Office of the Inspector General
Corporation for National Service

Recommended Improvements to the Corporation's Internal Controls – Fiscal Year 1998 Management Letter

Report Number 99-24
March 24, 1999

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Under Office of the Inspector General,
Corporation for National Service
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This report was issued to Corporation management on June 30, 1999. 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 December 27, 1999, and complete its corrective actions by June 30, 2000. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of the Inspector General
Corporation for National Service

Recommended Improvements to the Corporation's Internal Controls – Fiscal Year 1998 Management Letter

The Office of the Inspector General, Corporation for National Service, engaged KPMG Peat Marwick LLP to audit the Corporation's fiscal year 1998 financial statements.[1] The audit, conducted in accordance with government auditing standards, included extensive audit procedures to overcome known material weaknesses and other pervasive systems deficiencies. As a result, KPMG was able to issue an unqualified opinion on the Corporation's Statement of Financial Position at September 30, 1998. However, due to deficiencies in the Corporation's financial systems and management's inability to explain certain adjustments made to the accounting records, KPMG was unable to render an opinion on the Statement of Operations and Changes in Net Position, and the Statement of Cash Flows for the fiscal year.

During the engagement, the auditors also noted other matters involving the Corporation's internal controls that were not considered material weaknesses or reportable conditions. This report discusses these conditions and includes recommendations for corrective action. OIG has reviewed the report and work papers supporting its conclusions and agrees with the findings and recommendations presented.

We provided a draft to the Corporation for review and comment. The Corporation stated that it is in the process of implementing many of the recommendations contained in the report. As is customary, we provided the Corporation with a draft of this report on May 26, 1999. The Corporation's June 25, 1999 response is included as Appendix B.

[1]OIG Audit Report 99-12, *Audit of the Corporation for National and Community Service's Fiscal Year 1998 Financial Statements.*

Inspector General
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Office of the Inspector General
Corporation for National and Community Service

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- **Content of Annual Financial Reports** 7

  C.1. The annual report does not currently report expenses by major program, or separately report revenues and expenses for National Service Trust operations. The annual report does not include a section on management's discussion and analysis of financial activity.

- **Performance Measures** 8

  D.1. Specific procedures to develop and track performance measures are not in place.

- **Revenue from Reimbursable Agreements** 9

  E.1. Report on receivables has not been prepared for timely submission to the Department of Treasury.
  E.2. Timely billing of accounts receivable is hindered by the lack of an integrated billing system.
  E.3. Adequate procedures for notifying the Accounting Department when reimbursable agreements are executed are not in place.
  E.4. Procedures are not in place to collect accounts receivable in a timely manner.
  E.5. Cash receipts are not consistently deposited in a timely manner.

- **Fund Balance with Treasury** 11

  F.1. Review of *Statements of Transactions* (SF-224s) was not consistently performed or documented.
  F.2. A comprehensive Gift Fund subsidiary ledger is not maintained to support accounting for donor restricted revenues.

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Inspector General
Corporation for National and Community Service:

We have audited the fiscal year 1998 financial statements of the Corporation for National and Community Service, and have issued our report thereon, OIG Report 99-12, dated March 24, 1999. Our report expresses an unqualified opinion on the Corporation's Statement of Financial Position as of September 30, 1998 and a disclaimer of opinion on the related Statements of Operations and Changes in Net Position and Cash Flows for the year then ended.

In planning and performing our audit, we considered the Corporation's internal control over financial reporting by obtaining an understanding of the internal controls. We determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, not to provide assurance on internal control over financial reporting. As a part of obtaining reasonable assurance about whether the Corporation's financial statements were free of material misstatement, we performed tests of the Corporation's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations. Our report on internal control over financial reporting and on compliance with laws and regulations based on an audit of the financial statements, performed in accordance with *Government Auditing Standards*, identified matters we considered to be reportable conditions.

During our audit, we also noted certain matters involving internal control over financial reporting and other operational matters that are not considered reportable conditions. These comments and recommendations are presented in Appendix A to this letter for the Corporation's consideration and are intended to improve internal control over financial reporting or result in other operating efficiencies. To the extent prior year comments have continuing relevance, we have incorporated these comments into those presented in Appendix A. Our audit procedures were designed primarily to enable us to form an opinion on the Corporation's financial statements, and therefore may not bring to light all weaknesses in policies or procedures that exist.

As required by the Government Corporation Control Act, this report is intended solely for information and use by the United States Congress, the President, the Director of the Office of Management and Budget, the Comptroller General of the United States and the Corporation for National and Community Service and its Inspector General, and is not intended to be and should not be used by anyone other than those specified parties.

KPMG LLP

March 24, 1999

Office of the Inspector General
Corporation for National and Community Service

Recommended Improvements to the Corporation's Internal Controls
Fiscal Year 1998 – Management Letter

Grants Management

A.1 Timely Reconciliations of Subsidiary Data to the General Ledger Not Performed

The Corporation uses the U.S. Department of Health and Human Services' Payment Management System (PMS) to administer its NCSA grants. However, the Corporation is not performing quarterly reconciliations of PMS to the general ledger on a timely basis. The reconciliation process is necessary to verify that all information has been accurately recorded in the general ledger during the interface between the general ledger and PMS. However, we found that the quarterly reviews for March and June were not completed until October 1998 and the review for September 1998 was not completed by March 1999. Further, neither the preparer nor the reviewer signed the reconciliation. Staff turnover, the length of time required to perform the reconciliation process (approximately one to two weeks), and attention to other priorities have caused this situation.

We recommend the Corporation consider establishing an automated method of reconciliation between PMS and the new general ledger system. We also recommend that the Corporation require the reconciliation to be completed within 45 days of month-end, and be signed and dated by both the individual preparing the reconciliation and the individual reviewing it.

A.2 NCSA Grant Files Incomplete

We selected 78 NCSA grant files for internal control test work. Of these, five were missing signatures of Program Officers, three were missing Board of Directors' approval (as applicable), and two were missing the signed State Commission applications.

In the case of certain missing Program Officers' signatures, the approvals related to amounts obligated for interim funding. Interim funding for a particular grant period was provided to grantees in anticipation of the Corporation's receipt of its annual appropriation. The Corporation did not deem the signature of the Program Officer as critical because the more formal review for the entire grant award, including the interim funding, would be accomplished at a later date. For the other missing approvals, the Corporation either failed to obtain the Program Officer signature or failed to file the paper work containing the signature.

We determined that Board of Directors' approvals were provided during a teleconference meeting conducted in June 1998; however, the Corporation did not maintain records of these approvals in the grant files. The Corporation has since developed procedures to accurately record the approval of all grants requiring the approval of the Board of Directors.

We could not determine the cause of the missing State Commission applications.

We recommend the Corporation strengthen its controls over the completeness of NCSA grant files by enforcing the use of file completeness checklists to document that all approvals have been obtained. Compliance with these procedures should be monitored by supervisory spot checks of grant files.

