
**Office of the Inspector General
Corporation for National Service**

**Auditability Assessment of the Corporation for
National Service at September 30, 1997**

**Report Number 98-23
May 15, 1998**

This report was issued to Corporation management on July 8, 1998. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than January 4, 1999, and complete its corrective action by July 8, 1999. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

This report was prepared under Corporation for National Service contract number 98-743-3002.

Office of the Inspector General
Corporation for National Service
Auditability Assessment of the Corporation for
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CORPORATION
FOR NATIONAL
 SERVICE

Under the Government Corporation Control Act the Corporation for National Service (the Corporation) is required to have an annual audit of its financial statements. However, as the Office of the Inspector General (OIG) has previously reported, due to the number of material internal control weaknesses and other reportable conditions, the Corporation has not been able to produce auditable financial statements since its inception in fiscal year 1994 through fiscal year 1996.

In July 1997, OIG reported¹ that, although the Corporation had made progress in correcting some of the deficiencies, 21 of the material weaknesses and other reportable conditions continued to exist. In August 1997, the Corporation determined that only its fiscal year 1997 Statement of Financial Position (balance sheet) would be submitted for audit.

In January 1998, as part of our efforts to perform the annual audit, OIG engaged KPMG Peat Marwick (KPMG) to first assess the Corporation's progress in correcting the previously reported conditions. KPMG was then to determine the impact of the remaining uncorrected deficiencies on the audit of the fiscal year 1997 balance sheet as well as the Corporation's fiscal year 1998 financial statements. KPMG performed its assessment during the period March 1998 to May 1998, in accordance with *Government Auditing Standards*. We have reviewed the report and work papers supporting KPMG's conclusions and agree with the findings and recommendations presented.

KPMG reports that, while there are still previously reported internal control deficiencies that require correction, it believes the fiscal year 1997 balance sheet can be audited. However, they can not provide assurance that an unqualified opinion will be rendered or that other circumstances will not arise which could cause them to disclaim an opinion on the balance sheet. KPMG also states that the nature of the audit report on the fiscal year 1997 balance sheet would depend on the Corporation's ability to

- resolve the material unreconciled difference included on the fund balances with Treasury reconciliation as of September 30, 1997;

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¹ OIG Report 97-27, *Report on the Follow-up Study to the Auditability Survey -- Phase 2*, dated July 14, 1997.

- provide adequate support for the assumptions used in estimating the service award liability for the National Service Trust;
- provide adequate support for the assumptions used in estimating grants payable and grants advances at September 30, 1997; and
- provide adequate support for the components of the liability related to former Commission grant awards administered by the General Services Administration.

During the course of its work KPMG also performed a complete reassessment of the previously identified internal control weaknesses and regrouped them into eight process-related categories. Weaknesses in these processes must be corrected before the fiscal year 1998 financial statements can be audited. Most notably, KPMG identified material weaknesses in the processes related to the National Service Trust, Fund Balance with Treasury, and Payroll and Allowances. Processes related to Financial Management and Reporting, Grants Management, Revenue, and Electronic Data require improvement.

In its response to this report, the Corporation stated that it is working to resolve these issues and outlined the steps it is taking. The Corporation's response is included in its entirety as Appendix C.

**Office of the Inspector General
Corporation for National Service
Auditability Assessment**

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May 15, 1998

Inspector General
Corporation for National Service:

At your request, KPMG Peat Marwick LLP (KPMG) performed an assessment to determine whether the Corporation for National Service's (the Corporation) Statement of Financial Position at September 30, 1997, can be audited. We also assessed the effectiveness of internal control policies and procedures in place at September 30, 1997, and the status of previously identified weaknesses in internal controls which had precluded the audit of the Corporation's financial statements. The results of our assessment indicate the Corporation has made significant progress in addressing these matters. The following table presents a summary of the status of the prior recommendations:

	Auditability Assessment	National Trust Audit	Total	Corrected/ Addressed	Not Corrected
Material Weaknesses	33	11	44	29	15
Other Reportable Conditions	41	-	41	29	12
Other Recommendations	25	-	25	18	7
Totals	99	11	110	76	34

Appendix A presents the status of each recommendation in more detail.

The Corporation's efforts to correct the prior findings have included the establishment of additional management controls which, together with implementation of recommendations contained in the prior reports, have resulted in changes to the control environment which mitigate some of the prior recommendations noted above as "not corrected." We have performed a complete reassessment of the internal control weaknesses which continue to require management's attention and regrouped these matters into process-related categories as discussed in the attached Exhibit. The following table presents the condition of internal controls for each process:

Process	Materially Weak	Requires Improvement
Financial Management and Reporting		√
National Service Trust	√	
Fund Balance with Treasury and Investments	√	
Payroll and Allowances	√	
Grants Management		√
Revenue		√
Procurement, General Expenditures, and Budget		√
EDP Controls		√

We believe the Corporation's Statement of Financial Position at September 30, 1997, can be audited. However, we can not provide assurance that an unqualified opinion will be rendered. Additionally, circumstances may arise which could cause us to disclaim an opinion on the Statement of Financial Position. The nature of our independent auditors' report on the Corporation's Statement of Financial Position at September 30, 1997, will depend on the Corporation's ability to satisfactorily address the following matters:

- resolve the material unreconciled difference included on the fund balances with Treasury reconciliation as of September 30, 1997;
- provide adequate support for the assumptions used in estimating the service award liability for the National Service Trust;
- provide adequate support for the assumptions used in estimating grants payable and grant advances at September 30, 1997; and
- provide adequate support for the components of the liability related to former Commission grant awards administered by the General Services Administration.

Additionally, the following conditions must be corrected before the financial statements for the year ended September 30, 1998 can be audited:

- ***Financial Management and Reporting*** - The Corporation's general control environment is weak and is not conducive to ensuring that an effective system of internal controls is maintained to safeguard assets, produce reliable financial reports, and comply with applicable laws and regulations.
- ***National Service Trust*** - Membership roster confirmations designed to validate the accuracy and completeness of the data used to calculate the service award liability are ineffective; and quality control procedures are not in place to ensure file maintenance and data entry errors are detected and corrected in a timely manner.
- ***Fund Balance with Treasury*** - Reconciliations are not performed in an effective or timely manner; and information related to the former Commission grants is not effectively monitored or considered for financial reporting purposes.
- ***Payroll and Allowances*** - Incompatible duties continue to be assigned to payroll technicians; quality control procedures are not in place to ensure file maintenance and data entry errors are detected and corrected in a timely manner; and annual leave reconciliations are not performed timely.
- ***Grants Management*** - Financial Status Reports are not recorded on a timely basis; quality control procedures are not in place to ensure file maintenance and data entry errors are detected and corrected in a timely manner; and procedures for grantee site visits need to be improved.
- ***Revenue*** - Quality control procedures are not in place to ensure timely and accurate recording of cost share agreement transactions.

- **Electronic Data Processing (EDP) Controls** - Application programmers have unrestricted access to production data; and system administrator privileges, which may allow for unauthorized changes to network security, are assigned to too many individuals.

The attached Exhibit - Findings and Recommendations describes these weaknesses in further detail.

Objectives, Scope, and Methodology

The National and Community Service Trust Act of 1993 (which amended the National and Community Service Act of 1990) established the Corporation for National and Community Service as a Government corporation subject to the requirements of the Government Corporation Control Act. The Corporation began operations in fiscal year 1994.

Although the Government Corporation Control Act requires the compilation and audit of annual financial statements, the Corporation has been unable to produce auditable financial statements for fiscal year 1994 through fiscal year 1996. In House Report 104-537, the conferees on the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Public Law 104-134) requested that the Corporation's Office of the Inspector General (OIG) periodically report to the Congress on the Corporation's progress in improving its financial management systems and in developing auditable financial statements.

We were engaged by the OIG to assess the effectiveness of the Corporation's corrective actions, and determine if its Statement of Financial Position at September 30, 1997 can be audited.

We planned our assessment by reviewing reports issued by the OIG and by meeting with both the Inspector General and Corporation personnel to confirm our understanding of the project's scope and goals. We then documented and tested the effectiveness of the Corporation's internal controls using inquiries and observations, examination of a sample of source documents, and review of account reconciliations. Our procedures included tests of the corrective actions taken by the Corporation to address the prior findings, as well as other tests as considered necessary to support our conclusion as to whether the Corporation's Statement of Financial Position at September 30, 1997, could be audited.

We also considered the potential for material misstatement of financial records due to fraudulent financial reporting and misappropriation of assets. Finally, we assessed the overall adequacy of documentation maintained by the Corporation to support the balances reported on the September 30, 1997, Statement of Financial Position.

We conducted our auditability assessment procedures in accordance with the standards applicable to financial related audits contained in *Government Auditing Standards*. Appendix B presents our overall approach to the auditability assessment in more detail.

We were not engaged to, and did not, perform an audit of any financial statements, and the procedures described above are not sufficient to express an opinion on the Corporation's internal controls. Accordingly, we do not express an opinion on any such financial statements; on the Corporation's internal controls or on whether all reportable conditions have been identified. Had

we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We provided a draft of this report to the Corporation. The Corporation's response to our findings and recommendations is included as Appendix C.

This report is intended for the use of the United States Congress, the Inspector General, the Board of Directors and management of the Corporation for National Service. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

FINDINGS AND RECOMMENDATIONS

The following paragraphs set forth our findings, other observations, and recommendations related to the Corporation's significant process areas.

Financial Management and Reporting

The financial management and reporting processes should be comprised of establishing and maintaining a strong management control environment and preparing reliable and timely financial data, including financial statements.

Control Environment

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

The Corporation is subject to the reporting requirements of the Government Corporation Control Act, as amended, (31 U.S.C. 9101 et. Seq.) which requires management to provide an annual statement on its internal accounting and administrative controls consistent with the requirements of the Federal Managers' Financial Integrity Act of 1982 (Public Law 98-255). Although the Corporation has been in existence since 1994, the Corporation's first submission of such a statement was not made until December 1997 as part of its 1995 Annual Financial Report.

The Corporation lacks an effective management control environment as evidenced by the volume of material weaknesses and other reportable conditions identified in previous auditability surveys. Although the Corporation has made significant strides in addressing these control environment issues, certain internal control weaknesses remain which require management's attention. Without a strong control environment, control weaknesses will continue to permeate the organization, thus increasing risks and inefficiencies and reducing the reliability of financial data.

Financial Reporting

Key elements in ensuring an effective financial reporting process should include:

- training of management and employees in relevant financial reporting concepts;
- availability and appropriate use of reference materials and written procedure manuals;
- maintenance of a financial information system which meets minimum general ledger accounting standards and is capable of producing financial reports and account analyses useful for management decision-making and financial control;
- management review of financial statements, disclosures, and supporting schedules;

FINDINGS AND RECOMMENDATIONS

- effective oversight of accounting and financial reporting services provided by outside contractors; and
- clearly communicated assignment of responsibilities, timelines, and expected results.

In addition, the Corporation's financial managers should be knowledgeable of current accounting and reporting requirements, be familiar with the financial information system capabilities, have timely access to financial reports such as budget to actual expenditure comparisons, and be committed to quality in all aspects of financial reporting.

The current financial management system requires the Corporation to manually accumulate and summarize information for financial reporting purposes. Management has no clearly defined written policies and procedures for the timely and accurate preparation of the financial statements. Although the Corporation has contracted with an outside accounting firm to provide operational and system support for its financial reporting process, the Corporation remains responsible and accountable for the preparation of reliable financial reports in accordance with the Government Corporation Control Act. However, oversight of the contractors' performance is very limited and responsibility for ensuring the financial statements and related disclosures, supporting schedules, and account analyses are complete and accurate has not been clearly assigned to or assumed by anyone at the Corporation. This situation is highlighted by the fact that as of May 1998 top management was unaware that reconciliation differences related to fund balances with Treasury at September 30, 1997, had not been resolved.

These financial reporting weaknesses could result in material misstatements and/or inadequate disclosures in the financial statements.

