serve in this capacity on a full-time basis. Current staff probably will have to continue to fill this role.

We also agree that backup media should be stored off-site if possible, or in fireproof containers if not. A policy statement to that effect will be developed for the San Francisco Service Center, and all of our other locations by April 30, 1996.

We are aware of our obligations under the Computer Security Act of 1987 and various policy documents to provide security training. As discussed in our response to Item 80 in Volume I, planning for such training nationwide is now well underway. We believe, however, that the relatively low sensitivity of most of the Corporation's data raises questions of cost-effectiveness as regards measures such as full background investigations for all employers and contractors, formal detailed risk management programs, and some other mentioned in this Item.

Summary of Actions to be Taken:

Most corrective actions have been taken. Management also will:

1. Assess user access, in its entirety, on a quarterly basis.
2. Issue policy statement on the storing of backup media by April 30, 1996.
3. Review whether system changes to remove access are cost effective and make a determination on any further changes by June 30, 1996.

7. CNS management should conduct a cost benefit analysis for the payroll and payroll related systems.

Criteria: Systems operations should be conducted in the most economic and efficient manner to achieve the goals defined by law, regulation and policy. To be effective, systems planning must support the overall strategic direction of the Corporation and be consistent in approach and timing. Systems planning efforts must consider the possibilities and implications of data employed by separately developed systems.

Condition: There are two payroll or payroll related systems that are operated by or on the behalf of CNS. (1) The VMS which is used to support the VISTA volunteers, processing their allowances and stipends. There are approximately 4,000 VISTA volunteers. (2) The National Finance Center (NFC) which processes payroll for NCCC volunteers and Program Leaders. There are approximately 870 NCCC volunteers and 50 Program Leaders.

The Trust Fund System is comprised of information for AmeriCorps members, to include, information that is maintained in the systems mentioned above. Information on program participants and institutions are also contained in the Trust Fund System. Currently, there are approximately 37,000 participants in the Trust Fund database.

Cause: Currently, payroll for CNS is processed by two systems: (1) the VMS, and (2) the National Finance Center. The Trust Fund System is used for other reporting purposes in addition to administering the National Service Trust Fund, and contains historical program data. CNS did not conduct a cost benefit analysis before developing the Trust Fund System.

Effect: The possibility of redundant processing between the payroll systems exists. Also, the Trust Fund System extracts and maintains some of the same data as the two payroll systems. System development efforts should support maintaining a single, integrated financial management system.

Recommendation: CNS has prepared a functional requirements document for a system that will satisfy all payroll processing requirements and have identified the need for a management information system. We recommend that CNS conduct a cost benefit analysis to determine the most appropriate system acquisition efforts. The cost benefit analysis should provide alternative strategies for development and/or acquisition approaches. An analysis of alternatives based on objective criteria and identifying pros and cons of all feasible alternatives should be prepared. Costs, benefits, and risks associated with all feasible alternatives should be compared and the most advantageous approach determined.

Management's Response:

Management agrees with the recommendation and will implement it prior to any decision being made concerning a replacement to the VMS system. The Corporation has been researching alternative strategies for this payroll system. We conducted a full analysis of the needs of our pay systems in order to evaluate our options, called the Participant Payment System. Since our systems design methodology is to use Oracles's design tools for such

systems, we have already built an entity relationship diagram, function hierarchy, and cross reference matrices which can be used to guide the selection and implementation of an off-the-shelf package or as a basis for a design and build of a custom Participant Payment System.

During this analysis the VISTA Management System was also reviewed. Oracle's CASE Tools were used to reverse engineer the VMS database. This involved taking the existing database and loading it into a CASE tool to analyze and document it. This analysis was needed before any decisions could be made concerning the Corporation's direction on these systems, and a cost benefit analysis will be conducted before a decision is made on how best to resolve this need.

Management has concluded that it will defer any decision about replacing the VMS system until some future point.

Summary of Actions to be Taken:

1. Prepare a cost benefit analysis before any decisions are made concerning a replacement for the VMS system. Budget considerations and completing needs make the exact date that this will be undertaken difficult to predict.