A.3 Formal Procedures for Administrative Closeout of NCSA Grants Do Not Exist

The Corporation does not have formal procedures for closing out NCSA grants. Without formalized closeout procedures, the Corporation risks not identifying excess amounts advanced to grantees that should be returned to the Corporation. In addition, the information systems currently utilized by the Corporation do not allow for identification of closed grants, an issue that relates to both NCSA and DVSA grants.

We recommend the Corporation develop written policies and procedures with respect to administrative closeout of NCSA grants. Closeout procedures should include steps to be taken by the Corporation to ensure that grantees are in compliance with OMB Circulars A-102, *Grants and Cooperative Agreements With State and Local Governments* and Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*. Review and follow-up procedures should be implemented to ensure that grants are closed in a timely manner. Finally, we recommend the Corporation's grants management system include proper coding to indicate whether or not the grant has been administratively closed.

A.4 Administrative Closeout of DVSA Grants Not Consistently Performed

The Corporation's procedures for administratively closing DVSA grants are not consistently applied, and controls are not in place to ensure all expired grants are closed in a timely manner. As a result, our tests revealed 13 of 74 grants that expired during fiscal year 1998 had not been administratively closed, as follows:

- Pacific Service Center: two of 13 expired grants tested;
- Southern Service Center: seven of 11 expired grants tested;
- North Central Service Center: two of 16 expired grants tested;
- Atlantic Service Center: one of 17 expired grants tested; and
- Southwest Service Center: one of 17 expired grants tested.

Service Center personnel indicated that these exceptions occurred because the Corporation's internal form letter, requesting the Program Office to confirm whether all program requirements had been met by the grantee so that administrative closeout procedures could proceed, had not been returned by the Program Office even though a second request had been made.

We recommend that the Corporation develop a consistent method for identifying expired grants and for administratively closing these grants in a timely manner (within 180 days of grant expiration). Review and follow-up procedures by the Service Centers and headquarters should be implemented to ensure Program Offices respond to correspondence and that grants are closed timely.

A.5 Funding Reconciliations of Expired DVSA Grants Not Consistently Performed

The Corporation's policy states that a funding reconciliation should be performed and documented for all DVSA expired grants to determine whether (1) funds are available for carry over into the next funding period, or (2) excess amounts have been advanced that need to be collected from those grantees who do not have continuing grants. However, at the North Central Service Center, two of seven expired grants tested did not have documentation that indicated a funding reconciliation had been performed. Also, none of the 11 grant files reviewed at the Southern Service Center included documentation indicating that the grant officer had completed a reconciliation of grant payments to grant expenses. Because reconciliations are not completed, grant officers are unable to properly manage the disbursement of funds and determine whether the disbursed funds are being used properly to pay for current expenses. Additionally, the Corporation can not establish accounts receivable and initiate collection efforts from grantees when necessary.

We recommend the Southern and North Central Service Centers enforce their procedures to complete and document a funding reconciliation for all expiring grants. In addition, all Service Centers should implement procedures requiring a documented review, on a sample basis, by a separate Service Center employee to ensure that the reconciliations are being performed accurately and timely. Finally, the Corporation should transfer excess grant advance balances to accounts receivable and request a prompt refund of these amounts from grantees.

A.6 DVSA Grant Files Incomplete

Of the 74 DVSA grant files tested for documentation of compliance with established file maintenance internal controls, we noted the following:

- one grant file was missing the State Director approval;
- one grant file was missing the Grants Management Officer approval; and
- in 33 instances, the Notice of Grants Award was not issued within 33 days after the grant period began.

Also, we noted that six of 11 grant files tested at the Southern Service Center and 12 of 17 grant files tested at the Southwest Service Center did not contain completed grant file checklists.

We recommend that the Corporation strengthen its controls over the completeness of DVSA grant files by enforcing the use of file completeness checklists to ensure that all approvals have been obtained. Compliance with these procedures should be monitored by supervisory spot checks of grant files.

A.7 Procedures for Administration of Grants Management System Do Not Exist

The Corporation has no formal policies and procedures in place for administering the Grants Management System. Database administration duties currently include, but are not limited to, administering and changing passwords and database maintenance.

Without formal policies for database administration, the system administrator can continue to distribute and maintain unlimited individual and shared passwords, which increases the risk of unauthorized access to the Grants Management System. The risk of incorrect and undetected changes being made to the Grants Management System configuration is also increased, which increases the likelihood of data entry errors or lost data. Finally, system reconfigurations that may temporarily disable the Grants Management System could occur during critical data entry hours and lead to loss of productivity.

We recommend that the Corporation implement formal policies and procedures for database administration. These policies and procedures should address the following minimum requirements:

1. Segregation of duties between database administration and password administration – a password administrator should administer passwords in accordance with Federal Information Processing Standards (FIPS) Publication 112 section 3. The use of shared passwords should be discontinued.

2. Changes to the Grants Management System should only be made on the basis of authorized change request forms.

3. Reconfiguration of the Grants Management System should occur only while the system is not in use for data entry.

National Service Trust

B.1 Trust Fund Forms Do Not Always Support Trust Fund Database

The maintenance of complete, accurate and current information in the Trust Fund database (SPAN) is essential to ensure the reliability of the data that is used by the Corporation to grant educational awards and estimate the service award liability. Our review of selected Trust enrollment and end of term forms used to update the database revealed that:

- information on the forms did not always agree to the information maintained in SPAN;
- certain information on the end of term forms was omitted;
- forms were not always properly signed by the member and/or the certifying official; and
- end of term forms were not always signed by a certifying official in a timely manner.

The processing of forms that contain inaccurate or missing data, or without proper approval by an authorized certifying official, could allow ineligible individuals to be entered into SPAN or to receive educational awards in error.

Because the roster confirmation process is currently ineffective, as noted in our fiscal year 1998 report on internal control over financial reporting, we recommend the implementation of a periodic, sample-based review of the information in SPAN to ensure that it is consistent with the information on the original forms. In addition, the Corporation should enforce current procedures to prevent data entry into SPAN from incomplete forms. As the Corporation moves towards internet-based initial data entry into SPAN by grantees, the Corporation should require grantees to establish controls to ensure the integrity of data entry, and include a review of these controls in its grantee monitoring process.

B.2 Trust Voucher Processing Lacks Tracking System and Established Time Frame

We selected 78 Trust Fund payments for internal control and substantive test work. We found that 22 of the payments tested were not made within 15 days of the requested dates. Although the Corporation has established a goal for processing Trust payment vouchers timely, no formal guidelines exist to identify what time frame is considered "timely." Further, because the Corporation has no means to track vouchers received and their current status, we were unable to determine the reason for the possible untimely payments.

We recommend that the Corporation include, in its written policies, the time frame in which Trust payment vouchers should be processed. In addition, the Corporation should institute a system to track vouchers it receives to assist the Accounting Department in identifying the current status of vouchers and when they should be paid.