Recommendations

To strengthen its management control environment, the Corporation must:

- continue to monitor and implement its corrective action plan including recommendations from previous auditability surveys;
- evaluate its organizational structure and staffing requirements to ensure that assignment of responsibility is appropriate considering the experience, ability, and the capacity of those assigned, and that incompatible duties are appropriately segregated;
- evaluate and set realistic deadlines for updating the information systems and processes for improved system integration, enhanced data integrity checks, and expanded reporting functions;
- promote an overall strong commitment to competence by implementing an effective performance management system to reward and recognize those employees exhibiting strong competencies and to provide constructive feedback and counseling to those employees performing poorly; and

FINDINGS AND RECOMMENDATIONS

- annually evaluate internal controls and financial systems and take appropriate corrective actions where necessary.

To strengthen its financial reporting processes, management should:

- develop, document, and implement a methodology for ensuring the Corporation's financial statements, including the related financial statement disclosures, are prepared timely and accurately, in accordance with the provisions of the Government Corporation Control Act;
- require the completion of a financial disclosure checklist and the documentation of senior management review and approval of the financial statements and related support prior to issuance;
- ensure that personnel responsible for preparation and review of the financial statements are adequately trained on current accounting and reporting requirements, both through allocation of sufficient resources to support employees in obtaining relevant training and by requiring outside contractors to provide evidence of appropriate employee educational qualifications; and
- thoroughly review the statement of work and other terms and conditions of the contracts of any outside contractors to ensure provisions for quality control on the part of the contractor are incorporated. Further, oversight of contractor performance should be specifically assigned to a responsible Corporation financial manager and closely monitored;

Other Observations

Recommendations included in prior auditability assessments suggested the Corporation perform a complete assessment of its business processes, and establish performance measures, in an effort to promote not only financial management goals, but also organizational efficiency.

The Corporation has requested the National Academy of Public Administrators to conduct a study of the Corporation's business processes. The report was issued in May 1998, after the time in which we conducted procedures in this area. Further, in compliance with the Government Performance and Results Act (GPRA), performance measures were finalized in the *Submission of the Annual Performance Plan for Fiscal 1999 - February 20, 1998* and will be used to measure performance in fiscal 1999. However, performance goals in this document were only established for program related functions. The Corporation's annual plan lacks specific performance goals for the accounting and financial management functions. While progress has begun in the business process area, the assessment of business processes and implementation of accounting and financial management performance measures are yet to be attained. We recommend the Corporation obtain and thoughtfully consider the business process recommendations and establish performance measures specifically related to the accounting and financial management functions.

FINDINGS AND RECOMMENDATIONS***National Service Trust***

The Corporation records a service award liability which represents education awards earned by Volunteers in Service to America (VISTA), AmeriCorps, and National Civilian Community Corps (NCCC) program members for performing authorized community activities. The recorded liability for these service awards is based on actual awards earned by participants who have completed service and estimated amounts for participants enrolled in the program.

Due to the service award liability's overall materiality to the Statement of Financial Position, the ability to reliably estimate and record its balance at any point in time is critical to the auditability of the Corporation's financial statements. The Corporation uses the Trust Fund database (SPAN) to capture the data required to estimate this liability. The integrity of this database and the data capturing processes, as well as the controls over these processes, are essential elements to ensure that the service award liability is based on accurate and complete information.

Although the results of our tests indicated corrective action has been and continues to be taken to resolve documentation exceptions noted in prior findings, the membership roster process, a key control in ensuring the completeness and accuracy of the SPAN database, is currently ineffective and, combined with the other weaknesses and procedural conditions noted below, contributes to the continuing problems noted as inconsistencies between the SPAN database and source documentation. These control weaknesses increase the likelihood of errors and irregularities, including fraud, and could result in the calculation of a materially incorrect service award liability and in educational awards being paid to members who have not successfully completed the required term.

Membership Rosters

The Corporation has implemented a procedure of sending monthly membership rosters to program sites to confirm the accuracy and completeness of SPAN. Our tests of the effectiveness of this procedure for 45 randomly selected sites revealed:

- the Corporation did not follow up with 27 sites which did not return the roster confirmations;
- roster changes which were returned by 3 sites, were not entered into SPAN in a timely manner due to the data entry backlog from the previous membership roster updates; and
- a process is not in place to review rosters and follow up on unusual items, such as members who are listed twice with the same enrollment date as both part time and full time members and who have two different award types - earned and not earned.

Active Member Service Award Liability Assumption

The Corporation has identified over 3,000 members from the 1994 - 1995 program year and over 5,000 members from the 1995 - 1996 program year who are coded in SPAN as actively earning service awards, even though the period of time during which they were eligible to earn awards has lapsed. The service award liability calculation includes a factor to estimate the percentage of

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these members who may actually have earned awards, but the documentation supporting their successful completion of service, or other justification for termination, can not be located.

Data Integrity and Reliability

We randomly selected 78 member files from the entire population of members who were entered into the SPAN system between 1994 and 1997. The exceptions we found were primarily related to timeliness of data entry and inconsistent dates, member information, and certifying officials, as follows:

- inconsistencies between the information in SPAN and the supporting documentation for the enrollment dates (7 exceptions), completion dates (9 exceptions), member status (2 exceptions), birth dates (5 exceptions), social security numbers (2 exceptions), and hours of service (2 exceptions);
- required signatures on forms were missing or inappropriate as evidenced by 6 instances where the certifying official did not sign the form; 9 instances where the member did not sign the end of term form without documentation explaining why the member could not sign the form; 3 instances where the member did not sign the enrollment form; and 4 instances where certifying officials signed the forms before the member signed and/or before the completion date;
- six enrollment forms and one end of term form were entered in SPAN more than three months after being signed, due to a continuous data entry backlog of enrollment and end of term forms;
- end of term forms were missing from members' files in 2 instances where the expected completion date had passed;
- the respective officials certifying awards were not identified as an authorized certifying official in SPAN (2 instances);
- VISTA member enrollment/exit forms did not always conform to the prescribed Trust enrollment and end of term formats (7 instances); and
- there was no evidence of approval on the end of term forms in 15 instances.

These exceptions indicate a lack of quality control procedures, such as effective verification of the accuracy and completeness of supporting documentation and data entry by a second person. However, our procedures indicate errors related to older items are the most prevalent and may not be representative of the controls and procedures currently followed by the Trust.

Other Procedural Matters

Other conditions were noted that indicate internal control weakness over capturing the data necessary for the processing of educational awards exist as follows:

FINDINGS AND RECOMMENDATIONS

- numerous sites have multiple active certifying officials at any one time, thus diluting accountability at the program site.

Recommendations

A concerted effort on the part of Corporation personnel to complete the SPAN database “clean up” process already begun, should continue to receive the highest priority attention. In particular, we encourage the Corporation to focus on measures for improving the operating effectiveness and data integrity of the Trust system as follows:

- Complete the project for tracking members who are listed as continuing to earn awards, yet for whom the period for service completion has lapsed and an end of term form, or other notice of service termination, has not been received.
- Document the corrections made to eliminate historical errors on appropriate forms and ensure all such documents are initialed and dated by the person making the corrections.
- Decrease the frequency with which membership rosters are sent to program sites for verification, from a monthly to a quarterly basis, and require all sites to send back either the corrected roster or a certification that the rosters are correct and complete and that no changes are necessary. The Corporation should also consider sending the roster confirmations to individuals other than certifying officials to further strengthen internal controls.
- Consistently apply all Trust documentation policies to avoid duplication of effort and data entry errors. For example, the Corporation’s new policy of not requiring enrollment forms for VISTA members since all the information to enroll a member in the Trust is obtained via the VMS and SPAN link should be followed. Documentation requirements for VISTA members must be more effectively communicated to the State Offices.
- Limit the number of authorized certifying officials for program sites. One possible solution is to restrict the number of certifying officials for multiple locations to officials at one central location.
- Develop additional system edit checks to detect data entry and data integrity errors, such as full-time members who earn awards in more than a year or in less than nine months, forms with the date of the certifying official’s signature before the completion date, and members service noted as both part time and full time status at the same point in time.
- Develop and produce additional management reports on a routine basis to facilitate follow-up on data entry errors, and to provide performance data such as error rates by program site, lag time in enrollment and award processing, etc.

FINDINGS AND RECOMMENDATIONS*Other Observations*

The Corporation should consider enhancing the operational structure of the newly created Trust Unit to include:

- establishing a centralized Trust mail opening site to help reduce the likelihood of lost forms. A log of batches of enrollment and end of term forms sent for processing could also be maintained and reconciled to the number of forms actually processed per daily transaction reports;
- developing an automated remote data entry system that has the ability to eliminate or reduce the amount of documentation that is exchanged between the Corporation and the program sites. Implementation of such a system could (1) reduce the number of errors, since data entry personnel would be more familiar with the information, and (2) shorten the lag time between the completion of the form and the information entering the system; and
- developing quality assurance procedures to be performed by the grants / program officers in their site visits of grantees.

In the past the Corporation has developed new systems without fully integrating the existing systems with the new system. As the Corporation moves forward with implementing a new financial management system, it should consider all processes and existing systems that may affect this new system. Investing more effort up front in the development of the new system would minimize duplication of effort and retroactive revisions to the system which could cause more errors and result in increased dissatisfaction at program sites.

We understand the Trust is currently conducting an outsourcing study as well as an imaging project as part of its corrective action plan. While the imaging project may be useful in reducing input errors for new forms and correcting input errors from existing forms, it is unclear to what extent it will impact the ongoing data capturing issues such as reducing data entry lag time. As the outsourcing study is still in the development phase, it is unclear as to whether outsourcing the Trust Fund process will significantly improve the process and reduce the costs without a significant change in the source data capturing process.

Fund Balance with Treasury

Fund balance with Treasury is the net result of cash inflows from the revenue process and cash outflows in the procurement/expenditures and grants management processes. The controls over capturing and reconciling the appropriate information for inclusion in the financial statements are essential to ensure that the related balances are complete, accurate and appropriately valued.

Reconciliations

The Corporation is not performing fund balance with Treasury reconciliation procedures in an effective or timely manner, as evidenced by a difference of more than \$5 million between the Department of Treasury's adjusted fund balance and the Corporation's adjusted fund balance as of September 30, 1997. The disposition of this difference remained unresolved in May 1998.

FINDINGS AND RECOMMENDATIONS

An effective monthly reconciliation would identify and resolve all differences between the Corporation's cash balance and the balance per Treasury. Not reconciling and documenting the reconciliation of fund balance with Treasury could result in material misstatements in the financial statements and increases the risk that data in the general ledger is inaccurate or incomplete. In addition, the absence of such procedures increases the risk that a misappropriation of cash could remain undetected and hinders effective cash management.

Commission Grant Funds

At September 30, 1997, the Corporation's fund balance with Treasury included approximately \$14 million from the former Commission on National and Community Service, one of the Corporation's predecessor organizations. The General Services Administration (GSA) maintains these funds on behalf of the Corporation. These assets are fully reflected in the Corporation's net position at September 30, 1997. These funds are related to grants, which included education benefits, issued by the Corporation's predecessor organization. However, programs funded by these grants ended several years ago. The Corporation has not established procedures to monitor whether disbursements made from the funds held at GSA are proper or to appropriately close the grants. In addition, the Corporation has not determined the liability for the amount of related education benefits yet to be paid.

Recommendations

The Corporations should reconcile fund balance with Treasury on a monthly basis. This reconciliation should be documented and submitted to a supervisor for review and approval within a reasonable period of time. The Corporation should also take immediate action to resolve the unreconciled difference related to its fund balance with Treasury at September 30, 1997. Reconciling on the appropriations level may help the Corporation isolate the variance to a few specific accounts.

The Corporation should establish procedures to properly monitor the disbursement of Commission grant funds by GSA, evaluate any potential liability for education benefits yet to be paid, and identify any necessary disclosures related to these funds for reporting purposes. The Corporation should also remit any excess Commission funds to Treasury.

Investments

The Corporation's Portfolio Manager is responsible for preparing reconciliations of the investment subsidiary records to the Treasury statement and general ledger. However, no evidence of a supervisory review exists on investment reconciliations. A supervisory review of the investment reconciliations should be performed to ensure the reconciliations are completed timely and accurately and that all reconciling items are appropriately resolved. Without such a review, unauthorized transactions and/or errors may not be detected in a timely manner and available funds may not be invested. We recommend that the Corporation implement and document supervisory review procedures in conjunction with the investment reconciliation process.