8. VMS reporting should be enhanced.

Criteria: Financial management systems must process, track, and provide accurate, timely, internally consistent, and readily accessible information on financial activity in the most cost effective and efficient manner. Reporting needs to be at a proper level of detail, timing, content, and format to provide information of real value to its users. Reporting should provide sufficient information to measure program performance.

Condition: During the course of our review, we noted that VMS reporting is cumbersome and limited. In the State Offices, VMS reports are used extensively to respond to telephone inquiries from the VISTA volunteers when access to the system is unavailable (see Delayed Access to VMS from User Site finding). For example, the State Office may receive a telephone call from a member with a question regarding the payroll. When the system is unavailable, the State Office staff person begins to search through the payroll report for the name of the volunteer. The report is sorted by program code. The Los Angeles office, for example, has 41 active programs. Staff must look through each of the 41 programs until the name of the volunteer is found.

The Service Centers generate reports which include all of the State Offices they support. When these reports are generated, all of the detail is printed, listing each volunteer. However, in most cases only program totals are required. We also understand that there are reports available at Headquarters that are not available to the Service Centers.

Modifications to existing reports have been identified by the Program office at Headquarters to accommodate their information needs.

Cause: VMS reporting has not been enhanced to provide information to meet user needs.

Effect: A significant amount of time is spent by State Offices attempting to use existing reports to respond to the many phone calls received daily from VISTA volunteers. Furthermore Service Centers spend a lot of time creating reports in the format they need. VMS reporting does not provide CNS management with the necessary information to evaluate, measure and report program data.

Recommendation: We recommend that CNS management determine the reporting needs of Headquarters, State Offices and Service Centers and enhance existing reports or develop new ones accordingly. We also recommend that Headquarters make available all existing reports to the Service Centers.

Management's Response:

Management agrees that all reporting needs should be reassessed and will do so.

However, management believes all reports available to Headquarters currently are available to Service Centers. The specific problem cited, the need for state staff to review paper reports to respond to inquiries from members concerning pay, is a result of the problem

noted under Item 9. See the response to that issue. Once that problem has been resolved, there will be no need for state staff to print out and examine the voluminous reports referred to in the finding. Rather, the answers to questions can be more easily found by interrogating the system online.

Summary of Actions to be Taken:

1. Assess all reporting needs by October 1, 1996.
2. Future actions and dates dependent on needs assessments results.

9. VMS users at State Offices experience delays in gaining access to the system.

Criteria: Information systems should be available to all users as the need arises.

Condition: During our site visits to the California and Florida State Offices, we observed personnel as they accessed VMS and performed various routine functions. In both Los Angeles and Orlando, users had to wait to acquire access to the system. When access to the system was attempted, the message "NO AVAILABLE HOST" was received in some instances. We were informed that the wait lasts from ten minutes to an hour on a regular basis. The WA&Co. team experienced a 20 minute delay at the Los Angeles office for access to the system. The State Offices view this practice as normal and do not inform Automation Services at Headquarters of the problem. There are currently 16 ports available for access to the system by the State Offices.

Cause: The scope of our review did not include determining the actual cause for the delayed access.

Effect: Users have to wait up to an hour, in some cases, to access VMS. This causes delays in providing support to the volunteers and program project leaders.

Recommendation: We recommend that CNS management require the State Offices to notify Automation Services at Headquarters of delays encountered so that the reasons for delayed access can be determined and corrected.

Management's Response:

Management agrees with the recommendation and has implemented it.

The State Office dial-in system was designed to support up to sixteen simultaneous State Offices connections. The number of dial-in connections was determined based upon a systems study conducted by the Department of Transportation for the old ACTION agency. While the study predicted a maximum need of 8-10 simultaneous connections, we implemented a 16 port solution to provide an extra margin of access.

The Automation Help Desk checks twice a day to verify that all of the access ports are available. We have never observed an occurrence when all 16 ports were in simultaneous use. Also not a single State Office called reporting that they were unable to access either the LAN or VMS.

Since the State Office user must identify which of the 16 hosts he/she intends to use during that session, we can only conclude that the user is not reviewing the listing of available hosts, and instead is typing in the name of a specific host each time. Automation has provided a step-by-step instruction manual to the State Offices detailing the correct steps to determine the names of the available hosts during each connection. This information is detailed on page six of the State Office User Manual.