B.3 Trust Fund Subsidiary Ledger Not Periodically Reconciled to General Ledger

The Corporation does not reconcile the Trust Fund subsidiary ledger to the general ledger at the account level on a periodic basis. As of September 30, 1998, Fund Balance with Treasury per the Trust Fund subsidiary ledger was $280,036 (or 132%) higher than Fund Balance with Treasury of the Trust Fund as reported in the general ledger. The financial statements were adjusted to account for the difference. Because the Corporation does not reconcile the subsidiary and general ledgers on a periodic basis, errors in the general ledger or subsidiary ledger may remain undetected, and Trust Fund balances may be misstated.

We recommend that the Corporation reconcile the subsidiary ledger to the general ledger at the account level on a monthly basis.

Content of Annual Financial Reports

C.1 Annual Financial Reports are Missing Certain Useful Information

The preparation of the 1998 annual financial statements was a very cumbersome process due to the inherent limitations of the Corporation's financial systems. This condition was reported as a material weakness in our report on internal control over financial reporting. The Corporation is currently in the process of implementing a new financial accounting system to, in part, overcome these weaknesses and enhance its ability to prepare reliable and meaningful financial reports for internal and external use.

As the Corporation moves ahead with the implementation of its new financial accounting system, and looks forward to the preparation of its *1999 Annual Reports to Congress*, we recommend the following specific improvements in its financial reporting process and in the content of the respective financial reports be made:

1. Develop a cost accounting module that can be integrated with the new general ledger system to accumulate direct and indirect costs related to each major program. The cost accounting module should include a means to aggregate and allocate administrative and other overhead costs (such as office rent and data processing) among the programs. A separate cost category for general and administrative costs should also be maintained for costs that are otherwise not allocable to specific programs.

2. Establish detailed fund, program and object codes to facilitate cost analysis and financial reporting by major programs and for the Trust Fund and Gift Fund.

3. Reformat the Corporation's financial statements to report the operations of the Trust and Gift Funds separately, either on the face of, or in a note to, the financial statements.

4. Aggregate expenses by major program on the face of the statement of operations and changes in net position. Present a supplemental schedule of program costs that would separately report grant expenses and other costs by object class for each major program.

5. Revise the contents of the Annual Report to include a section on Management's Discussion and Analysis of financial results. Use this section to present summarized comparative financial information (current year results compared to prior year and to budget) along with brief explanations for significant variances. This section can also be used to report and comment upon the activities of the Trust and Gift Funds, including changes in member data, thus eliminating the need for separate annual reports on these Funds.

6. Incorporate management's report on internal controls into the section on Management's Discussion and Analysis.

Performance Measures

D.1 Procedures to Develop and Track Performance Measures are Not in Place

The Executive Overview of the Corporation's *1998 Annual Reports to Congress* lists one of its Congressional mandates as "Reinvent government to eliminate duplication, support locally established initiatives, require measurable goals for performance, and offer flexibility in meeting those goals." This mandate could be applied both to the Corporation itself, as well as its grantees, in achieving its mission.

As one method of meeting this mandate, the Corporation has voluntarily chosen to comply with the Government Performance and Results Act (GPRA). GPRA encourages government agencies to become more accountable by focusing managers' and policy makers' attention on agency performance. GPRA requires Federal agencies to periodically develop long-range strategic plans and annually prepare performance plans and performance reports. The annual plans set specific performance targets for an agency's programs and activities. The annual reports should measure how well the agency did in achieving its performance targets.

The Corporation's *1998 Annual Reports to Congress* includes a section on program reports which presents a brief description of its various program activities and selected demographic statistics related to each major program. Program activity narratives also present some limited output data (e.g., "Last year, members assisted close to 3,500 women and 4,000 children through 29 domestic violence agencies/projects across the state.") and other anecdotal information. In addition, the Corporation recently submitted a separate Annual Performance Plan to OMB that contained additional performance information. Although these are important first steps in providing information to management, Congress and the public to demonstrate program effectiveness, the reported activity does not present specific program outcomes compared to planned performance as originally envisioned by GPRA.

We recommend that the Corporation develop measurable goals for each major program and administrative function, and the means to monitor and report performance measured against those goals. Development of an effective performance measurement system will be a useful tool in assisting the Corporation in making funding decisions (both for new and continuing grantees) and in assessing the individual performance of program managers and department supervisors.

Revenue from Reimbursable Agreements

E.1 Report on Receivables Not Prepared Timely

The September 30, 1998 *Report on Receivables Due from the Public*, Report 220-9, was due to the Department of Treasury on November 17, 1998, but had not been completed as of the end of March 1999. The report was not submitted when due because supervisory accounting personnel did not adequately monitor the work performed by the staff member assigned the responsibility for completing the report.

We recommend that the Corporation prepare a schedule of all external reporting requirements and assign responsibility for timely completion of the reports to appropriate supervisory personnel and hold them accountable.

E.2 Timely Billing of Accounts Receivable is Hindered by the Lack of Integrated Billing System

The Corporation maintains its official accounting records for reimbursable agreements (Cost-Share and Inter-agency) using a billing system that is not integrated with the other financial systems of the Corporation. The system in use is dependent on memorandum record keeping through the use of off-line spreadsheets instead of reliance on computer-generated expenses, billings, and status reports. The increasing number of reimbursable agreements makes the use of an effective and integrated system essential.

We recommend that the Corporation develop an integrated system of recording and billing reimbursable agreements to increase the completeness, accuracy and timeliness of billings.

E.3 Procedures to Notify Accounting Department and Record Reimbursable Agreements are Not in Place

The majority of the Corporation's reimbursable agreements are cost share agreements with non-Federal entities and are executed to provide reimbursement to the Corporation of certain expenses related to VISTA Members. A smaller number of reimbursable agreements are inter-agency agreements that are executed at headquarters by accounting staff. The majority of cost share agreements are executed and approved by Service Centers. Failure of the Service Center to notify the accounting department may result in untimely or no billing.

We also noted that the Corporation's general ledger accounts receivable control accounts are not supported by the existing subsidiary accounts, and several accounts receivable control accounts maintain negative balances. Although the total of all control accounts equals the total of the subsidiary accounts, the individual balances between the two sets of accounts are not always in agreement. Since the Corporation does not perform reconciliations between the subsidiary and the control accounts, these discrepancies were not detected and corrected.

We recommend that the Corporation establish a process that provides reasonable assurance that the Accounting Department is promptly notified when reimbursable agreements are executed. Further, the Corporation must determine the appropriate balance for each accounts receivable general ledger control account and record adjustments to reflect these balances. Once the balances have been adjusted, the Corporation should reconcile the subsidiary and control accounts on a monthly basis to ensure errors are investigated and corrected in a timely manner.

E. 4 Procedures to Collect Outstanding Accounts Receivable are Not in Place

The Corporation is not collecting on its billings in a timely manner, as evidenced by the following accounts receivable aging analysis as of September 30, 1998:

- approximately $61,000 was between 181 – 360 days delinquent;
- approximately $61,000 was between 361 – 540 days delinquent;
- approximately $34,000 was between 541 – 720 days delinquent; and
- approximately $108,000 was 721 or more days delinquent.

Collection efforts should be assigned to a specific individual who is held accountable for keeping delinquencies to a minimum. Procedures should be established to refer accounts outstanding more than 180 days to the Department of Treasury for collection, and to write off accounts greater than one year old.