FINDINGS AND RECOMMENDATIONS***Payroll and Allowances***

The payroll and allowance process encompasses the hiring of employees, payment of their salaries and benefits, and their termination or separation from service. From a financial statement perspective, this process impacts the following year-end balances: personnel services and benefits expense (within program/operating expense), accrued annual leave, and accrued payroll and benefits (within accounts payable and accrued liabilities). The process is comprised of three distinct categories of Corporation employees and members: 1) VISTA volunteers, 2) Federal employees, and 3) NCCC members.

The accrued liability for payroll and allowances is based on an estimate using data for the period immediately preceding year-end obtained from National Finance Center (NFC) and VISTA Management System (VMS). The accrued leave, which is only applicable to Federal employees, is calculated from the data obtained from NFC. The integrity and reliability of the information obtained from NFC and VMS and the controls over the process of capturing and reconciling this information are essential elements to ensure that the accruals are based on complete and accurate information.

The results of our tests indicated the Corporation has taken and continues to implement corrective actions to resolve prior year findings. However, as documented below, certain internal control weaknesses continue to exist. These weaknesses are indicative of poor quality control procedures and increase the likelihood that errors and irregularities could result in incorrect payments to employees and members and in misstated payroll/allowance-related financial statement balances.

VISTA Allowances - State Offices

- VISTA project sponsor verification reports are not always maintained on file by State Offices (41 of 78 requested could not be located); the dates of those on file indicated they were not returned to Headquarters within 3 days, as required by Corporation policy (36 of the remaining 37).
- Of the 78 VISTA member files sampled, a variety of allowance documentation exceptions were noted as follows:
 - VISTA member applications were not approved by the State Offices (14 exceptions);
 - VISTA members were not approved by project sponsors before the member was entered into the VMS (5 exceptions);
 - VISTA members were paid at rates which did not agree with information in members' files (5 exceptions);
 - life insurance was not properly deducted (2 exceptions) or was not supported by a signed election form (2 exceptions); and

FINDINGS AND RECOMMENDATIONS

- an application, W-4, and life insurance election form were not maintained by the State Office for 1 terminated member.
- The examination of 45 returned allowance checks revealed:
 - returned allowance checks were not entered into VMS (6 exceptions) or were not entered within one month of return (31 exceptions); and
 - returned allowance check cancellation dates did not agree to dates from Treasury (12 exceptions).

Federal Employees' Payroll

- The Corporation's Personnel Department distributes monthly data reports to department heads to review for completeness and accuracy. An examination of 4 fiscal year 1997 monthly data reports revealed 6 of 28 required Department Head approvals were missing, indicating that timely reviews of employee grade levels, pay rates, and departmental assignments may not have been performed.
- Of the 78 federal employees' timesheets sampled, the following documentation exceptions were noted:
 - timekeeper signatures were missing from 16 timesheets;
 - supervisory signatures were missing from 3 timesheets, 1 of which included annual/sick leave; and
 - compensatory time earned by 2 employees was not documented as approved by supervisory signatures.
- Payroll technicians continue to have access to both personnel change and payroll processing functions, an improper segregation of duties which increases the risk of unauthorized payroll changes being made.
- Differences noted in annual leave reconciliation reports need to be resolved by personnel at all five Service Centers and at Headquarters. For 12 of 13 fiscal year 1997 pay periods sampled, resolutions of the annual leave balance reconciliations between the NFC payroll system and PC-TARE system were missing for at least one location.

NCCC Allowances

- Requested NCCC e-mail exception reports could not be located (44 exceptions out of 104 requested). NCCC members are paid at a fixed rate each pay period unless they do not perform service for the entire pay period. E-mail exception reports identify the number of days not worked when an adjustment to a member's payroll is necessary.

FINDINGS AND RECOMMENDATIONS

- NCCC allowance reports had to be reprinted because no originals could be found (4 exceptions out of 26 requested).
- Of 10 allowance reports examined for evidence of supervisory approval, one could not be located and 4 others had no initials or signatures as evidence of the approval.
- Member pay rates in 5 of 35 instances sampled, did not agree with information in the members' files.
- Cash advanced to NCCC members was not properly reported as a reduction of the cash balance as of September 30, 1997.

Recommendations

We recommend that the Corporation take the following actions to address the weaknesses noted above:

VISTA Allowances - State Offices

- Establish a uniform record retention policy for sponsor verification rosters to be maintained at State Offices (e.g., 6 months). In addition, hold State Offices accountable for follow up with project sponsors where verification rosters are not submitted to ensure the accuracy of the member allowances. Consider requiring an allowance certification from each State Office as an alternative to receiving copies of the sponsor verification rosters at Headquarters.
- Enforce Corporation established procedures and enter VISTA members into VMS only after proper supervisory and sponsor approval has been received. Have a second person review data entered into VMS to mitigate errors.
- In conjunction with fund balance with Treasury reconciliation procedures, develop and implement a process for entering returned allowance checks into VMS on a monthly basis. Assign a second person to review returned allowance checks entered into VMS to detect and correct any errors.

Federal Employees' Payroll

- Consider eliminating the requirement for Department Heads to review monthly payroll data reports. As an alternative, consider requiring that departmental administrative assistants maintain logs of personnel action requests submitted and reconcile these logs to monthly edit reports of changes which could be received from the personnel department.
- Reiterate and enforce existing timesheet and pay rate approval procedures including approval of compensatory time worked. Designate alternates to act on behalf of absent supervisors.

FINDINGS AND RECOMMENDATIONS

- Use system password controls to segregate the personnel change and payroll processing functions so that no one technician has access to both processes. Reinforce the requirement for input by operator reports to be printed every pay period and reviewed by authorized personnel to ensure proper segregation of duties has been maintained.
- Include the timely resolution of annual leave balance differences in the job responsibilities of PC-TARE input technicians.

NCCC Allowances

- Establish uniform record retention policies for the maintenance of e-mail exception reports even if no exceptions are reported (at least 6 months) and allowance reports.
- Reemphasize and enforce existing timesheet and pay rate approval procedures.
- Record cash advances for payroll as reductions in cash balances when such transactions occur.

Other Observations

We were informed by 5 of 10 State Offices contacted via telephone that they continue to experience frequent delays in gaining access to VMS. All 10 State Offices indicated that VMS reporting has not been enhanced to adequately address their needs. The Office of Information Technology's study to address this previous finding involved only 3 State Offices and was not documented. We suggest the Corporation consider establishing additional network servers for State Office usage. Additionally, a broader study to determine the reporting needs of State Offices should be performed and reporting capabilities should be enhanced as deemed appropriate.

Grants Management

The Corporation awards National and Community Service Act (NCSA) grants and Domestic Volunteer Service Act (DVSA) grants to state and local governments, institutions of higher education and other not-for-profit organizations.

Grant award letters and grant contracts represent obligations and should be recorded in the general ledger upon execution of the documents. Grant advances should be recorded in the general ledger when paid and documented by a Request for Advance or Reimbursements (RAR). Grants payable and related expenditures should be determined by the amount of grant expenditures incurred by the grantees as reported to the Corporation on Financial Status Reports (FSR). The proper recognition of grant obligations, expenses, advances, and payables is dependent on the completeness of grant files and the accurate and timely recording of grant award letters and contracts, FSR and RAR information.

Our grants management procedures revealed ineffective controls over the timely recording of grant obligations and expenditures and in the proper maintenance of grant files. We also noted

FINDINGS AND RECOMMENDATIONS

weaknesses in the procedures for identifying and recording accounts receivable from grantees and for selecting sites for grantee visits as noted below:

NCSA Grant File Maintenance

Our examination of a sample of 78 NCSA grant files revealed the following:

- two NCSA grant files contained no evidence the files had been reviewed for completeness;
- one NCSA grant file could not be located by the Corporation;
- the dates of 5 NCSA grant award letters were earlier than the date the obligation was recorded in the general ledger;
- information from one NCSA grant document was not recorded in the general ledger; and
- the filing of FSRs in grant files is not always complete (20 of 40 NCSA grant files tested had some missing FSR documents).

DVSA Grant File Maintenance

Our examination of a sample of 78 DVSA grant files revealed the following:

- three DVSA grant files could not be located and one file had been accidentally destroyed;
- one DVSA grant file was missing a RAR;
- two DVSA files contained no FSR documents;
- DVSA files with grants greater than \$100,000 did not contain copies of the required cash transaction reports (14 instances);
- various DVSA grant files were missing required grantee information such as a charter or articles of incorporation (37 instances); drug, lobby, and debarment certifications (16 instances); and audit reports (29 instances);
- various DVSA grant files had no evidence that the grantee application had been reviewed and approved by the State Director (3 instances); that the procurement request had been signed by the Grants Management Officer to indicate the procurement had been budgeted (6 instances); and that the procurement request had been signed by the Service Center Director (14 instances);
- 58 DVSA files had grant award notices issued later than the required 33 days prior to the start of the budget period;

FINDINGS AND RECOMMENDATIONS

- two DVSA files contained evidence that the grant award letter was sent prior to obligating the funds;
- the grant award amounts as reported on the notice of grant awards contained in 4 files did not agree to the amounts reported on the procurement request and the general ledger;
- grant files contained RARs which had no evidence of approval by the grants management officer (12 instances); and
- grant files had FSRs which were not entered into the general ledger within the established guidelines (30 instances).

These file maintenance exceptions and related financial recording errors are indicative of poor or nonexistent quality control procedures and inconsistent compliance with established procedures for processing grant awards and recording grant expenditures.

The missing documents and signature exceptions indicate inadequate support for grant related transactions. The grant award letter exceptions can also cause errors in the open obligation records. The delinquent and missing FSRs can cause an understatement of grant expenditures and payables.

Accounts Receivable

The Corporation has developed, but not yet implemented procedures to identify and record accounts receivable from grantees. The procedures do not include criteria for evaluating the collectibility of accounts receivable and establishing an allowance for doubtful accounts. There is also no formal mechanism for collecting, monitoring, receiving, and recording related grantee payments.

Poorly written procedures related to accounts receivable from grantees could result in inaccurate or incomplete recording of amounts receivable and unsuccessful collection efforts.

Grantee Site Visits

Program officers usually select grantees for site visits based on the type of program or whether there is any other indication of problems with the grant. However, the Corporation does not have any comprehensive, formal method or criteria for selecting grantees for site visits. The lack of formal criteria for selecting grantees for site visits could result in high risk grantees not being identified or subjected to financial and programmatic compliance audits.

Recommendations

We recommend the Corporation:

- conduct periodic employee training on the proper procedures for grants processing and file maintenance;

FINDINGS AND RECOMMENDATIONS

- develop a timeline to review all active grant files and use the recently developed checklist to ensure complete documentation is on file;
- establish a procedure for supervisory spot checks of a predetermined number of grant files on a quarterly basis;
- evaluate methods to expedite the processing of FSRs and develop and implement procedures to record grant expenses in a more timely manner;
- require grant award letters to be matched with the respective obligation approval before they are signed and mailed to grantees;
- revise the current procedures for identifying accounts receivable from grantees to incorporate procedures for evaluating collectibility and establishing an allowance for doubtful accounts, and guidance for collecting, monitoring, receiving, and recording related grantee payments; and
- develop and implement a formal methodology to apply risk assessments to the entire population of grantees in selecting those subject to site visits. Consider implementing a rotating policy which ensures all grantees are subject to site visits at least once every three years.

Other Observations

For internal financial reporting, the Corporation may use Cash Transaction Reports in place of Financial Status Reports to record grant expenditure activity of grantees. However, since Cash Transaction Reports are not necessarily equivalent to total expenditures incurred on an accrual basis, care should be taken not to use Cash Transaction Reports in preparing the year-end grants payable estimate.

The Corporation maintains a Grants Management System (GMS) which includes a wide variety of grantee and grant award information. This system is not integrated with the Corporation's general ledger (Federal Success) and a separate PC-based spreadsheet is maintained to accumulate financial data for recording the grants payable accrual at year-end. This process is time consuming, partially redundant, and error prone. We recommend consideration be given to integrating the GMS with the general ledger system to improve efficiency and reduce the risk of errors due to manual processing.