Summary of Action to be Taken:

1. Develop a menu-based process of generating the needed reports by October 1, 1996.

9. VMS users at State Offices experience delays in gaining access to the system.

Criteria: Information systems should be available to all users as the need arises.

Condition: During our site visits to the California and Florida State Offices, we observed personnel as they accessed VMS and performed various routine functions. In both Los Angeles and Orlando, users had to wait to acquire access to the system. When access to the system was attempted, the message "NO AVAILABLE HOST" was received in some instances. We were informed that the wait lasts from ten minutes to an hour on a regular basis. The WA&Co. team experienced a 20 minute delay at the Los Angeles office for access to the system. The State Offices view this practice as normal and do not inform Automation Services at Headquarters of the problem. There are currently 16 ports available for access to the system by the State Offices.

Cause: The scope of our review did not include determining the actual cause for the delayed access.

Effect: Users have to wait up to an hour, in some cases, to access VMS. This causes delays in providing support to the volunteers and program project leaders.

Recommendation: We recommend that CNS management require the State Offices to notify Automation Services at Headquarters of delays encountered so that the reasons for delayed access can be determined and corrected.

Management's Response:

Management agrees with the recommendation and has implemented it.

The State Office dial-in system was designed to support up to sixteen simultaneous State Offices connections. The number of dial-in connections was determined based upon a systems study conducted by the Department of Transportation for the old ACTION agency. While the study predicted a maximum need of 8-10 simultaneous connections, we implemented a 16 port solution to provide an extra margin of access.

The Automation Help Desk checks twice a day to verify that all of the access ports are available. We have never observed an occurrence when all 16 ports were in simultaneous use. Also not a single State Office called reporting that they were unable to access either the LAN or VMS.

Since the State Office user must identify which of the 16 hosts he/she intends to use during that session, we can only conclude that the user is not reviewing the listing of available hosts, and instead is typing in the name of a specific host each time. Automation has provided a step-by-step instruction manual to the State Offices detailing the correct steps to determine the names of the available hosts during each connection. This information is detailed on page six of the State Office User Manual.

This situation can be avoided by following the instructions provided in the State Office User Manual, or by calling the Automation Help Desk.

Summary of Actions to be Taken:

Implemented.

10. Integration to the Cost Sharing Billing System should be automated.

Criteria: Input into information management systems should occur once and the information should be shared with or passed to other systems or components that need the same information.

Condition: CNS participates in projects with other organizations in which they agree to share the costs of the project. Information for cost sharing agreements between CNS and sponsoring organizations requires the entry of the same data into VMS and FOXPRO. The California Service Center use FOXPRO, a micro computer spreadsheet program designed to process the invoicing of the cost sharing billing process. Using FOXPRO involves entering into the system data that has already been entered into VMS.

Cause: Currently, VMS does not allow for the extraction of data from VMS to FOXPRO to facilitate cost sharing billing. VMS was not enhanced to handle the billing function for these agreements.

Effect: Service Centers and State Offices are developing systems to process invoices for the cost sharing billing that require redundant input. These systems are costly not only in dollars for software and equipment but also for personnel time allotted to the development process. We understand that CNS is in the process of establishing additional cost sharing billing programs and will most likely use FOXPRO in all Service Centers in the near future.

Recommendation: We recommend that CNS automate the download of necessary information to FOXPRO to prevent the Service Centers from having to reenter information. Data needed by the system to support the financial function should be entered only once. Other parts of the system should be updated through electronic means.

Management's Response:

Management agrees with the recommendation and will implement it.

Initial discussions on this issue have taken place with the Service Center Directors. We intend to incorporate this automation download capability into the system as it is fully implemented for each Service Center nationally.

Summary of Actions to be Taken:

1. Automate the download of information to the Cost Billing System by January 1, 1997.

11. VMS test work should not be performed in the production environment.

Criteria: Accepted automated information system procedures prescribe a separate test system that is independent of the existing production system. This is necessary to allow tests to be conducted without interfering with production activities.