E.5 Cash Receipts Not Consistently Deposited in a Timely Manner

The Corporation lacks adequate controls over the timely deposit of cash receipts, thus increasing the risk of misappropriation of these receipts. For fiscal year 1998, 29 of 52 cash receipt transactions tested were posted an average of 23 days subsequent to receipt. We noted time lags at all Service Centers and at the Corporation's headquarters.

Additionally, no evidence exists to indicate whether cash receipts and general ledger transaction records are reviewed by an accounting supervisor for accuracy and timely recording. Such a review could have identified and minimized the recording exceptions noted.

We recommend that the Corporation establish new procedures or enforce existing procedures requiring the timely deposit of cash receipts. We also recommend that the Corporation develop and implement procedures requiring that management review cash receipts general ledger transaction records to ensure that cash receipts are being posted timely and accurately.

Fund Balance with Treasury

F.1 Review of Statements of Transactions (SF-224s) Not Consistently Performed or Documented

During 1998, the designated Accounting Department supervisor did not review or document the review of two of four *Statements of Transactions* (SF-224s) selected for test work. Lack of a supervisory review may result in errors being reported to the U.S. Department of Treasury. Failure to perform this review during fiscal year 1994 and 1995 process resulted in an $11 million prior period adjustment to the financial statements in fiscal year 1998, due to the double reporting of grant disbursements to Treasury. The disbursements were reported by both the U.S. Department of Health and Human Services and the Corporation's SF-224 reporting processes.

We recommend that the supervisor consistently review each SF-224 prior to submission and document (i.e. sign and date) this review on the SF-224 to provide reasonable assurance that errors in the reporting process are detected and corrected on a timely basis.

F.2 Comprehensive Gift Fund Subsidiary Ledger is Not Maintained

The Corporation does not maintain a comprehensive Gift Fund subsidiary ledger, nor is one employee responsible for overall Gift Fund activities. We identified and proposed adjustments for several incorrect Gift Fund entries caused by the general ledger system treating Gift Fund activity in the same manner as Appropriated Fund activities. These entries were difficult to isolate and correct because no Corporation employee is responsible for the total Gift Fund's accounting. The sensitive nature of this Fund requires that the Corporation maintain detailed and accurate records of its transactions to ensure disbursements are made only in accordance with donor stipulations.

We recommend that the Corporation maintain a comprehensive Gift Fund subsidiary ledger to provide detail support for control totals in the general ledger. In addition, the Corporation should assign one employee responsibility for maintaining this subsidiary ledger. Further, to ensure the accuracy of the general ledger balances, the Corporation should require that once established, the subsidiary ledger be reconciled to the general ledger on a quarterly basis.

Investments

G.1 Approval of Investments Not Consistently Obtained and Documented

Corporation investment policy requires all investment purchases to be reviewed and approved by an appropriate official. However, we noted an instance where a fiscal year 1998 investment purchase in the amount of $7,322,000 was not supported by proper authorization. If the Corporation fails to adhere to its investment approval procedures, investments can be made without the designated official being aware of its occurrence. This situation can potentially result in a use of Trust Funds in a manner that was not intended by management.

We recommend that the Corporation's management enforce its current policy requiring that all investment purchases be approved by authorized personnel prior to purchase and that such approval be documented.

G.2 Tracking of Investments in General Ledger and Subsidiary Ledger Leads to Duplication of Effort

The Corporation tracks each individual investment in its general ledger system, and in a subsidiary ledger (referred to by the Corporation as "up-to-date" spreadsheets) that does not interface with the general ledger. The Corporation's accounting procedures, *National Service Trust, Standard Operating Procedures Manual, Investment Managing and Processing*, require this dual recording. This situation results in an inefficient use of Corporation resources.

As the Corporation implements its new financial accounting system, we recommend that the Corporation eliminate the detail investment information maintained in the general ledger and only include control totals. The Corporation should continue to maintain detail investment information to support the general ledger totals in the subsidiary ledger, and should implement procedures to reconcile the subsidiary to the general ledger control total on a monthly basis.

G.3 Delay in Transferring Funds from Treasury Resulted in Lost Interest Revenue

The fiscal year 1997 National and Community Service Act (NCSA) appropriation authorized the transfer of $59,000,000 of NCSA funds into the Trust Fund. The legislation allowed the Corporation to transfer the funds using fiscal year or "fenced" funds. The fiscal year 1997 funds were available for use from October 1, 1996 to September 30, 1997, and the 1997 "fenced" funds were available for use from September 1, 1997 to September 30, 1998. The Corporation elected to transfer $52,508,700 of the $59,000,000 using "fenced" funds. The funds were not transferred to the Trust Fund until February 1998, approximately six months after the "fenced" funds were first available to be transferred. The delay in transferring the fiscal year 1997 funds into the Trust Fund resulted in lost interest revenue of approximately $650,000 during fiscal year 1998.

For fiscal year 1998, the NCSA appropriation authorized the transfer of $70,000,000 of NCSA funds into the Trust Fund. These funds were available for transfer from the date of apportionment, November 22, 1997, to September 30, 1999, and were transferred on November 27, 1997, five days after the funds were first available to be transferred. By making the funds transfer earlier, the Corporation increased the amount of interest earned on investments.

Although the Corporation has shown improvement in this area, we recommend that the Corporation continue to annually analyze appropriation availability and cash flow requirements to determine the appropriate timing of the Trust Fund transfers to maximize interest revenue.

Information Technology

H.1 Chief Information Officer Position Not Filled

The Corporation did not create the position of Chief Information Officer Position (CIO) until recently and has not hired anyone to fill the position. Lack of effective leadership for OIT makes enforcement of information systems internal controls more difficult.

Further, no OIT Strategic Plan has been established, the OIT Operating Policies and Procedures Manual has not been developed and there is no documentation that defines the roles and responsibilities of OIT department personnel. These duties would normally fall within the responsibility of the CIO's office.

The Corporation has interviewed several candidates for the CIO position. We recommend that the Corporation fill the position with a qualified candidate as soon as possible.

H.2 Network/Computer Security Policy is Outdated

Office of Management and Budget (OMB) Circular No. A-130, *Management of Federal Information Resources*, states that agencies shall implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications. Additionally, the Computer Security Act requires that security plans be developed for all Federal computer systems that contain sensitive information. Based on the significant changes that have recently occurred to the major information systems, the Corporation's *Network and Computer Security Policy*, dated October 1996, is outdated.

Without a current network and computer security plan, users and management do not have a complete and accurate resource for determining the proper security policies and procedures for the organization.

Draft versions of the *Network Security Policy and Network and Computer Security Plan* are in the approval process. We recommend that the Corporation expedite the approval of this policy and dedicate adequate resources to ensure it remains current.

H.3 The Number of Network Administrator Accounts is Excessive

Industry standards indicate that an average of five network administrator accounts should be maintained for an organization the size of the Corporation. Network administrator privileges include managing audit and security logs, shutting down the system, backing up and restoring files, creating and managing user accounts, taking ownership of files, and formatting the server's hard disk. The Corporation reduced the number of network administrator accounts noted in the prior year from 21 to 11. However, this number is still high by industry standards.