The Corporation has requested the National Academy of Public Administration (NAPA) to consider whether efficiencies may be gained by merging the NCSA and DVSA grant administrative functions. We recommend the Corporation consider any business process recommendations made in the NAPA report.

FINDINGS AND RECOMMENDATIONS***Revenue***

The Corporation receives four types of revenue: 1) appropriations from Congress; 2) private donations from individuals and corporations; 3) reimbursable agreements with organizations sponsoring VISTA members; and 4) interest earned on investments. Issues related to appropriations and interest revenue were considered in other sections of this report. Prior reports issued by the Corporation's Office of the Inspector General (OIG) indicated that the revenue recognition process related to reimbursable agreements was not functioning adequately.

The controls over capturing the cash receipts and other revenue transactions for inclusion in the financial statements are essential to ensure that revenue and the related receivable and net position balances are complete, accurate and appropriately valued.

Cash Receipts (includes donations and reimbursable agreements)

Our tests of internal controls over cash receipts indicated that 42 of the 72 cash receipts sampled were not logged into Federal Success within 5 business days of receipt as required. Additionally, no evidence exists to support management's review of cash receipt and Federal Success transaction records to ensure that receipts were posted to Federal Success accurately and timely in accordance with Corporation policies and procedures.

Untimely recording of cash receipts hinders management's ability to make informed managerial and financial decisions because reports derived from the general ledger may inaccurately communicate the current financial position of the Corporation.

Reimbursable Agreements

Our test of procedures related to execution of reimbursable agreements transactions revealed:

- Of a sample of 25 cost share agreements:
 - 11 agreements were executed after the start date of the agreements' terms;
 - Responsibility Class Codes (RCC) notifications for 19 agreements were dated after the agreements' commencement date;
 - one agreement did not have the sponsor's signature; and
 - two agreements had different project numbers assigned to the same agreements.
- A payment received for one of 45 accounts receivable tested was not credited to the Federal Success system.
- Collectibility actions were not adequately documented for three of the 23 sponsors sampled.

FINDINGS AND RECOMMENDATIONS

If reimbursable agreements transactions are not properly executed, the Corporation may be unable to legally collect on a reimbursable agreement invoice if the sponsor organization reneges on its cost-share obligations. Additionally, assessing and documenting collectibility of accounts receivable will help ensure that the accounts receivable balance is properly valued for reporting purposes.

Other Observations

Our tests of the Cost Share billing cycle noted that the information from the Cost Share Billing system is not automated. The Service Centers still manually reenter the information from VMS into FOXPRO. This problem will not be corrected until a system is in place that allows information to be entered directly from VMS in to the Cost Share Billing system.

Recommendations

In order to strengthen controls over cash receipts and execution of reimbursable agreements, the Corporation should:

- reemphasize existing Corporation procedures that require a review of monthly cash receipt logs and transaction reports to ensure cash receipts are posted to the general ledger accurately and promptly. Management should take appropriate corrective actions, based on the cause of the problem, if cash receipts are not posted to the general ledger in an accurate and timely manner;
- develop and implement written procedures requiring that agreements are executed before the start of the agreement term. Implementing this procedure will help ensure VISTA members are properly associated with a project in VMS through RCC notifications, and sponsors are legally bound to pay proper invoices; and
- enforce its procedures requiring Service Centers to document receivable collectibility at all stages of the process. The Corporation should develop and implement written procedures requiring supervisory review of collection efforts to ensure that Service Center accounting personnel are following up on outstanding balances.

Procurement, General Expenditures, and Budget

The Corporation's procurement process is required to follow the guidance established in the Federal Acquisition Regulations (FAR). Sound internal control procedures mandates adherence to the FAR along with appropriate procedures to submit procurement requests against available funds certified by the Corporation's Budget Officer. Such controls are essential to ensure financial statement balances are materially correct and that all appropriate disclosures regarding accounts payable and unexpended appropriations are included in the notes to the financial statements.

The Corporation's disbursements for routine general operating expenditures are processed through Federal Success. The following discussion is applicable to the general operating

FINDINGS AND RECOMMENDATIONS

expenditures process only. The payroll/allowance and grant expenditures processes are presented separately in this report.

Procurement and general expenditure process and related procedural matters identified during the performance of our work are as follows:

- Unrecorded On-line Payment and Collection System (OPAC) transactions and obligations may not be discovered until the month-end reconciliation process, generally several weeks after the effective date of the transaction.
- The closing date for year-end cut-off procedures to accrue expenditures in the proper fiscal year was less than one month following the fiscal year-end. We believe this was an aggressive approach, as this was the first attempt by the Corporation to accrue expenditures at year-end, and may have resulted in an understatement of accounts payable at September 30, 1997.
- The Corporation did not comply with its established policy to perform quarterly surprise counts of the Imprest Fund. This could result in errors or irregularities occurring and remaining undetected.
- Budget holders manually track obligations, budgets, and actual expenditures and comparisons of each in a time consuming process using computerized spreadsheets known as “cuff records.” This process requires repetitive data entry and monthly reconciliations which would be unnecessary if the Corporation had an adequate financial management system.

Our procurement and general expenditure detailed testing of transactions and related supporting documents encompassed the review of 78 randomly selected expenditures. Documentation exceptions identified during the performance of our procedures are as follows:

- three instances of missing receipts supporting credit card transactions;
- four receiving reports were missing required signatures, one receiving report was not dated and no receiving report existed for one Blanket Purchase Agreement (BPA); and
- five instances in which verbal bids were not documented and one instance in which a verbal bid was not solicited for a procurement over the required limit due to a misunderstanding of the Corporation’s policy.

Missing receipts and lack of evidence that the Corporation obtained verbal bids may indicate the Corporation was in violation of the FAR for these test items. Dated receiving reports for all goods and services received are important to identify the proper fiscal period in which the goods or services should be recorded, as well as for calculation of penalty interest for late payments to vendors.

FINDINGS AND RECOMMENDATIONS*Recommendations*

We recommend Corporation management:

- Reconcile all open OPAC transactions and obligations on a timely basis, and review expenditures through the end of November each year, including OPAC transactions and obligations, for items possibly requiring accrual in each fiscal year.
- Perform quarterly surprise counts of the Imprest Fund in accordance with Corporation policy.
- Require its new financial management system to comply with the Joint Financial Management Improvement Program's Core Financial Management System framework. To support the funds availability editing activity, the Core requirements establish that financial management systems must, among other things:
 - check commitment transactions against available funds and provide for notification of funds availability prior to the issuance of a commitment, obligation, or expenditure;
 - record the financial impact of all transactions which affect the availability of funds, such as commitments, liquidations, obligations, and expenditures; and
 - update all appropriate accounts to ensure that the systems always maintains the current status of funds to prevent commitments, obligations, or expenditures in excess of available fund balances.
- Strengthen review procedures to ensure receipts are included with credit card related requests for payment and receiving reports for all goods and services are prepared and the actual receiving date is documented on the receiving report.
- Enforce the use of "Corporation Form 9" to document verbal bid solicitations at the Service Centers prior to approval of procurement requests. This form is currently in use at headquarters; however, the Service Centers do not have procedures in place to document verbal bids.

EDP Controls

Electronic Data Processing (EDP) general controls are critical to the data integrity produced by the Corporation's information systems and relied on by management to produce financial data and make management decisions.

The Corporation continues to experience several EDP control issues as follows:

- The Corporation does not have an employee with the appropriate expertise solely dedicated to the Chief Information Officer (CIO) position. As such, the leadership for the Office of Information Technology (OIT) does not have adequate representation with management to

FINDINGS AND RECOMMENDATIONS

ensure development and enforcement of systems internal controls. Because the Corporation has no dedicated CIO:

- a corporate-wide OIT Steering Committee has not been established;
 - an OIT strategic plan has not been established;
 - key positions in OIT are either vacant or have an “acting” team leaders assigned;
 - documentation defining roles and responsibilities of OIT department personnel does not exist; and
 - an OIT Operating Policies and Procedures Manual has not been established.
- The Network and Computer Security Policy, dated October 1996, is not current and no longer pertinent to the Corporation’s current information technology environment and should be updated appropriately.
 - System administrator privileges currently have been assigned to 21 personnel.
 - Application programmers have unrestricted access to Oracle database production data.
 - The Corporation does not have a documented systems development life cycle methodology. Although the Corporation uses the Oracle Designer 2000 and the CASE methodologies when performing systems development, improvement, and program changes, the Corporation does not have a documented systems development life cycle methodology tailored to its specific major information systems.

The lack of a CIO position may prevent the OIT from responding to changing organizational needs and addressing system user’s needs effectively. The lack of updated policies and system development life cycle methodology may cause inefficiencies in technology development and administration. Additionally, the system access matters may prevent users from accomplishing system functions and may allow unauthorized changes to database records.

Recommendations

The Corporation should strengthen its overall EDP general controls environment by:

- Creating a separate CIO position and filling this position with an executive with the appropriate experience and qualifications. This position could dedicate the appropriate resources and provide adequate representation with management to enforce information system controls. By creating a separate CIO position:
 - a dedicated management member would be empowered to make swift decisions required to respond to operational problems and to focus on an information technology strategic plan;

FINDINGS AND RECOMMENDATIONS

- the Corporation could segregate the CFO and CIO duties to eliminate any opportunity for conflicting interests or duties; and
- user's needs would be more effectively addressed.
- Updating the Network and Computer Security Policy to reflect the Corporation's current information technology environment.
- Limiting the number of assigned systems administrators upon completion of the system conversion from Novell to Windows NT.
- Restricting access of application programmers to Oracle database production data.
- Establishing a formal system development life cycle methodology for the Corporation's current environment and processes.

Other Observations

Although the grants management system (GMS) does not interface with Federal Success, we noted certain system control weaknesses which should be addressed if the Corporation is going to rely on GMS in managing its grants:

- GMS does not provide an audit trail specific to individual datafields;
- group passwords are utilized for entry into GMS;
- segregation of duties between Federal Success and GMS are weak;
- formal policies and procedures for administering GMS do not exist;
- physical access to the grant award file room is not restricted; and
- a grant award tracking spreadsheet used to record the return of signed grant awards is not backed up on the network server.

The Corporation should consider integrating GMS with its financial management system and strengthen controls by:

- creating an audit trail specific to individual datafields;
- removing the use of group passwords for entry into GMS;
- segregating duties between Federal Success and GMS;
- developing formal policies and procedures for administering GMS;

FINDINGS AND RECOMMENDATIONS

- restricting physical access to the grant award file room; and
- creating back ups of the grant award tracking spreadsheet (used to record the return of signed grant awards) on the network server.

Our assessment did not encompass procedures to evaluate the Corporation's efforts to make its computer systems Year 2000 compliant. The Corporation is in the process of determining the status of its computer systems with respect to Year 2000 compliance. The Federal government has set a target date of March 1999 for agencies to be substantially Year 2000 compliant. The Corporation's ability to meet this deadline may be unrealistic and, to the extent Year 2000 compliance problems are determined to exist which are not expected to be remedied by March 1999, we encourage the Corporation to take immediate action to arrange alternative computer processing capabilities.

STATUS OF PREVIOUS RECOMMENDATIONS

Appendix A presents the status of findings and related recommendations previously reported in Office of the Inspector General reports on auditability. The Appendix is divided into six columns as follows:

Process

We classified each finding and recommendation into one or more of the following processes:

- Financial Management and Reporting
- National Service Trust
- Fund Balance with Treasury and Investments
- Payroll and Allowances
- Grants Management
- Revenue
- Procurement, General Expenditures, and Budget
- EDP Controls

Type of Finding

Each finding was defined as either a material weakness, other reportable condition, or other finding as reported in the previous OIG reports. Material weaknesses and other reportable conditions are defined as follows:

- Reportable Condition - A significant deficiency in the design or operation of internal control, which could adversely affect the Corporation's ability to record, process, summarize, and report financial data consistent with financial statement assertions.
- Material Weakness - A reportable condition in which the design or operation of internal control does not reduce to a relatively low level the risk that error or irregularities in amounts that would be material to the financial statements may occur and not be detected and corrected within a timely period by employees in the normal course of performing their assigned duties.