Condition: During the course of our review we found that VISTA payroll test work is performed in the VMS production system environment. This test work involves verification of processing after software changes and modifications have been made.

Cause: Test work is performed in the production environment due to the lack of a suitable test system that simulates the production environment.

Effect: Conducting tests in the production environment increases the risk of unexpected or unexplained system operation and may corrupt production system data.

Recommendation: We recommend that CNS management develop a test system that simulates the production environment to facilitate all VMS test work.

Management's Response:

Management has established a test environment for all of the Corporation's Oracle applications. While we already had a test environment for VMS modifications at the Department of Transportation, we also wanted to create a test environment at the Corporation for all of our Oracle development.

While this test environment could have been established as an additional Oracle session on our production server, we believed that the safest way to protect the production environment was to implement a separate test server. In mid-1995 this server was purchased, configured, and made available for Oracle testing and development work.

Once available, the Automation Office's management directed that all testing of new production program codes or modifications to be conducted on the test server first, before being implemented in the production system. This is standard operating procedures for all of our Oracle systems.

Summary of Actions to be Taken:

Implemented.

12. The VMS/Trust Fund electronic link should be reviewed to verify that it is operating appropriately.

Criteria: Systems must be constantly reviewed to determine what adjustments are necessary to meet the needs of the organizational and functional environments.

Condition: The Trust Fund System obtains pertinent information for VISTA members from VMS. This information is retrieved via an interactive link between VMS and the Trust Fund System. A review of the information flow between VMS and the Trust Fund System has not been performed since the Trust Fund System was implemented in September of 1995.

Cause: CNS management has not reviewed the electronic link between VMS and the Trust Fund System to determine accuracy of the data.

Effect: Failure to review the electronic transmission of data increases the risk of errors resulting from data loss and data errors.

Recommendation: We recommend that CNS management plan and review the information received via the interactive link. The review should determine that the desired information is linked appropriately. Common data exchanges should be examined, as well as exception scenarios. An example of an exception is a change in the type of award from stipend to educational, or vice versa, when it happens at the end of the year of service. The review should include the impact on the Trust Fund System when a member enrolls in the VISTA program for an additional term at completion of a term of service.

Management's Response:

Management agrees with the recommendation and has implemented it.

We are fully satisfied that, in the case of transactions which affect both VMS and Trust Fund data, both sets of data are fully updated. As with all major system's changes, standard operating procedures are to have someone other than the original programmer review any changes. The triggers specified within this finding received such a review. The triggers are Projects_update_trust, Proj_pers_insert_trust, Proj_pers_update_trust, and volunteers_updated_trust.

Summary of Actions to be Taken:

Implemented.

13. An audit trail of updates to records in the Trust Fund database is not maintained.

Criteria: Standards for updates to records should be in agreement with the organizations technical architecture and should be consistent across all financial applications.

Condition: During the course of our review, we noted that corrections are made to actual records in the Trust Fund System to process updates that cannot be made through normal data entry means. Changes and corrections are made directly to the database, bypassing data entry screens and all edit routines. An audit trail of these updates does not exist. These changes and corrections are performed by the System Administrator.

Cause: Changes are made to the database because the Trust Fund System is unable to accommodate all updates to enrollee information. This is due largely to the first year trust fund data which was entered manually and with extensive errors.

Effect: In some cases, updates made directly to the database result in records being deleted from the files. Changes occur without any audit trail or documentation because no before and after images of the records changed or deleted are taken. Significant risk is associated with updating records directly to the database and this process could cause file corruption.

Recommendation: We recommend that CNS maintain an audit trail of corrections made to the actual records. The audit trail should be reviewed to determine if enhancements to the software are necessary to accommodate updates and corrections through the normal data entry process.

Management's Response:

Management agrees with the recommendation listed above and has implemented it. During the analysis phase of the Trust Fund System, management decided that before and after update log capability was not required in the production system. Under the present production system, the only audit trail is a record of who made the most recent change to a given record, and when (date and time) that change was made. In lieu of that automated record, the decision was made that the Trust Fund Data Administrator would keep all change request in a file to maintain a physical record of such requests. This procedure is currently in place. The operational experiences of the Trust Fund Data Administrator and others involved in the system's operation do lead to suggestions for improvements.