The Corporation has implemented several mitigating controls, including real-time network security monitoring and monthly management reviews of network access reports, which encompasses the activities of the administrator accounts. These procedures may reduce the exposures created by the high number of administrator accounts. However, excessive privileges expose system resources to intentional or unintentional modification. If an administrator account is compromised, unnecessary system downtime and destruction/exposure of critical data could result.

We recommend that the Corporation further limit the administrator access to the system to reduce the risk of exposure and destruction of critical data.

H.4 Disaster Recovery Plan Has Not Been Tested Since September 1997

OMB Circular No. A-130 states, "Decisions on the level of service needed at any particular time and on priorities in service restoration should be made in consultation with the users of the system and incorporated in the system rules. Experience has shown that recovery plans that are periodically tested are substantially more viable than those that are not." The Corporation has contracted with a vendor for disaster recovery services. However, although the agreement with the vendor provides for 32 hours annually to test for disaster recovery capability, the Corporation's disaster recovery plan was last tested in September 1997. Untested plans may fail when needed.

Additionally, during fiscal year 1999, the Corporation is implementing a new general ledger system, which needs to be included in its disaster recovery plan.

We recommend that the Corporation test its disaster recovery plan on a regular basis (e.g., annually) to ensure its viability and effectiveness. In addition, the Corporation should incorporate disaster recovery procedures for the new general ledger system before it becomes operational.

H.5 Comprehensive Systems Development Life Cycle Has Not Been Developed

The Corporation does not have a documented, comprehensive systems development life cycle (SDLC) methodology. Although CASE tools and joint application development (JAD) meetings are used as part of its SDLC, the development process needs to be strengthened, as evidenced by the following conditions:

- a cost/benefit analysis of potential changes is not consistently performed;
- requirement changes are not consistently approved and documented;
- detailed plans for test and acceptance of system changes do not exist; and
- minutes from JAD sessions and other meetings are not documented.

If no formal SDLC methodology is utilized, new systems may be developed inappropriately, which may result in technology that does not meet the needs of the Corporation. Additionally, systems may be developed with undue cost and/or delay.

We recommend that the Corporation implement a formal Corporation-wide SDLC methodology. Procedures should include, but not necessarily be limited to:

1. The use of formal change request forms.
2. Proper authorization of the requested changes.
3. Testing and approval of the changes by system users.
4. Approval by a Quality Assurance team before implementing changes in the production environment.

H.6 Application Change Control Process Does Not Indicate Formal Approval

The Corporation's application change control process is tracked through an electronic ticketing system and minutes of weekly meetings among the representatives of the system owners, users, and OIT. The tickets contain data such as the ticket number, initial logged and closed dates, status, description, and resolution. Although the tickets and the meeting minutes document brief descriptions of the changes, they do not indicate formal approval for initiation, testing, and acceptance.

A lack of internal controls over the application program change function could result in unauthorized and potentially inaccurate computer program changes being implemented into the production environment.

We recommend that the Corporation implement a system to track approval for the initiation, testing and acceptance of application software changes to ensure that changes are properly approved.

H.7 Production Control Log Does Not Exist

No production control log exists to provide an audit trail for production scheduling. Production scheduling consists primarily of "standing orders" executed on a regular basis. Instructions are received from the Accounting Department regarding any requested deviations from the existing schedule. These instructions are received via Applix (change control, help desk tracking software), email or phone but are not logged. Without a production control log, tracking changes to existing schedules by authorized personnel and detecting unauthorized changes to scheduling by unauthorized personnel is difficult.

We recommend that the Corporation develop and implement a production control log.

H.8 Mission Critical Systems Contingency Plan Does Not Exist

The Corporation does not have a contingency plan for its mission critical systems - applications, software, and networks. A contingency plan would provide the Corporation with (1) alternative orderly and manageable procedures to rely on should any of the mission critical information technology infrastructure components fail under any situation, including the year 2000; and (2) assurance that the Corporation's business processes will continue to function by identifying, assessing, managing and mitigating its year 2000 and other risks, and developing appropriate measures against disruption of Corporation's operations.

Because of the lack of a contingency plan, the Corporation remains vulnerable to the disruption of its mission critical systems and business processes that are essential to its continuing ability to deliver critical services.

We recommend that the Corporation develop a formal contingency plan for its mission critical systems.

Procurement and General Expenditures

I.1 Object Code Classification Not Consistently Recorded Accurately

The Corporation uses object class codes in the general ledger system to identify the type of expenditures made (e.g., office rent, overtime pay, or utilities) and uses these codes to summarize expenditure information for presentation in the financial statements. Controls over ensuring that the object class code is properly recorded on the source document and agrees with the object code recorded in the general ledger are not functioning effectively. For three of 78 fiscal year 1998 disbursements tested, the object class codes on the source documents did not match those recorded in the general ledger, or the object class code was not recorded on the source document. This condition has resulted in expenses being misclassified in the general ledger and inaccurate financial reporting.

We recommend that the Corporation implement controls to properly identify the object class code on source documents and to properly record transactions in the general ledger. These controls should include supervisory review of disbursement information input into the general ledger and, at a minimum, quarterly analysis of activity within each object class code by a knowledgeable individual to identify and correct errors.

I.2 Missing Travel Orders

Controls to provide reasonable assurance that travel orders are completed for every employee prior to travel and that adequate records are kept for the travel authorized are not functioning effectively at the Southern Service Center. Documentation for seven of eight travel disbursements tested at this Service Center could not be located to support the travel orders. As a result, unauthorized travel may have occurred, and the propriety of these expenses could be questionable.

We recommend that the CFO's office enforce internal control policies that require (1) travel orders be completed and approved prior to employee travel departure, (2) funds availability be certified prior to travel, and (3) documentation be maintained to support travel payments.

I.3 Budgetary Information Not Updated Concurrently in Cuff Records and General Ledger

Budget information in the general ledger is maintained at the department level. To monitor portions of each department's budget, the Corporation's Program Directors maintain their budgets on manual spreadsheets, referred to as "cuff" records. These records are periodically reconciled with the general ledger at the department level. A time lag exists between when the obligations are recorded in the cuff records and when they are manually aggregated and entered into general ledger at the department level.

Since the general ledger does not always contain the most current information, the over-expenditure of funds cannot be detected by the general ledger at a detail level before the obligation. Likewise, Corporation personnel without access to the cuff records cannot obtain current budget information when needed.

We recommend that the cuff records and the general ledger be concurrently updated. We also recommend that the Corporation's new general ledger system, or a subsidiary system interfaced with the general ledger that can be accessed by authorized interested parties, contain current detail obligation and available budget information to prevent the over-obligation or over-expenditure of funds and to allow for proper management review of budget data.