Original Finding Number

This column refers to the OIG report and finding number as originally reported using the following abbreviations:

STATUS OF PREVIOUS RECOMMENDATIONS

- Volume I, Finding # - Refers to findings reported in Volume I of Report 96-38, *Report on the Results of the Auditability Survey*, a two volume report to the OIG, by Williams, Adley, and Company, LLP and Arthur Andersen LLP.
- Volume II, Finding # - Refers to findings reported in Volume II of Report 96-38, *Report on the Results of the Auditability Survey*, a two volume report to the OIG, by Williams, Adley, and Company, LLP and Arthur Andersen LLP.
- AR-# - Refers to the findings reported in the Accounting Records section of Report 97-27, *Audit of the National Service Trust Fund Fiscal Year 1995 and 1994 Financial Statements* to the OIG by KPMG Peat Marwick LLP.
- TFS-# - Refers to the findings reported in the Trust Fund System section of Report 97-27, *Audit of the National Service Trust Fund Fiscal Year 1995 and 1994 Financial Statements* to the OIG by KPMG Peat Marwick LLP.

Description of Recommendation

This summarizes the previous finding's recommendation for corrective action.

Status as Previously Reported

This column reports the status of the finding as of the most recent OIG report related to the auditability of the Corporation. The status of the majority of the findings were reported in OIG Report 97-09, *Report on the Follow-up Study to the Auditability Survey* and OIG Report 97-29, *Report on the Follow-up Study to the Auditability Survey - Phase 2*. The status of the findings from OIG Report 97-27, *Audit of the National Service Trust Fund Fiscal Year 1995 and 1994 Financial Statements*, are the same as originally reported as there was no follow-up study related to those findings and recommendations. This column has therefore been marked "N/A" for these findings and recommendations.

Status as of September 30, 1997, Auditability Assessment

This column reports our conclusion as to whether the original finding was corrected as of September 30, 1997, the "as of" date of our auditability evaluation was performed. We reached these conclusions based on test work specifically designed to determine whether corrective actions have been implemented. The status of the findings are categorized as follows:

- Corrected - Recommendation has been corrected.
- Not Corrected - Recommendation has not been corrected.
- Partially Corrected - Recommendation has two or more components and therefore, not all of the components may have been corrected (considered not corrected for purposes of this report).

STATUS OF PREVIOUS RECOMMENDATIONS

- Adequately designed, not operating effectively - The Corporation has designed a procedure to implement the recommendation but the procedure has not been fully or correctly implemented (considered not corrected for purposes of this report).

STATUS OF PREVIOUS RECOMMENDATIONS

Process	Type of Finding	Original Finding Number	Description of Recommendation	Status as Previously Reported	Status as of September 30, 1997 Auditability Assessment
Fund Balance and Investments, Revenue	Material Weakness	Volume 1 , 6 AR-2	Reconcile fund balance on a timely basis.	Not Corrected	Not Corrected
Fund Balance and Investments, Revenue	Material Weakness	Volume 1 , 7	Improve cash receipts controls at headquarters.	Corrected	Corrected
Fund Balance and Investments, Revenue	Other Reportable Condition	Volume 1 , 29	Improve procedures for recording cash deposits.	Adequately designed, not yet implemented	Corrected
Fund Balance and Investments	Other Reportable Condition	Volume 1 , 61	Strengthen procedures related to investment decisions.	Corrected	Corrected
Financial Management and Reporting	Material Weakness	Volume 1 , 1	Strengthen management control environment.	Not Corrected	Partially Corrected
Financial Management and Reporting	Material Weakness	Volume 1 , 2	Improve financial reporting process.	Not Corrected	Partially Corrected
Financial Management and Reporting	Material Weakness	Volume 1 , 4	Strengthen procedures over general ledger entries.	Corrected	Corrected
Financial Management and Reporting	Material Weakness	Volume 1 , 5	Evaluate and correct year-end closing entries.	Corrected	Corrected
Financial Management and Reporting	Other Reportable Condition	Volume 1 , 32	Strengthen controls over property and equipment.	Corrected	Corrected

STATUS OF PREVIOUS RECOMMENDATIONS

Process	Type of Finding	Original Finding Number	Description of Recommendation	Status as Previously Reported	Status as of September 30, 1997 Auditability Assessment
Financial Management and Reporting	Other Reportable Condition	Volume I , 35	Properly account for M-year funds.	Corrected	Corrected
Financial Management and Reporting, EDP	Other Reportable Condition	Volume I , 38	Organizations providing transaction processing services to the Corporation should acquire a general controls review.	Corrected	Corrected
Financial Management and Reporting	Other Finding	Volume I , 62	Execute year-end closing process on a timely basis.	Adequately designed, not yet implemented	Adequately designed, not yet implemented
Financial Management and Reporting	Other Finding	Volume I , 63	Consider adopting FASAB standards.	Corrected	Corrected
Financial Management and Reporting	Other Finding	Volume I , 64	Assess business processes.	Not corrected	Adequately designed, not yet implemented
Financial Management and Reporting	Other Finding	Volume I , 65	Establish performance measures.	Not corrected	Adequately designed, not yet implemented
Financial Management and Reporting	Other Finding	Volume I , 75	Acquire a comprehensive financial management system.	Not corrected	Not corrected
Financial Management and Reporting	Other Finding	Volume II , 18	Secure or properly dispose of sensitive documents and/or reports.	Corrected	Corrected
Trust	Material Weakness	Volume I , 28	Segregate duties related to payment and administration.	Not Corrected	Corrected

STATUS OF PREVIOUS RECOMMENDATIONS

Process	Type of Finding	Original Finding Number	Description of Recommendation	Status as Previously Reported	Status as of September 30, 1997 Auditability Assessment
Trust	Material Weakness	Volume II , 5	All enrollee data should be entered into the Trust Fund System on a timely basis.	Corrected	Corrected
Trust, EDP	Other Reportable Condition	Volume II , 12	The VMS/ Trust Link should be reviewed to verify that it is operating effectively.	Corrected	Corrected
Trust, EDP	Other Reportable Condition	Volume II , 13	An audit trail of updates to the records in the Trust database should be maintained.	Corrected	Corrected
Trust	Other Finding	Volume II , 15	A formal requirement for a second review and approval of Trust payments should be implemented.	Corrected	Corrected
Trust	Material Weakness	TFS-1	Establish certain parameters in the SPAN system which prohibit entries without approval.	N/A	Corrected
Trust	Material Weakness	TFS-2	Implement an audit trail of certain transactions to be generated automatically.	N/A	Corrected
Trust	Material Weakness	TFS-3	There should be formal procedures for all types of changes to both the Trust System and the data.	N/A	Corrected
Trust	Material Weakness	TFS-4	The same user should not have the ability to have concurrent sessions and the system should log out inactive users.	N/A	Corrected
Trust	Material Weakness	TFS-5	The enrollment and end of term forms which support data in the system should be organized to permit easy access and should be correctly recorded in the SPAN system.	N/A	Partially Corrected

STATUS OF PREVIOUS RECOMMENDATIONS

Process	Type of Finding	Original Finding Number	Description of Recommendation	Status as Previously Reported	Status as of September 30, 1997 Auditability Assessment
Trust	Material Weakness	TFS-6	The enrollment and end of term forms should be pre-numbered or controlled.	N/A	Corrected
Trust	Material Weakness	TFS-7	Sponsoring agencies most recent responses to trust fund roster reports should be maintained.	N/A	Partially Corrected
Trust	Material Weakness	TFS-8	A quality assurance section should be established to perform limited site visits to sponsoring agencies.	N/A	Not Corrected
Trust	Material Weakness	TFS-9	Controls should be established to compare source documents with those scanned into the system.	N/A	Corrected
Trust	Material Weakness	AR-1	Maintain records on a contemporaneous basis.	N/A	Corrected
Trust	Material Weakness	AR-3	Establish a procedure to reconcile SPAN and general ledger information. Documentation should be maintained.	N/A	Corrected
Revenue	Material Weakness	Volume I , 9	Establish procedures to properly value accounts receivable balances.	Adequately designed, not yet implemented	Corrected
Revenue	Other Reportable Condition	Volume I , 33	Properly record accounts receivable related to cost share agreements.	Corrected	Corrected
Revenue	Other Reportable Condition	Volume I , 34	Properly recognize revenue relating to cost share agreements.	Corrected	Corrected
Revenue	Other Reportable Condition	Volume II , 10	Cost sharing billing system should be automated.	Adequately designed not yet implemented	Not Corrected
Revenue	Other Finding	Volume II , 14	Develop and maintain system and other supporting documentation.	Not Corrected	Corrected

STATUS OF PREVIOUS RECOMMENDATIONS

Process	Type of Finding	Original Finding Number	Description of Recommendation	Status as Previously Reported	Status as of September 30, 1997 Auditability Assessment
Payroll	Material Weakness	Volume I , 21	Substantiate payroll processed by NFC.	Corrected	Corrected
Payroll, EDP	Material Weakness	Volume I , 22	Resolve differences in leave balances and segregate related duties.	Corrected	Adequately designed, not operating effectively
Payroll	Material Weakness	Volume I , 23	Improve controls over access to NFC payroll system and PC-TARE database.	Corrected	Corrected
Payroll	Material Weakness	Volume I , 24	Segregate NCCC payroll processing duties.	Corrected	Partially Corrected
Payroll	Material Weakness	Volume I , 25	Improve procedures over advances to NCCC members.	Corrected	Partially Corrected
Payroll	Material Weakness	Volume I , 26	Strengthen procedures over VISTA payroll.	Not Corrected	Adequately designed, not operating effectively
Payroll	Material Weakness	Volume I , 27	Segregate duties related to VISTA payroll processing.	Corrected	Corrected
Payroll	Reportable Condition	Volume I , 31	Record returned checks in general ledger.	Corrected	Adequately designed, not operating effectively
Payroll	Reportable Condition	Volume I , 59	Improve procedures for substantiating personnel and payroll records.	Not Corrected	Not Corrected
Payroll	Reportable Condition	Volume I , 60	Resolve NFC payroll suspense items on a timely basis.	Corrected	Corrected
Payroll	Other Finding	Volume I , 72	Provide payroll time and attendance training.	Corrected	Corrected

STATUS OF PREVIOUS RECOMMENDATIONS

Process	Type of Finding	Original Finding Number	Description of Recommendation	Status as Previously Reported	Status as of September 30, 1997 Auditability Assessment
Payroll	Other Finding	Volume I , 73	Enforce timely submission of time and attendance data to headquarters.	Corrected	Corrected
Payroll	Other Finding	Volume I , 74	Designate a contact person for payroll system problems.	Corrected	Corrected
Payroll	Material Weakness	Volume II , 1	Management controls for the VMS payroll process should be strengthened.	Corrected	Corrected
Payroll	Material Weakness	Volume II , 2	Automate VMS payroll exception and reconciliation process using a single report.	Corrected	Corrected
Payroll	Material Weakness	Volume II , 3	Procedures for verifying the official enrollment of VISTA Volunteers should be developed.	Nor Corrected	Adequately designed, not operating effectively
Payroll	Material Weakness	Volume II , 4	Returned payroll checks should be recorded in VMS.	Corrected	Adequately designed, not operating effectively
Payroll	Other Reportable Condition	Volume II , 7	Management should conduct a cost benefit analysis for the payroll and payroll related systems.	Corrected	Corrected
Payroll	Other Reportable Condition	Volume II , 8	VMS reporting should be enhanced.	Corrected	Not Corrected
Payroll, EDP	Other Reportable Condition	Volume II , 9	VMS access delays at State Offices should be reported to and minimized by Headquarters.	Corrected	Partially Corrected
Payroll, EDP	Other Finding	Volume II , 16	VMS lock-out execution during payroll processing should be evaluated.	Corrected	Corrected