Summary of Actions to be Taken:

Implemented.

IV. Other Observations and Recommendations

14. CNS should develop and maintain system and other supporting documentation.

Criteria: Documentation must be geared to the levels of the end users and their roles and responsibilities within an organization. Documentation must be user friendly, kept up-to-date, and include all of the information needed to operate the software effectively within the agency environment.

Condition: We noted the following conditions as a result of our site visits to the California Service Center, the California State Office, the Florida State Office, and the Pacific Cluster Office:

- 1) Written policies and procedures to reflect the assigned duties of VMS personnel do not exist.
- 2) The VMS manual is outdated and does not accurately reflect the current functionality of the system.
- 3) There are no procedures for handling incorrect social security numbers that result in duplicate records and duplicate pay checks.

Cause: The above stated documentation and maintenance was never developed or performed.

Effect: The lack of adequate and updated documentation renders CNS vulnerable to loss of productivity due to disasters, errors and other events that may interrupt normal operations.

Recommendation: Documentation should be developed to assist all users of the system, from computer specialists to financial management and program personnel. It should be "user friendly" and represent a useful tool, rather than simply a book that sits on a shelf. Quality, up-to-date documentation should be used on a regular basis and is critical to supporting the ongoing operations of the system.

CNS management should, at a minimum, develop documentation to address the following:

1. Job descriptions and responsibilities for Service Centers and State Offices personnel.
2. A policy to update the VMS user manual as system upgrades and enhancements are made.
3. Procedures on how to handle the occurrence of an incorrect social security number entry.

Management's Response:

Management agrees with the recommendation and will implement it.

As mentioned in an earlier item, the Corporation for National Service's management has conducted an extensive analysis of the payroll needs of our programs. Management has decided that VMS would be maintained in its present state, without substantial additional expenditure of funding, until a future direction for such services is determined. In the interim, management will review its present instructional material on VMS and augment it with instruction sheets as needed. There are position descriptions for Service Center and State Office personnel.

Summary of Actions to be Taken:

1. Review current VMS documentation and augment with instructions as needed by November 30, 1996.

15. A formal requirement for a second review and approval of Trust Fund Payments should be implemented.

Criteria: Segregation of duties controls are designed to reduce the opportunity for someone to commit or conceal errors or irregularities in the normal course of business. Approval controls provide reasonable assurance that appropriate individuals approve recorded transactions in accordance with management's general or specific criteria.

Condition: During our review, we noted that one individual is able to carry out every function of the Trust Fund payment process. While a second review and approval of Trust Fund payments is currently performed, a formal requirement or documented procedure for the second review does not exist.

Cause: CNS has not required or documented the procedures for a second review and approval of the Trust Fund payments.

Effect: The absence of formal procedures may result in inconsistent application of management policies and guidelines, and improper segregation of duties. Furthermore, the absence of formal procedures places the system at risk for fraud and abuse.

Recommendation: We recommend that CNS develop a documented procedure to ensure that payments generated by the Trust Fund System are reviewed and approved by someone other than the individual processing the payment.

Management's Response:

Management agrees with the recommendation and will implement it.

This is essentially the same finding as Item 31 in Volume I. In the response to that finding management noted that two individuals review all individual payments before a schedule of payment is approved. However, as noted in the finding, because of the volume of work and the size of the staff, sometimes one of those individuals may have been involved in creating some of those payments. Procedures will be put into place whereby the individuals who approve schedules of payments are not individuals who create payments. It should be noted that different individuals certify the schedule of payments to the Treasury Department.

Summary of Actions to be Taken:

1. By June 30, 1996, have in place procedures whereby individuals who create Trust Fund payments do not approve a schedule of payments.

16. VMS lock-out execution during payroll processing should be evaluated.

Criteria: Lock-out procedures should be executed effectively and efficiently. The procedures should be documented and available to authorized personnel.

Condition: Prior to beginning the payroll process, Automation Services removes a critical file from the production environment. This must be done to prevent users from accessing and updating the system during VMS payroll processing. Problems were encountered in the past when access to VMS from user sites were allowed during the payroll process. Without this file, users are unable to access VMS. After the payroll process is completed, Automation Services, at the request of VMS payroll personnel, restores the file to allow users to resume access to VMS.