Human Resources

J.1 Review of Payroll-Related Data Entry Not Consistently Performed for Service Centers and State Offices

During the Federal payroll reconciliation process, a Personnel Specialist at headquarters reviews every headquarters time sheet to verify the accuracy of hours input in the system. For the Service Center data, which includes the hours from the State Offices, the Personnel Specialist depends on technicians at the Service Centers to verify the accuracy of the hours input. However, an independent review of the hours input versus the hours recorded on the timesheets is not routinely performed by Service Center personnel. An undetected discrepancy in hours could result in over or underpayment to an employee or incorrect use of leave.

A similar situation exists at the State Offices with respect to the process to review the accuracy of data entered into the VISTA Management System (VMS). Incorrect data entry into VMS could cause a VISTA member to be paid incorrectly, receive incorrect benefits, or not receive a paycheck due to an incorrect mailing address.

We recommend that the Corporation assign someone to review the accuracy of hours input by the Service Centers. We also recommend that the Corporation implement a review process for the data entered into VMS.

J.2 Approval of Federal Payroll Reconciliation Not Secured by Cryptography System

During the Federal payroll reconciliation process, both the Personnel Management Specialist (preparer) and the Labor and Employee Relations Team Leader (reviewer) sign the reconciliation by means of scanned-in signatures. However, the signatures are not secured by a cryptographic system.

The Corporation began using scanned in signatures in an attempt to streamline the approval process for the payroll reconciliation and to limit the amount of paper needed to process its payroll. However, the electronic signatures exist as plain text files on a Personal Computer connected to the Corporation's Local Area Network, and could be accessed and put to improper use by anyone with a technical background and computer knowledge. Although the users of these signatures maintain items on a diskette, the e-mail exchanged can be accessed.

We recommend that the implementation of true electronic signatures. As part of a public key cryptography system, only the person to whom a signature belongs can use it. Improper use is detected by means of cryptographic algorithm.

J.3 Annual Leave Reconciliations Not Consistently Performed

Early in calendar year 1998, the Labor and Employee Relations Team of the Office of Human Resources (OHR) decided to stop reconciling the Leave Error Report on a bi-weekly basis, because it considered the differences between the National Finance Center and the Personal Computer Time and Attendance Remote Entry to be primarily timing errors that adjusted in subsequent periods. In addition, at that time, the Corporation changed from paper-based to electronic spreadsheet based Individual Time Certification timesheets, which indicate remaining leave balances at the bottom. As a result, the Labor and Employee Relations Team of OHR determined that employees could monitor leave balances and would notify the Team of any problems.

Although the employees might inform OHR of leave balances that are under-accrued, they may not inform the Office if the error involved over-accrued leave. Incorrect leave balances could cause incorrect accruals and payouts of unearned leave.

We recommend that the Corporation reinstitute the reconciliation of the Leave Error Report each pay period to avoid incorrect leave accruals or payouts.

J.4 Review of Timesheet Prior to Processing is Not Performed at State Offices

The Corporation for National Service Timekeepers Handbook, distributed by the Human Resources Office, dated July 1996, states that the employee and their supervisor should sign the employee's timesheet. After completion, the timesheet should also be initialed by a timekeeper to indicate the completion of a technical review. However, we found that five of 78 fiscal year 1998 Federal employee timesheets tested did not have a timekeeper's initials indicating review of the timesheet, and two of 78 timesheets did not have a supervisor's signature. These omissions primarily occurred because not all timekeepers or supervisors, particularly in small State Offices, have an alternate approving official in case of absence. This condition leads to inadequate review and approval of timesheets which can result in abuse of the payroll system, such as employees being paid for hours not worked.

We recommend that the Corporation enforce its timesheet approval policy and ensure that only properly approved timesheets are processed. When a timekeeper or supervisor is absent and unable to perform their review duties, this fact should be communicated to appropriate payroll personnel so that the timesheets can be processed and returned to the originating office for subsequent review and correction (if necessary).

J.5 Approval of Request for Personnel Action Forms Not Consistently Documented

To provide independent assurance that a personnel action requested by a Department Head is necessary and can be funded, the Employment, Compensation, and Training Team Leader reviews and approves all *Requests for Personnel Action* (SF-52s). The SF-52 must be approved before initiating the *Notifications of Personnel Action* (SF-50s). The SF-50 is used to change personnel information in the system. However, our test work indicated that the approval of nine of 78 SF-52s prior to initiation of SF-50s was not documented.

Inadequate review of the SF-52 can result in undetected abuse of the personnel system, such as Department Heads by-passing the Team Leader for Employment, Compensation, and Training, and taking an SF-52 directly to the OHR to initiate an SF-50.

We recommend that the Corporation enforce its SF-50 initiation policy and reemphasize to the Personnel Department the importance of not initiating a SF-50 without proper approval of the SF-52.

J.6 National Civilian Community Corps (NCCC) Member Application Files Incomplete

NCCC policy requires a complete application that includes member signature, reference check, background investigation, and service agreement for all NCCC Members. Our review of 78 selected NCCC Member application files revealed five instances where one or more of the four elements mentioned above was missing.

Member signature, reference check and background investigation are necessary to verify important information about Member qualifications. Without these elements the Corporation may recruit Members who can not promote Corporation ethics or who may not be eligible for the program. An agreement with the NCCC Member, signed by both parties, is the legal contract between the NCCC Member and the Corporation. The lack of such an agreement in file could be problematic for the Corporation in establishing the duties of both parties and the rate of pay due to the NCCC Member in the event of a dispute.

We recommend that all portions of Member applications be filed together for easy access to pertinent information and that all NCCC campuses use a standard checklist to identify and correct incomplete application files.

J.7 VISTA Member Files Incomplete

According to Corporation policy, VISTA member applications should be completed, approved and maintained at State Offices. The VISTA member should be approved by the Corporation as represented by a State Office or Regional Program Director signature on either the application or the Sponsor Evaluation Form (as appropriate). Members should also fill out life insurance forms electing or waiving life insurance coverage.

However, the VISTA member files we reviewed did not appear to be closely reviewed for completeness. Almost every file contained errors (e.g., missing applications, social security numbers, life insurance election or waiver forms, and/or approval signatures on the applications or forms) that could have an effect on further processing of the VISTA member to projects or relate to pay or benefit entitlements.

We recommend that all State Offices use a standard checklist to provide reasonable assurance that all required documents related to VISTA Members are on file. In addition, the State Offices should enforce, through the review of payroll-related data entry into VMS, current procedures requiring a properly completed and approved VISTA application before processing the applicant into the program.

Laws and Regulations

K.1 Reports on Budget Execution (SF-133s) Not Always Prepared Accurately or Submitted Timely

During our review of the fiscal year 1998 *Reports on Budget Execution* (SF-133s), we identified several deficiencies and errors, including five instances of failure to submit the SF-133s timely, one instance of failure to file all required SF-133s, twenty-two instances of incorrect balances or balances that did not agree to other documentation, and two instances of a lack of documented approval of submitted SF-133s.