STATUS OF PREVIOUS RECOMMENDATIONS

Process	Type of Finding	Original Finding Number	Description of Recommendation	Status as Previously Reported	Status as of September 30, 1997 Auditability Assessment
Grants Management	Material Weakness	Volume I , 13	Reconcile data in grant systems.	Not Corrected	Partially Corrected
Grants Management	Material Weakness	Volume I , 14	Record NCSA grant awards in the proper period.	Corrected	Corrected
Grants Management	Material Weakness	Volume I , 15	Segregate duties related to NCSA grants processing.	Corrected	Corrected
Grants Management	Material Weakness	Volume I , 16	Require timely input of FSRs for DVSA grants.	Corrected	Not Corrected
Grants Management	Material Weakness	Volume I , 17	Develop procedures to accrue DVSA grant expense.	Adequately designed, not yet implemented	Corrected
Grants Management	Material Weakness	Volume I , 18	Segregate duties in DVSA grants processing.	Corrected	Corrected
Grants Management	Other Reportable Condition	Volume I , 44	Require approval of changes to grant documents.	Corrected	Corrected
Grants Management	Other Reportable Condition	Volume I , 45	Implement procedures to ensure completeness of grant files.	Adequately designed, not operating effectively	Not Corrected
Grants Management	Other Reportable Condition	Volume I , 46	Establish unused or misapplied grant funds as accounts receivable.	Not Corrected	Not Corrected
Grants Management	Other Reportable Condition	Volume I , 47	Record complete information for grant obligations in the general ledger.	Corrected	Corrected
Grants Management, EDP	Other Reportable Condition	Volume I , 48	Strengthen security controls over the Grants Management Database.	Corrected	Not Corrected

STATUS OF PREVIOUS RECOMMENDATIONS

Process	Type of Finding	Original Finding Number	Description of Recommendation	Status as Previously Reported	Status as of September 30, 1997 Auditability Assessment
Grants Management	Other Reportable Condition	Volume I , 49	Record obligations in the general ledger before issuing NCSA grant awards.	Corrected	Not Corrected
Grants Management	Other Reportable Condition	Volume I , 50	Standardize and document procedures over NCSA grant processing and monitoring.	Corrected	Not Corrected
Grants Management	Other Reportable Condition	Volume I , 51	Improve procedures over accuracy of DVSA grant award amounts.	Corrected	Not Corrected
Grants Management	Other Finding	Volume I , 66	Consider merging NCSA and DVSA grants processing and administration.	Corrected	Not Corrected
Grants Management	Other Finding	Volume I , 67	Improve processing of RARs.	Corrected	Not Corrected
Procurement, General Expenditures and Budget	Other Reportable Condition	Volume I , 39	Enforce procedures to reduce ratification (i.e., approval of an unauthorized purchase after it has occurred).	Corrected	Corrected
Procurement, General Expenditures and Budget	Other Reportable Condition	Volume I , 40	Strengthen procedures for tracking commitments.	Adequately designed, not operating effectively	Corrected
Procurement, General Expenditures and Budget	Other Reportable Condition	Volume I , 41	Establish certification of funds availability.	Corrected	Corrected
Procurement, General Expenditures and Budget	Other Reportable Condition	Volume I , 42	Establish obligations in the general ledger before issuing purchase orders.	Finding was not addressed	Not Corrected

STATUS OF PREVIOUS RECOMMENDATIONS

Process	Type of Finding	Original Finding Number	Description of Recommendation	Status as Previously Reported	Status as of September 30, 1997 Auditability Assessment
Procurement, General Expenditures and Budget	Other Reportable Condition	Volume I , 43	Properly establish obligations for travel.	Adequately designed, not operating effectively	Corrected
Procurement, General Expenditures and Budget	Material Weakness	Volume I , 8	Record all OPAC transactions in in general ledger.	Not corrected	Corrected
Procurement, General Expenditures and Budget	Material Weakness	Volume I , 10	Accrue expenditures for goods and services received.	Not corrected	Corrected
Procurement, General Expenditures and Budget	Material Weakness	Volume I , 11	Substantiate balances in accounts payable.	Corrected	Corrected
Procurement, General Expenditures and Budget	Material Weakness	Volume I , 12	Require periodic review of open obligations.	Corrected	Corrected
Procurement, General Expenditures and Budget	Material Weakness	Volume I , 19	Strengthen procedures for completing receiving reports.	Adequately designed, not operating effectively	Adequately designed, not operating effectively
Procurement, General Expenditures and Budget	Material Weakness	Volume I , 20	Segregate purchase approval and payment certification functions.	Corrected	Corrected
Procurement, General Expenditures and Budget	Other Reportable Condition	Volume I , 30	Reconcile payments generated through ECS.	Corrected	Corrected

STATUS OF PREVIOUS RECOMMENDATIONS

Process	Type of Finding	Original Finding Number	Description of Recommendation	Status as Previously Reported	Status as of September 30, 1997 Auditability Assessment
Procurement, General Expenditures and Budget	Other Reportable Condition	Volume 1 , 36	Record appropriations expended in the general ledger.	Corrected	Corrected
Procurement, General Expenditures and Budget	Other Reportable Condition	Volume 1 , 37	Record gift expenses in the general ledger.	Corrected	Corrected
Procurement, General Expenditures and Budget	Other Reportable Condition	Volume 1 , 52	Require approval of changes to procurement requests.	Corrected	Corrected
Procurement, General Expenditures and Budget	Other Reportable Condition	Volume 1 , 53	Allow only properly authorized personnel to approve procurement actions.	Corrected	Corrected
Procurement, General Expenditures and Budget	Other Reportable Condition	Volume 1 , 54	Segregate imprest fund duties at Headquarters and NCCC campuses.	Corrected	Corrected
Procurement, General Expenditures and Budget	Other Reportable Condition	Volume 1 , 55	Document and distribute all changes to general ledger budget and accounting codes.	Corrected	Corrected
Procurement, General Expenditures and Budget	Other Reportable Condition	Volume 1 , 56	Segregate procurement related duties.	Corrected	Corrected
Procurement, General Expenditures and Budget	Other Reportable Condition	Volume 1 , 57	Maintain updated listing of procurement request approval authority.	Corrected	Corrected

STATUS OF PREVIOUS RECOMMENDATIONS

Process	Type of Finding	Original Finding Number	Description of Recommendation	Status as Previously Reported	Status as of September 30, 1997 Auditability Assessment
Procurement, General Expenditures and Budget	Other Reportable Condition	Volume 1 , 58	Comply with Prompt Payment Act reporting requirements.	Corrected	Corrected
Procurement, General Expenditures and Budget	Other Finding	Volume 1 , 68	Select, appoint, and terminate contracting officers in accordance with the FAR.	Corrected	Corrected
Procurement, General Expenditures and Budget	Other Finding	Volume 1 , 69	Audit travel vouchers using a sampling approach.	Corrected	Corrected
Procurement, General Expenditures and Budget	Other Finding	Volume 1 , 70	Eliminate redundant logs and cuff records.	Corrected	Corrected
Procurement, General Expenditures and Budget	Other Finding	Volume 1 , 71	Develop comprehensive procurement policies.	Corrected	Corrected
EDP	Material Weakness	Volume 1 , 3	Strengthen security controls over access to the general ledger.	Corrected	Corrected
EDP	Other Finding	Volume 1 , 76	Develop and implement a formal security awareness and training program.	Corrected	Corrected
EDP	Other Finding	Volume 1 , 77	Secure the computer room door during business hours.	Corrected	Corrected
EDP	Other Finding	Volume 1 , 78	Improve safeguards against fire in the computer room.	Corrected	Corrected

STATUS OF PREVIOUS RECOMMENDATIONS

Process	Type of Finding	Original Finding Number	Description of Recommendation	Status as Previously Reported	Status as of September 30, 1997 Auditability Assessment
EDP	Other Finding	Volume I , 79	Document and maintain a systems development life cycle methodology.	Not corrected	Not Corrected
EDP	Other Finding	Volume I , 80	Develop and maintain a Disaster Recovery and Business Continuity Plan for the IT locations.	Adequately designed, not yet implemented	Corrected
EDP	Other Finding	Volume I , 81	Install anti-virus software on ECS-dedicated microcomputer.	Corrected	Corrected
EDP	Other Reportable Condition	Volume II , 6	Develop and implement an automated information security program.	Adequately designed, not yet implemented	Corrected
EDP	Other Reportable Condition	Volume II , 11	Do not perform VMS test work in the production environment.	Corrected	Corrected
EDP	Other Finding	Volume II , 17	VMS should require users to change their password from default password upon initial sign-on to the system.	Corrected	Corrected

AUDITABILITY ASSESSMENT PROCEDURES

Planning

As part of our planning procedures, we reviewed the Office of the Inspector General (OIG) reports related to auditability of the Corporation. We held separate and combined planning meetings with key OIG and Corporation personnel to establish a common understanding of the project's scope and goals and to obtain an overview of corrective actions taken to date.

Documenting the Corporation's Internal Controls

We identified and categorized the Corporation's significant transactions into the following eight significant processes:

- Financial Management and Reporting
- National Service Trust
- Fund Balance with Treasury and Investments
- Payroll and Allowances
- Grants Management
- Revenue
- Procurement, General Expenditures, and Budget
- EDP Controls

For each process, we reviewed existing documentation and interviewed key Corporation personnel responsible for the process to identify input and output documents, processing steps, authorization controls, provisions for segregation of duties, personnel involved in specific aspects of the process, interfaces with other processes, reconciliation procedures, and any other matters unique to the process. Additionally, we summarized the findings from prior OIG reports into these eight process categories and documented our understanding of corrective action taken by the Corporation to implement recommendations or otherwise resolve these matters.

Our understanding of the current processing environment and respective internal controls in place was documented in narrative form.

Testing Effectiveness of Internal Controls

Our overall conclusion on auditability of the Corporation is based on our assessment of the effectiveness of the Corporation's internal controls to ensure assets are safeguarded against loss or unauthorized disposition, only authorized transactions are executed in accordance with Corporation policy, and reliable financial reports are prepared. Our assessment of the internal controls involved two distinct steps. We tested the corrective actions taken by the Corporation to

AUDITABILITY ASSESSMENT PROCEDURES

address auditability survey findings, as identified in previous OIG reports. We also identified and tested other components of the internal control structure as we determined necessary.

Our tests were performed using inquiries and observations, sampling and examination of source documents, verification of reconciliation procedures, and recomputation/reperformance procedures as deemed appropriate. By design, our detailed samples were selected from the entire Corporation population and were not limited to any one Service Center. As such, our test work included samples from Headquarters, each of the Service Centers, and certain NCCC campuses. The samples were then used to test for evidence of internal controls being in place and functioning as intended (documentation of authorizations and approvals, proper sequencing of procedures performed, etc.) including verification of corrective actions taken.

Our internal control assessment required us to visit each of the five service centers. At each Service Center, we performed internal control test work on the following processes: grants management, procurement, general expenditures and budget, and revenue.

We also performed internal control test work at Headquarters on financial management and reporting, the National Service Trust, fund balance with Treasury and investments, payroll, grants management, revenue, procurement, general expenditures and budget, and EDP controls. As part of our payroll test work, we selected VISTA members and requested related supporting documentation from the State Offices.

Our review of the underlying records for the sample items provided evidence as to the existence of an audit trail and the sufficiency of documentation to support amounts recorded in the general ledger.

We also performed a general controls review over the Corporation's electronic data processing (EDP) systems.

The results of our test work indicated that the Corporation has made significant improvement in its internal controls, but has continuing control weaknesses.

Assessing the Risk of Fraud

Our overall conclusion on auditability of the Corporation considered the potential for material misstatement of financial records due to fraudulent financial reporting and misappropriation of assets. We inquired of management regarding management's understanding of the risk of fraud in the Corporation and whether they have knowledge of fraud that has been perpetrated on or within the Corporation.

Our assessments considered management's characteristics and influence over the control environment, operating characteristics and financial stability, and other industry conditions.

We also considered the overall susceptibility of assets to misappropriation and related safeguard controls in place at the Corporation.

AUDITABILITY ASSESSMENT PROCEDURES

We did not identify any risks of material misstatements of the financial statements due to fraud. We did, however, identify certain fraud risks that will need to be considered in designing audit procedures for the Statement of Financial Position.

Evaluating the Adequacy of Documentation

As a component of our internal control test work, we assessed the adequacy of documentation maintained by the Corporation to support a financial audit, follow-up on corrective actions, and other procedures.