Cause: The automation of VMS lock-out was not included in the development of the system nor has VMS been enhanced or modified to include this feature.

Effect: Lack of an automated lock-out process renders VMS vulnerable to errors and mistakes by personnel performing the process.

Recommendation: We recommend that CNS determine the necessity of the lock-out process. If this process is deemed necessary, CNS should document and automate the lock-out procedures.

Management's Response:

Management does not agree with the recommendation.

Normally, lock-out is not necessary during the running of the payroll process. In fact, lock-out leads to a degradation in the usefulness of the system. If data about a VISTA is changed after the payroll process has been initiated but before the individual's allowance payment is calculated, the calculation will be based upon the new data. Locking out field access to the data will cause inaccurate payments for these VISTAs. If the payment amount has already been calculated, the changed data with any adjustments will be used in the subsequent payroll run. Furthermore, locking out field access to the data will prevent anyone from interrogating the files for information, thus reducing the usefulness of VMS during the lockout period.

Summary of Actions to be Taken:

None required.

17. VMS should require users to change their password upon initial sign-on to the system.

Criteria: Good access control security should include the ability of the system to force the users to change their passwords at the first access attempt and periodically thereafter.

Condition: The VMS system 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 (id).

Cause: The forced password change feature was not programmed into VMS when it was developed and was not included in any subsequent enhancement or modification.

Effect: Several users of VMS can easily guess the password of other users because many users do not change their default password. This situation can negatively impact user accountability.

Recommendation: We recommend that CNS modify VMS to require users to change their password upon initial sign-on to the system and periodically thereafter.

Management's Response:

Management agrees with the recommendation and has implemented it.

While this was a problem when VMS was first placed into production, it is no longer an issue. The administrator routines that DOT originally provided to the Corporation for National Service created end user accounts with the same password as the account name. Due to the potential vulnerability of this approach, Automation now provides random passwords for VMS users.

We agree that it would be ideal to have Oracle force users to change their passwords after a set period of time, as the Corporation's network operating system currently provide, but this is not a function presently available within Oracle. Implementing such a requirement would require customized programming for each individual Oracle application.

We also agree that many users are likely to leave their passwords unchanged unless they are forced to change them, and that unchanged passwords in time turn into a security vulnerability. We will continue to investigate whether software which adds a mandatory password change facility to Oracle is available. If such a product becomes available we will acquire and install it.

Summary of Actions to be Taken:

Implemented.

18. CNS should secure or properly dispose of sensitive documents and/or reports.

Criteria: The Privacy Act requires that sensitive documents and information be safeguarded from unauthorized disclosure, alteration or destruction.

Condition: During our review, we noted that sensitive documents such as VISTA volunteers' W2 Forms and other reports displaying the enrollee social security number were unsecured in the office of VMS payroll personnel. Additionally, we noted printed W2 forms remaining on the printer and W2 Forms which had been returned. These documents were exposed in open view.

Cause: Procedures for securing sensitive VISTA payroll documents and information have not been developed and implemented.

Effect: Failure to properly safeguard sensitive payroll documents and information is a violation of the Privacy Act.

Recommendation: We recommend that CNS management develop a policy requiring that sensitive documents be secured in locked cabinets or properly disposed of when no longer needed. Shredding is an acceptable way to properly dispose of unwanted sensitive reports and documents.

Management's Response:

Management agrees with the recommendation and will implement it.

The Corporation for National Service's policy is to secure or properly dispose of sensitive documents. Shredding is the usual way for disposing of these documents. In places where we have identified that the policy is not consistently followed by some staff, the need to adhere to the policy has been emphasized. A formal reminder to all Corporation staff about this policy will be provided to all employees by April 30, 1996.