The Corporation has not implemented effective controls to ensure that the SF-133 reports are prepared in accordance with OMB standards. Although the Corporation has developed review procedures, the Corporation is not able to detect incorrect amounts that are entered on the SF-133s. As a result of incorrectly preparing SF-133s, the Corporation is in violation OMB Circular A-34, *Instructions on Budget Execution.*

We recommend that the Corporation establish more comprehensive controls over the SF-133 reporting process, including, but not limited to:

1. Development of a schedule to track all required SF-133s and the related deadlines for submissions.

2. Monitoring of the tracking schedule by a designated individual held accountable for timely SF-133 submission.

3. Development and maintenance of an "audit trail" that documents how the amounts reported on the SF-133 were obtained.

4. Review and approval of the audit trail documentation by a designated supervisor held accountable for accurate SF-133 reporting.

K.2 Apportionment and Reapportionment Schedules (SF-132s) Not Submitted Timely

The Corporation did not submit three of four fiscal year 1998 *Apportionment and Reapportionment Schedules* (SF-132s) on a timely basis. Based on the review of the approval dates of the National and Community Service Programs Appropriation Warrant, the Corporation submitted these SF-132s between eight and 11 days late. Although the warrant was approved on October 27, 1997, two NCSA SF-132s were submitted on November 14, 1997 and one NCSA SF-132 was submitted on November 17, 1997. A similar timeliness problem existed in fiscal year 1997.

As a result of submitting SF-132s late, the Corporation is in violation of OMB Circular A-34 and can be charged with fines and penalties (or experience other repercussions).

We recommend that a designated supervisor be held accountable for the timely submission of SF-132s.

K.3 Procedures are Not in Place to Comply with Certain Provisions of the Debt Collection Act

The Corporation did not assess interest and penalties for past due amounts on outstanding accounts receivable balances in fiscal year 1998, as required by the Debt Collection Act. We noted that the Corporation has recently issued new policies and procedures to help ensure compliance with the Debt Collection Act.

We recommend that the Corporation implement the recently issued procedures to provide reasonable assurance that compliance with all aspects of the Debt Collection Act is maintained.

Property and Equipment

L.1 Procedures for Safeguarding, Recording and Reporting of Property and Equipment Do Not Exist

Office managers are responsible for maintaining lists of all capital equipment located within their areas of responsibility. These lists should include inventory tag numbers, item costs, purchase dates, asset locations, and other related information. During our test work, we noted some inventory lists are not maintained and updated, and information on the lists is incomplete or incorrect. In addition, a physical inventory has not been performed in several years, and all property items do not have inventory tags attached to them.

In the fall of 1998, the Corporation's Administrative Department began creating a record of all property and equipment with a value greater than $500, as recommended by General Services Administration (GSA) policy. However, the Administrative Department is not responsible for recording any computer equipment inventory, which is tracked by the Office of Information Technology (OIT). Neither department coordinates its property inventory with the Accounting Department.

Finally, property and equipment at the State Offices and NCCC campuses have not been recorded in the property listing or general ledger system, and thus also are not included in the fiscal year 1998 financial statements.

These control weaknesses can result in the misappropriation of Corporation assets and the inaccurate reporting of assets and related depreciation expense in the financial statements.

In conjunction with the Administrative Department's efforts to inventory its property and equipment, we recommend that the Corporation develop and implement procedures to:

1. Identify all property that may be subject to inventory control.
2. Affix inventory tags on property and equipment upon receipt.
3. Maintain an inventory listing which details the proper acquisition date, cost, estimated useful life, asset location, and other relevant information including the inventory tag number.
4. Develop a system for reporting and recording acquisitions, deletions, and movement of property between locations.
5. Combine the listings prepared by the Administrative Department and OIT into one master listing for the Accounting Department's use.
6. Establish a reasonable capitalization threshold for financial reporting purposes.
7. Perform physical inventories of property and equipment, including those items at the Service Centers and other locations, on a biannual basis.

L.2 Internally Developed Software Costs Not Capitalized

The American Institute of Certified Public Accountant's Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, requires entities to capitalize (1) external direct costs of materials and services consumed in developing internal use software and (2) personnel costs for employees who are directly associated with and who devote time to the development project (to the extent of time spent directly on the project). However, the Corporation has not considered the need to capitalize costs related to internally developed software. Although the Corporation can determine how much was spent on purchases of software, it has not separately accounted for the personnel costs incurred related to software development, which should also be capitalized, from the total costs of database administration and maintenance.

Since the Corporation did not maintain documentation supporting the personnel costs associated with the development of the Trust Fund Database (SPAN in fiscal year 1996) and Web Based Reporting System (WBRS in fiscal year 1998), depreciation expense for 1998 is understated because fiscal year 1998 should have been the last year of depreciation for SPAN. Further, property and equipment is understated at September 30, 1998, in an amount equal to the unidentified personnel costs associated with the development of WBRS. The fiscal year 1998 software contractor costs of $114,000 were capitalized through an adjustment to the financial statements.

We recommend that the Corporation track both personnel and contractor costs directly associated with the development of internal use software. Because of the significant costs associated with WBRS and the new general ledger accounting system in fiscal year 1999, this tracking will be important to ensure that property and equipment account balances and related depreciation expense are fairly stated for fiscal year 1999.

L.3 Procedures to Identify Capital Leased Equipment Do Not Exist

Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, states that "The lessee shall record a capital lease as an asset and an obligation at an amount equal to the present value at the beginning of the lease term of the minimum payments during the lease term." However, the Corporation's procedures to identify which leases are capitalizable are not functioning properly. Certain capital lease equipment items at the Service Centers are not included on the property listing, nor is the related lease liability recorded. As a result, property and equipment, capital lease liability and depreciation expense are understated and administrative expenses are overstated.

We recommend that the CFO develop and implement revised procedures to provide reasonable assurance that equipment that meets the Corporation's capitalization threshold, and is acquired through capital leases, is properly identified and recorded. These procedures could involve requiring headquarters approval of all leases prior to execution. As an alternative, the Corporation could train certain Service Center staff members on capital lease criteria and provide periodic supervisory review from headquarters.

APPENDIX B

CORPORATION RESPONSE

MEMORANDUM

DATE: June 25, 1999

TO: Luise Jordan, Inspector General

FROM: Wendy Zenker, Chief Operating Officer

SUBJECT: Comments on Draft Report 99-24, Recommended Improvements to the Corporation's Internal Controls, Fiscal Year 1998 Management Letter

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We reviewed the draft audit report, received May 26, 1999, containing recommended improvements to our internal controls. Based on this preliminary review, it appears that, of the 51 recommendations in the report, ten are included in other OIG audits and corrective actions have been identified and are being implemented. At least six of the recommendations relate to issues that will be resolved with the implementation of the new core financial management system. And we note that ten of the recommendations recognize that the Corporation has appropriate policies and procedures in place, but that we need to enforce their consistent use. Our comments on specific sections of the draft report follow.

Grants Management

The draft management letter recommends, in part, that the Corporation develop written policies and procedures with respect to administrative close out of National and Community Service Act (NCSA) grants. The Corporation's Action Plan (issued December 21, 1998 and last updated June 21, 1999) includes an objective to close out NCSA grants. Interim close out policies and procedures were issued in March 1998. Corporation staff is re-emphasizing the importance of proper maintenance of grant files to both the Domestic Volunteer Service Act (DVSA) and NCSA staff.