As noted above, our internal control samples provided evidence as to the existence of an audit trail and supporting documentation for amounts recorded in the general ledger. Our test results indicated that the Corporation has made significant improvements in maintaining documentation, however, instances of continuing documentation exceptions were noted which indicate needed improvement.

We also obtained the schedules and reconciliations supporting the September 30, 1997, Statement of Financial Position line items to determine if documentation exists for the amounts reported. We did not audit the information provided to us by the Corporation personnel, however, we did observe the following:

- schedules and reconciliations exist for each Statement of Financial Position line item; and
- the fund balance with Treasury reconciliation included a significant unresolved reconciling item.

**CORPORATION RESPONSE TO
AUDITABILITY ASSESSMENT**

CORPORATION
FOR NATIONAL
 SERVICE

July 1, 1998

Ms. Luise Jordan
Inspector General
Corporation for National Service
1201 New York Avenue, NW
Washington, DC 20525

Dear Ms. Jordan,

This letter is a response to the Corporation for National Service draft Auditability Assessment as of September 30, 1997 submitted by the firm of Peat Marwick, LLP (KPMG). We appreciate the opportunity to respond to the draft report since it provides subsequent readers of the final report a summary of the significant efforts being made by the Corporation in response to the assessment findings and recommendations. While the results of the auditability assessment show areas that continue to need improvement, we are pleased to see the conclusion that an audit of the Corporation's Statement of Financial Position at September 30, 1997 can be performed. We are also pleased to see in the detail of the report confirmation of the continued progress the Corporation is making in addressing past auditability findings. We recognize that work remains to be done and this effort continues to be a very high priority for the Corporation. The report also demonstrates, however, that much work has been done and that our efforts are achieving intended results.

The recent assessment considered issues directly relevant to the task of evaluating the possibility of conducting an audit of the 1997 Statement of Financial Position. The assessment also reevaluated the Corporation's status on the findings in the original auditability assessment and follow-up reviews, and the findings that resulted from the audit of the National Service Trust financial statements for FY 1994 and FY 1995. KPMG's assessment notes that there were 110 individual findings in the previous reviews and audits, of which 76 are designated corrected in the current review. Of the 34 remaining items, 17 (including all but 3 material weaknesses) have been designated as either partially corrected or having corrective actions that are properly designed but not yet fully implemented. We fully acknowledge the work that still needs to be done; however, these findings are a demonstration of the Corporation's commitment and of the continuous and ongoing nature of the effort. We remain fully committed to our goals of a successful audit of the 1997 Statement of Financial Position and a subsequent audit of the full set of financial statements for FY 1998.



Ms. Luise Jordan
July 1, 1998
Page Two

In discussing the upcoming audit of the 1997 Statement of Financial Position, the report lists four critical matters that need to be addressed by the Corporation within the context of that audit. We have met with members of the KPMG audit team and staff from the Office of the Inspector General to discuss these matters. We are working on each and feel that we can resolve them or significantly reduce their materiality as part of the audit process. I would like to briefly touch on them here.

Resolve the material unreconciled difference included on the fund balances with Treasury reconciliation as of September 30, 1997. Corporation staff have identified the reconciliation items and corrections are now being done. We will have the items resolved and posted by early August.

Provide adequate support for the assumptions used in estimating the service award liability for the National Service Trust. Several initiatives are underway to provide added support for the award liability assumptions. These include a project to verify the status of individuals enrolled in the first two AmeriCorps program years and listed in the Trust database as still active; an effort to digitally image all available Trust participant documents and provide an electronic index tied to records in the Trust database providing better access to available documentation; and a renewed effort to improve the membership roster process. We expect to be able to provide adequate support for the liability assumptions for 1997 and to have a significantly improved process for the 1998 liability calculation.

Provide adequate support for the assumptions used in estimating the grants payable and grants receivable balances at September 30, 1997. Supporting documentation for the estimation of grants payable and advances to grantees was provided to KPMG during their March/April 1997 review period. Grants payable were estimated along with advances to grantees balances as of 9/30/97 using the Grant Expense Accrual Worksheet developed by Corporation Accounting. Details on this approach are provided later in this document in response to specific assessment findings. We feel we will be able to support our figures on the financial statements as of September 30, 1997.

Provide adequate support for the components of the liability related to former Commission grant awards administered by the General Services Administration. The Corporation has initiated a project to determine the extent of the existing liability with respect to former Commission grant awards and we will be able to provide adequate support for the audit. Details on this approach are provided later in this document in response to specific assessment findings.

Ms. Luise Jordan
July 1, 1998
Page Three

The enclosure represents our responses to the specific review findings. We look forward to continuing to work with you as we improve Corporation operations.

Sincerely,

A handwritten signature in black ink, appearing to read "Wendy Zenker", with a horizontal line extending to the right.

Wendy Zenker
Chief Operating Officer

Enclosure

Financial Management and Reporting:

Control Environment

The Corporation appreciates the observation that it has made significant strides in addressing control environment issues. However, more work remains ahead of us and we agree with KPMG's recommendations in this area.

Financial Reporting Process

The Corporation agrees with the recommendation to strengthen the financial reporting process. Under the Corporation's Plan for Correcting the Auditability Assessment Findings, we have committed to improve the financial reporting process by developing a methodology for ensuring the accuracy of the financial statements and related disclosures in accordance with the Government Corporation Control Act. The Corporation has implemented or is implementing the following actions to improve the financial reporting process:

- prepared and implemented an annual financial closing schedule which includes due dates and accountabilities;
- prepared a financial statement preparation checklist of the Corporation's key activities and related due dates;
- preparing a checklist of the Corporation's financial reporting requirements;
- preparing analytical and management review procedures for financial statements;
- preparing documentation requirements for financial statement line items;
- preparing procedures for gathering and storing supporting documentation;
- preparing procedures for ensuring completeness of the data.

The Corporation will document the assignment of staff for the financial statement preparation process and closely monitor the process until the financial statements have been completed by the required due date.

The Corporation also will ensure that the financial statement checklist includes documentation of the Director of Accounting's review and approval of the financial statements and supporting documentation before they are issued.

With respect to contractor support, Corporation management received and reviews resumes for approval prior to contractor's staff coming on board. Resumes indicate education, certifications with the AICPA, state accounting societies and other professional organizations, and work experience. Upon the hiring of a Corporation employee to prepare the financial statements, we will ensure that the employee has the education and experience required to prepare and review financial statements.

The oversight of the contractor's performance was assigned to the Director of Accounting and was closely monitored, however, this was not clearly documented. The Corporation will take appropriate steps to ensure that the oversight and monitoring of the contractor's performance is documented.

National Service Trust:

Management agrees in general with the findings and recommendations concerning the National Service Trust. Below are comments on specific sections of the findings and descriptions of what the Corporation has done or is planning to do to address these findings.

Membership Rosters

The Corporation agrees that the membership roster process is not currently working satisfactorily. We will begin to send the rosters quarterly as recommended. On March 18, the Corporation sent to Congress its plan for addressing a number of remaining financial management issues. In that plan, the Corporation committed to strengthen the management of data quality unit within the Corporation. A specific function will be implemented to work with program offices and grantees to improve the data in the Trust. The goal, among other things, will be to work with grant programs to improve compliance with the member roster process and to ensure changes submitted are entered into the data system in a timely fashion.

Active Member Service Award Liability Assumption

The Corporation has been working to get documentation on individuals who enrolled in the first two AmeriCorps program years, but remain active in the Trust database. We know that most of those individuals did not complete the program, but we never received documentation to that effect. To date, we have reduced the "still active" number for the first program year from the 3,000 contained in the report to 1,411 and the 5,000 in the second year to 2,005. We will continue that effort to completion.

Data Integrity and Reliability

We assume most of the data integrity issues found in the survey were not from the 1997 program year. The Corporation now returns any end-of-term form that is signed before the end of the service period, even in cases where the member has already completed the number of hours of service required for an award. The Corporation also returns forms that do not contain the signatures of both the member and the certifying official. Likewise, the Corporation will not grant an education award unless the name of the certifying official signing the form is already in the Trust data system.

The Corporation has experienced delays in entering dates into its data system due to volume and related problems. However, that situation is not continuous and does not exist currently. Often the delay in entering data into the system is the result of delays in

the form reaching the Corporation. The data quality function will also have as a task the monitoring of those problems and deal with backlog issues if they develop. Also the electronic data entry project, described below, will greatly alleviate that problem.

Other Procedural Matters

The member certifying completion of the program must have access to timekeeping records. Where a program has those records in multiple locations there will be multiple certifying officials. Likewise, programs often want more than one person eligible to certify completion to provide coverage of vacations. Again, the electronic data entry project described below should help limit and track certifying officials.

Current Initiatives

The Corporation is currently cleaning up the historical data files. As a part of that effort, the Corporation will be digitally imaging and indexing all forms which have been received by the Corporation since the Trust was established. This will permit the forms that currently may be misfiled (for example, because of a change in project code which was entered into the data base but not corrected on the original form) to be correctly associated with the appropriate project. Likewise, this imaging will permit us to plan for securing forms that are truly missing.

The imaging project will also permit us to greatly improve our efficiency in paper handling. Now, all incoming documents will be imaged and only the images will move between staff. We expect to realize significant labor savings and to improve our data quality.

The Corporation is working with State Commissions on a data system which will permit the entry of data electronically from program sites, through the Commissions and into the Corporation's data base. This will reduce processing time, prevent multiple data entry, make better use of up front edits, and improve data quality. Obviously, there are significant security issues to be addressed. We hope to pilot test electronically loading enrollment data from one state this fall.

With respect to outsourcing the Trust operations, The Corporation is completing its review of a study by Grant Thornton on this subject. At this time, we are committed to making improvements in Trust operations through the digital imaging⁶ project and will make a final decision on outsourcing at a later date.

Fund Balance with Treasury:

The Corporation agrees with the findings and recommendations regarding controls over the capturing and reconciling of appropriate information related to our fund balance with Treasury.

Reconciliation

Management agrees that an effective reconciliation of the fund balance with Treasury is necessary. The Corporation has established procedures for reconciliation of current cash items at three levels: Schedule (amount), Date, and Appropriation.

The Corporation has intensified its reconciliation effort and has begun the necessary process of reconciling reported items with recorded items by appropriation during FY98. At the present time the Corporation has two individuals dedicated to researching appropriation level differences both current and historic. In addition, there are two individuals dedicated to reconciling external (HHS, NFC) information on a detailed level that supports the identified differences by appropriation.

We will continue to strengthen the reconciliation process and ensure that it is performed monthly.

Commission Grant Funds

The Corporation agrees with the recommendation. The Office of Grants Management is currently in the process of reviewing grant documentation in order to determine a liability for the amount of related education benefits to be paid. This process is discussed below. Upon the determination of a liability, the Corporation will determine if disclosures are necessary for reporting purposes. The Corporation will establish procedures to monitor the disbursements made from the funds maintained by General Services Administration and to close the grants.

The Office of Grants Management (OGM) has launched a concerted effort to determine the liability associated with the old "Commission Grant Awards" and begin close-out of the program grants. We have issued letters to all grantees with educational benefits requesting identification of outstanding liabilities and end dates by individuals for educational benefits as of May 30, 1998. Responses are due in early July with planned follow-up to each non-responsive grantee. We expect to have all data by the end of August in order to establish outstanding remaining liability for post service education awards.

In addition, the Grants Office has initiated the close-out process for program grants with educational awards. This process will extend into FY99. We will also be initiating close-out processes for other Commission programs without post-service benefits such as Serve-America and Higher Education which have all expired.

Investments

The Corporation has put in place a process of supervisory review of the monthly reconciliations performed by the portfolio manager, as recommended in the draft report. Each month the Senior Director for Budget and Trust Operations reviews and initials the reconciliation documents. Those documents are maintained by the Senior Director.

Payroll:

VISTA Payroll

A procedures memorandum has been issued from headquarters to all state offices emphasizing the responsibility of those offices in securing responses from sponsors to the sponsor verification letters. Furthermore, the memorandum specifies the steps that the staff must follow to ensure that responses are received and acted upon timely. The policy and procedures will be reviewed in three months to determine its effectiveness in reducing overpayments.