Summary of Actions to be Taken:

1. By April 30, 1996, a general notice to all employees about the treatment of sensitive documents will be issued.

EXHIBIT A

Training Matrix

Audience Category	Computer Security Basics	Security Planning & Management	Computer Security Policy & Procedures	Contingency Planning	Systems Life Cycle Management
Executives	Awareness	Policy	Awareness	Awareness	Awareness
Program & Functional Managers	Awareness	Implementation	Implementation	Performance	Performance
IRM, Security & Audit Personnel	Awareness	Performance	Performance	Performance	Performance
ADP Management Operations & Programming	Awareness	Performance	Performance	Performance	Performance
End Users	Awareness	Awareness	Performance	Performance	Awareness
<p>Four general levels of training that are appropriate for different target audiences are as follows:</p> <ol style="list-style-type: none"> a. Awareness level training creates sensitivity to threats, vulnerabilities, and the need to protect data and data processing activities. b. Policy level training provides the ability to understand computer security principles so that executives can make informed decisions about computer and information security programs. c. Implementation level training provides the ability to recognize and assess the threats and vulnerabilities to automated information resources so that the responsible managers can set security requirements that implement Agency security policies. d. Performance level training provides the employee with skill to design, execute, or evaluate Agency computer security policies and practices so that employees will be able to apply security concepts while performing tasks that relate to their duties and positions. <ol style="list-style-type: none"> 1. Five general subject areas should be addressed by the training: <ol style="list-style-type: none"> a. Computer Security Basics: Introduces the concepts behind computer security practices and the importance of the need to protect information from known threats. 					

Training Matrix

- b. **Security Planning and Management:** Concerns risk analysis, the determination of security requirement, security training, and internal agency organization to carry out the computer security function.
 - c. **Computer Security Policy and Procedure:** Examines security practices in the areas of physical, personnel, software, communications, data and administrative security.
 - d. **Contingency Planning:** Covers the concepts behind emergency planning, backup, response, and recovery; identifies the role and responsibilities of involved personnel.
 - e. **Systems Life Cycle Management:** Discusses the ways in which security is addressed during each phase of the system life cycle, including initiation, definition, system design, programming and training, evaluation and acceptance, and installation and operations; addresses procurement, certification and accreditation.
2. Five target populations for training have been defined by the Office of Personnel Management (OPM). A sixth group, contractors, may fit into any one of the five target populations. These groups and their training needs are described below:
- a. Executives are senior managers who set Agency computer security policy, assign responsibility for implementation policy, determine acceptable risk levels, and provide the resources for the computer security program. Executives need training to understand their responsibility for implementing the security program.
 - b. Program and Functional Managers who have a program or functional responsibility that is not in the area of computer security, but who have primary responsibility for the security of their data. These managers need to understand the criticality of systems which support their functions, and in ensuring that cost-effective security controls are implemented to protect data from unauthorized disclosure, modification, or destruction. Functional managers should understand the need/requirements for contingency and disaster recovery planning and for the issuance of security procedures, guidelines, or standards directed toward protecting the daily operations for which they are responsible.
 - c. Information Resource Managers, Security and Audit Personnel are involved with the daily management of information resources, including availability, and safety of these resources. Although the roles and responsibilities of these officials differ depending upon their organizational location, they require extensive training to ensure comprehensive knowledge of the organizations security discipline, program security requirements, policies, and procedures. ISO's need training in the technical aspects of system vulnerabilities risks and safeguards.
 - d. Automated Data Processing (ADP) Management, Operations, and Programming Staff are involved with the daily management and operations of ADP services. These managers and specialists need technical training commensurate with their responsibilities for

Training Matrix

implementing security policy and for providing security controls to ensure the protection of information and applications.

e. End Users are employees who have access to a computer system that processes sensitive information. This group is large and diverse. All users of automated information must be provided with some kind of general security awareness orientation or training, whether they use computers on a full or part-time basis to perform their jobs. Contractors need security training commensurate with their responsibilities for performing work under the terms and conditions of a contractual agreement.

Training is an ongoing process and, at a minimum, should be provided whenever there is a significant change in the organization's information security environment or procedures, or when an employee enters a new position that deals with sensitive information. Computer security refresher training should be provided as frequently as determined necessary by the organization.

References

Law and Regulation

Computer Security Act of 1987

Privacy Act of 1974

OPM Regulations, Training Requirement for the Computer Security Act