With respect to certain items discussed in the draft management letter, the Corporation would appreciate receiving specific information on which grant files did not include complete documentation. This will permit the Service Center Directors and the Grants Office the opportunity to review those specific files and determine the type and extent of corrective action needed. The COO will contact the OIG to schedule an appropriate time for this review.

National Service Trust

The draft management letter notes that Trust Fund forms do not always support the Trust Fund database. There are many reasons why information in the database may differ from what was originally submitted on an enrollment form. For example, corrections could have been received through the roster process. Likewise, the absence of certain information on an end-of-term form would not necessarily require a form to be rejected. However, no end-of-term form should be approved without a proper certifying official's signature and without the completion of service being clear. The Corporation official approving the education award is directed to make sure that those items are correct before an award is issued. Forms are routinely sent back to the programs for correction. However, these issues will be largely overcome with the advent of the Web-Based Reporting System (WBRS). The WBRS system has edit checks and controls built into it that will substantially decrease the possibility of human error.

The draft management letter also recommends improvements to the Trust voucher payment process. The audit recommends that the Corporation develop a tracking system on voucher payment processing and include a time frame for timely payment in its written policies. The Corporation, in the "Guidelines and Uses for the AmeriCorps Education Award" which accompanies each voucher sent by the Corporation, states the Corporation's processing goal: "Within three weeks of the Trust receiving a properly completed voucher, the institution will be mailed a check..." This goal allows two weeks for the Trust to process the voucher and another week for the processing cycle with Treasury to be completed.

The audit notes that 22 of 78 Trust payments were not made within 15 days of the requested date. It should be noted that the "requested date" is a date requested by the institution and is not related to the Corporation's processing time. Many of the vouchers received by the Corporation have requested dates that are before the Corporation actually receives the form. With the new imaging software, the Corporation will be able to better track the amount of time it takes for the Corporation to process a voucher. On the day a voucher is received at the Corporation, it is imaged. The processing of the voucher is then done from the imaged document. A report is being developed which will indicate the number of vouchers processed and the number of vouchers remaining to be processed after 14 and 28 days. This report will also identify the employee to whom the work was assigned. This process should resolve the finding.

The Corporation implemented the third recommendation -- to reconcile the Trust subsidiary ledger to the general ledger at the account level -- beginning as of October 1998 and does so on a monthly basis.

Content of Annual Reports

The Corporation will consider the recommendations related to the content of the Corporation's Annual Report as we prepare for the FY 1999 financial statement audit process.

Performance Measures

The Corporation is in compliance with the Government Performance and Results Act. The Act requires agencies to submit:

- Six-year strategic plans beginning with fiscal year 1997. The Corporation sent its strategic plan to Congress in September 1997. We have begun planning for the revision required by the Results Act due by September 2000.
- Annual performance plans beginning with a plan for fiscal 1999. On March 10, 1999, we sent the *Fiscal 2000 Performance Plan including Revised Performance Goals for Fiscal 1999* to Congress.
- An annual performance report beginning with fiscal 1999. This report, due to Congress by March 31, 2000, will report actual results compared to the goals stated in the final, revised performance plan for fiscal 1999.

Furthermore, the Corporation has defined performance measures for all activities and has systems either in place or under development to provide information needed to report results as required by the Results Act

A minor error occurs in paragraph 2, page 8, of Appendix A: ". . . the Corporation has voluntarily chosen to comply with the Government Performance and Results Act." The Results Act requires compliance by all federal departments and agencies.

In paragraph 3, page 8, Appendix A, the Management Letter states that Corporation's *1998 Annual Report to Congress* and its annual performance plan do "not present specific program outcomes compared to planned performance as originally envisioned by GPRA." The Results Act requires reporting on actual outcomes beginning with fiscal 1999. The Results Act contains no language requiring or suggesting that annual reports prior to the report due in March 2000 contain information on program outcomes compared to performance goals.

The final paragraph on page 8, Appendix A, recommends that "the Corporation develop measurable goals for each major program and administrative function, and the means to monitor and report performance measured against those goals." The Corporation's *Fiscal 2000 Performance Plan including Revised Performance Goals for Fiscal 1999* fulfills this recommendation completely. The plan presents explicit, measurable, performance goals for every budget activity covered by the Corporation's appropriations with the exceptions of the Points of Light Foundation and the Office of the Inspector General. In all, the fiscal 2000 plan contains 89 performance goals. Furthermore, the *Program Evaluation Plan for 1999*, which the performance plan includes, identifies 43 evaluation studies, either underway or planned to begin in 1999. Most of these studies focus intently on program outcomes. And, summaries of evaluations completed in 1999 will be part of the 1999 performance report.

Revenue from Reimbursable Agreements

The Corporation agrees with the recommendation to assign responsibility for timely completion of reports, such as the report on receivables, to appropriate supervisory personnel. That has already been done for SF-224s for FY 1999 and will be expanded to include all other external reports. The Corporation has implemented the Cost Share Billing System and has produced the two most recent quarterly billings from that system. A specific individual in Accounting is now in charge of all collections and we have a debt servicing agreement in place with Treasury. Policies and procedures related to debt collection are being revised and are scheduled for final clearance and implementation this summer.

We concur with the need to adjust to the component accounts receivable accounts to correct a prior-year misclassification within these accounts. We also agree that there needs to be regularly scheduled reconciliations of these accounts with subsidiary records. However, we plan to do this quarterly rather than monthly.

Fund Balance with Treasury

The Corporation agrees with the recommendation to review the SF-224 and detect and correct errors promptly. The procedures to do so were implemented during the first half of FY 1999. The Corporation also agrees that Gift Fund transactions may be sensitive in nature, but it is not clear that the size, complexity or even the sensitivity justify the level of accounting the OIG is recommending. We will consider alternatives for the most cost-effective approach to accounting for these funds as we prepare for the FY 2000 financial statement audit process.

Investments

The Corporation agrees with the recommendation to enforce current policy requiring that all investment purchases be approved and documented by authorized personnel. This has been corrected already by a revision in signatory authority. The Corporation also agrees that its current procedures to post detailed investment information in the general ledger is duplicative. However, the detailed posting cannot be eliminated during the initial implementation of the new financial system. The Corporation plans to develop a more sophisticated subsidiary ledger than is currently in use after implementation of the new financial system.

Information Technology

The Corporation is recruiting for a Chief Information Officer. The network and computer security policy is being revised and we agree that we should conduct an annual test of our disaster recovery plan. We typically do so, but the 1998 test was not done because of the Year 2000 remediation activities that were underway. We will return to the annual testing schedule in the fall of 1999. Some of the specific recommendations in this area will be addressed with the implementation of the new financial management system.

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Our comments are brief due to the limited timeframe for response. Thus, we responded to many, but not all of the recommendations. We appreciate the opportunity to comment on the draft letter and will respond more fully when the Management Letter is issued.