The need to follow established procedures by securing proper sponsor and supervisory approval will be emphasized in communications with field offices. A review is being performed now of the pay codes for all active volunteers to give greater assurance that members are not assigned erroneous allowance rates.

The requirement to enter cancellations of checks on a timely basis is being emphasized to the staff assigned to this task. The supervisor will give close attention to assure timely completion of this task. Strengthening of the cash reconciliation procedure will assure that errors on canceled checks are minimized.

Federal Employees' Payroll

Monthly Department Head reports

The Human Resources Office (HRO) is continuing to issue the monthly report to the Department Heads but is also incorporating the suggested recommendation that a monthly edit report of personnel changes be developed and provided to the Department Head's assistant so that they may review it against their logging system. In addition, the HRO is developing a standardized logging record which will be provided to the assistants to help them in this process.

It is also recognized that a monthly "status of personnel action requests" would be helpful for Department Heads/assistants so that they know the status of all personnel action requests and the HRO has developed this report. The first edition will be included in the monthly Department Head report for June 1998.

Time sheets lacking proper documentation

Of the 78 time sheets sampled, timekeeper initials were missing from 16, supervisory signatures were missing from 3 and approval of compensatory time earned by two employees was not documented. These issues were recognized by management and staff as key areas of concern and controls were put into place during the middle of FY97. At last summer's timekeeper workshop, a point of emphasis was the necessity for timekeepers to review and initial time sheets. Department Heads were contacted in April 1997 (and re-contacted this year) and asked to submit names of officials in their departments who are authorized to approve overtime and compensatory time. Staff was instructed not to process overtime/compensatory time on time sheets lacking authorization from designated approving officials. Staff has also been directed not to process any time sheet that lacks a supervisory signature. It was noted from the auditor's spreadsheet that most of these errors occurred early in the period surveyed, before these safeguards were implemented.

Based on the auditability findings in this report, the existing procedures are being re-emphasized and the Corporation will institute random independent monitoring to ensure that the procedures are being followed.

Segregation of personnel/payroll

During previous audits this issue was raised and the Corporation responded that because of the NFC access requirements, the PACT and PRES systems are intertwined and access cannot be segregated through use of the information system controls. This is a feature of NFC and applies to all Federal agencies using the NFC system.

Consequently, an alternative administrative procedure was established to segregate the duties of the technicians to ensure they are processing actions appropriately and within their authority. This procedure involves the supervisors reviewing transaction reports every payday and documenting that the actions taken by the technicians were appropriate, or, as was the case when this process was first instituted, reminding the employee they are not authorized to process the opposite type of transaction. The deficiencies noted occurred in the early stages of implementing the process.

This procedure is currently being followed rigorously and no inappropriate processing of actions has occurred since those two instances. With the exception that four reports were not run because the supervisor was absent and there was no backup system for this contingency, we have fully conformed to the procedure requested by the earlier audit team.

Untimely resolution of leave error reports by Service Center PCTare Technicians

For 12 of the 13 pay periods surveyed, annual leave reconciliations were not made on a timely basis for at least one Service Center. At first the auditor believed untimely

reconciliation of the leave error report could result in erroneous payments for leave employees do not have. After discussion with staff, it was understood that the leave error report is a reconciliation process for leave balances between the NFC database and the PCTare software and the NFC system will reject T&A entries for leave that is not in the data base. Because this is a collateral duty for Service Center staff who are input technicians, and will not result in overpayments, technicians do not always treat reconciliation of these reports as an immediate priority. The Corporation will require Service Center Directors to include timely resolution of leave errors as a critical task in PCTare technicians individual workplans.

NCCC Payroll

This deficiency occurred because the payroll technician was using the computer as a file storage mechanism for all of the e-mails. The Office of Information Technology, due to a problem with file space, deleted e-mail files for employees that had been on file for a certain period of time without access. During the preparation phase for this file clean-up, the payroll technician did not realize the need to take action to preserve the files. They were unintentionally deleted and therefore not available for the audit. This deficiency has since been corrected because the payroll technician is now printing a hard copy of all of the e-mails for record purposes.

NCCC payroll reports

This condition existed because the supervisor was not having the reports run in the absence of the payroll technician. This has since been rectified. The supervisor will ensure that the report is run in the absence of the technician.

10 Payroll reports

These four requests were those missing due to the technician's absence and were rerun for the auditor, therefore, they did not contain the signature of the supervisor. However, the corrective action mentioned above to have the supervisor run the report in the technician's absence will insure a signature in the future.

Cash advances

The Corporation did not advance funds to Corps Members, instead it provided an early payment for a fraction of a pay period actually worked. We agree that this method of payment to Corps Members results in control issues. We will develop appropriate control techniques to minimize the risk associated with early payment.

Grants Management:

NCSA Grant File Maintenance

We agree with the need for properly maintained and complete grant files. The Office of Grants Management has taken numerous steps to enhance its file maintenance and data entry systems to include a complete file inventory before each award (or amendment) is made, a regularly updated file checklist system, and the hiring of a full-time staff person for file maintenance and security, with all files signed out and returned in a secure system. We will continue to monitor and self-test our procedures.

We also agree with the importance of ensuring that grant obligations are recorded on a timely basis in the general ledger. The Corporation's procedure for processing NCSA awards requires that Accounting obligate awards upon receipt of a copy of the award and the funds certification from the Office of Grants Management. The obligation is also noted on a tracking sheet prior to the Grants Office issuing the award to the grantee.

The Office of Grants Management has developed and utilizes a "Grant Award Flow Chart" which precludes the issuance of grant award letters prior to recording the date of obligation in the general ledger. The date on the grant award letter precedes the recording of an obligation because after funds have been certified and the award is signed by senior management, it is only then entered into the "Award Tracking System" and then forwarded to Accounting. Only after the award is properly entered into the general ledger is it returned to the Grants Office, and at that point, and only then, is the award notification sent to the grantee.

As we improve our information systems, we expect to automate the flow of approvals and commitments and obligations. The present system, although somewhat cumbersome, does work to provide proper control.

DVSA Grant File Maintenance

We concur with the recommendation to conduct periodic employee training on the proper procedures for grants processing and file maintenance. Such training will be built into annual business plans.

With respect to grant file maintenance, the Corporation believes that it has strengthened the process in the Service Centers. DVSA Grant File Reviews Policy 1021 was issued February 26, 1998, effective March 1, 1998, requiring the inclusion of a checklist in all active grant files and establishing a formal procedure for a semi-annual review of selected grant files, summarizing the scope of the review, and reporting the results of the review to the Deputy CFO. A monitoring system is in place to track FSR reporting and processing. Delinquent FSR reporting to headquarters is accomplished quarterly. We recognize that there are lingering problems from periods prior to the new procedures.

Accounts Receivable

We agree with the importance of proper procedures for grants receivable. Procedures have been drafted for the establishment of grants receivable -- Amounts Due From Grantees, Policy 1019. These procedures include 1) the identification and recording of amounts due from grantees, 2) the establishment of controls to ensure that these amounts are appropriately recorded as receivables, and 3) the establishment of appropriate follow-up.

As of September 30, 1997, audit receivables were recorded in the general ledger. During FY 1998, we have improved our performance and audit receivables are recorded timely in the general ledger upon notification from Grants Management Office.

Additionally, detailed procedures for monitoring and collecting of accounts receivables are being developed. A task force is also looking at our overall collections effort.

Grantee Site Visits

Grantee financial reviews are an important aspect of grant oversight. With changes in the use of A-133 audits, the Corporation established a task force to consider a risk-based approach to using Corporation resources more effectively in grantee oversight. A risk assessment study with recommendations for grantee financial reviews was provided to Corporation management on June 17, 1998. Also for Grant Officer site visits, NCSA Grants Management Guidelines, GMG 97-03, was recently issued to provide better guidance on monitoring NCSA grants and to consolidate previously issued or existing tools and guidance on monitoring awards through site visits. The Corporation recognizes the need to continue to consolidate, streamline and enhance its grantee oversight procedures and this was acknowledged in our March 18, 1998 Auditability Plan which outlined specific steps that we are taking. This will continue to be a priority of the Corporation.

Revenue

Cash Receipts

We agree that management should review cash receipts and general ledger transaction records to ensure that cash receipts are posted to the general ledger accurately and timely. We have recently issued procedures governing cash receipt handling and posting and will continue to make this an important area for improvement and monitoring. Cash receipt operating procedures will be reemphasized and appropriate action taken if problems are observed.

Reimbursable Agreements

Reimbursable agreements are an important and expanding area of Corporation activity. We agree with the need to review our procedures in this area. Field procedures for AmeriCorps*VISTA Cost Share Agreements will be updated to ensure that agreements are signed by sponsors and budget tracking codes assigned prior to the starting date of the agreement terms. As a condition of the Treasury OffSet Program, the Corporation will be certifying its accounts receivable as valid for collection. The Corporation is enhancing its Debt Collection function. We are assigning specific resources to develop written debt collection policies and procedures. These procedures will address requirements for assessing and documenting reimbursable receivables.

We agree that the cost share billing system needs improvement. We are developing a new cost share system which will be used by all Service Centers and will be an integrated module of the VISTA Management System so that all data will be shared.

Procurement, General Expenditures, and Budget

OPAC

We have improved our recording of OPAC transactions on a timely basis. Our control system was also improved, whereby a schedule is prepared within 10 days of month end for all OPAC charges during the previous month. This schedule indicates who charged our account, as well as the Service Center or HQ Office responsible for recording the transaction. This schedule is distributed to appropriate fiscal staff. We improved our filing process as it relates to OPAC. The listing of OPAC charges by month is maintained in a separate binder with supporting details. As transactions are entered in the accounting system, this listing is annotated. We do continue to encounter problems in recording some charges when it is difficult to relate charges to a specific obligation or department. In these cases additional research is necessary and posting is not timely. Longer term, we look forward to new arrangements for recording these interagency transactions through the systems being implemented government-wide. Our expectations of activities and time schedules for these new efforts are listed in our March 18 Auditability Plan.

Imprest Fund

We did have a lapse in the surprise count process due to changes in personnel. They have been reinstated and are being done regularly. We will monitor the effort to ensure compliance with policy.

New Financial System

We agree and will require that the new financial system meet the requirements outlined.

Credit Card and Receiving Reports

We agree that receipts are appropriate for all credit card purchases. We will reemphasize the procedures. Cards are used for certain purchases for which receipts are not available, but alternative documentation for sharing with approvers is appropriate and will be required.

Corporation Form 9

As noted in the assessment report, Corporation Form 9, a form used for the formal recording of verbal bids, is used extensively at HQ. We have reemphasized the need for appropriate documentation for verbal bids to the Service Centers. We agree with the recommendation.

EDP Controls:

Create a separate Chief Information Officer position.

The Corporation agrees with the need for a CIO and will recruit such an individual to join its management team.

Update the Network and Computer Security Policy to reflect the Corporation's current IT environment.

The Corporation is aware that the document is outdated. OIT has retained the services of the Collins Consulting Group to assist in updating this document. The work is scheduled to be completed by August 7, 1998.

Limit the number of assigned systems administrators.

The Corporation agrees that the number of persons with system administrator access was too extensive. This has been corrected as of June 12, 1998. The number of OIT personnel with system administrator privileges has been reduced from the previous total of 21 people to 9 people. As a further measure of auditability we have instituted a new policy that forces system administration activities to be tracked by the login name of the person doing the work.

Restricting access of application programmers to Oracle database production data.

The Corporation agrees that such restrictions are appropriate and feel that we have an environment that achieves this end. There are currently four Oracle programmers and one Oracle Database Administrator on staff. Only the DBA and the designated alternate have 'unrestricted' access to production data. The other members of the Oracle group are restricted to 'read only' access.

Establish a formal system development life cycle methodology for the Corporation's current environment and processes.

Currently all system development, improvements, and program changes are accomplished using the Designer 2000 and CASE methodologies. These tools are used specifically because their output is a very accurate depiction of the individual processes and system's development over time. The Corporation will consider ways to further document and

control its development process through an SDLC that makes effective use of our current processes.