April 18, 2019

MEMORANDUM

TO: Barbara Stewart, Chief Executive Officer

FROM: Deborah J. Jeffrey, Inspector General /s/
            Fara Damelin, Deputy Inspector General /s/

SUBJECT: Draft Management Alert: Unrealistic Transformation Plan Unnecessarily
            Jeopardizes CNCS Mission

As we mentioned in mid-March, congressional staff asked us to set forth in writing our concerns about the Transformation and Sustainability Plan, independent of the Comments to the President's FY 2020 proposed budget. A draft of that memorandum is attached for CNCS's review. If CNCS wishes to respond, please provide the response by noon on Thursday, May 2, 2019. We intend to publish the memorandum promptly and will include CNCS's response if timely received.

Enclosure (1)

cc: Desiree Tucker-Sorini, Chief of Staff
     Tim Noelker, General Counsel
     Lori Giblin, Chief Risk Officer
     Robert McCarty, Chief Financial Officer
     Dana Bourne, Acting Chief Operating Officer
     Erin Dahlin, Acting Chief of Program Operations
     Lora Pollari-Welbes, Audits and Investigations Program Manager

Management Alert: Unrealistic Transformation Plan
Unnecessarily Jeopardizes CNCS Mission

Executive Summary

The Corporation for National and Community Service (CNCS or the Corporation) has begun to implement a plan to restructure the Corporation and alter its core grantmaking and grant management business practices. While CNCS's Office of Inspector General (CNCS-OIG) strongly supports a re-examination of the Corporation's structure, our experience indicates CNCS does not have the capacity to carry out its complex transformation plan at the rapid pace envisioned.

CNCS has scheduled the reorganization, with its many risks, to occur at the same time as critically needed improvements to CNCS's core business functions – developing information technology sufficient to support grant management; preparing and testing an effective grant risk model and aligned cost-effective monitoring activities; achieving reliable financial management, accounting and reporting; and establishing effective cybersecurity. Despite efforts, CNCS has been unable to achieve these improvements over the last several years, without the added stress of a major structural overhaul. The plan to accomplish these critical infrastructure upgrades while simultaneously reorganizing grantmaking, grant management and grant administration is unrealistic, exceeds the Corporation's capabilities and creates a substantial risk that CNCS will not be able to achieve its mission of supporting national service.

Instead, we strongly recommend that CNCS sequence the reforms, concentrating first on standing up the infrastructure to support informed, risk-based grantmaking and grant monitoring. Also imperative is completing and validating the corrective actions for financial management, accounting and reporting, so that CNCS can accurately track expenditures and provide strong stewardship of taxpayer funds. We further recommend that CNCS delay the reorganization to a regional structure until such time as it implements these critical upgrades. We are not suggesting an abandonment of the reorganization, but rather a slower-paced and risk-based, tiered approach to appropriately prioritize goals and promote the ultimate success of CNCS's comprehensive plan.

Introduction

CNCS has embarked on an ambitious Transformation and Sustainability Plan that touches on virtually every aspect of the Corporation's business.[1] CNCS's executive leaders have stated repeatedly that the future of national service depends on the successful implementation of this Plan, which includes:

1. Reorganizing the financial and program management of grants into eight regional hubs by June 2020, and creating a separate headquarters unit to perform compliance monitoring;

2. Improving core business functions, including mission-critical information technology for grants management and accounting, and financial management practices and systems; and

3. Simplifying the grant application form and process.

CNCS-OIG strongly supports a re-examination of the Corporation's structure, consolidating and standardizing programmatic operations and bringing the programs into closer alignment, insofar as permitted by law.[2] We are encouraged that the CEO and her leadership team are engaging these issues after years of inaction by their predecessors.

However, the expectation that CNCS can reorganize while simultaneously reforming its core business infrastructure overestimates the Corporation's capacities, in light of its resource limitations and history. In the last several years, CNCS has tried and failed to achieve each of these required improvements, without the additional demands of major structural changes. CNCS-OIG's informed appraisal is that undertaking all of these changes at the same time is unnecessarily risky, beyond CNCS's capabilities and jeopardizes accomplishment of its mission.

Moreover, given the risks associated with the reorganization, it is particularly important that the staff undertake their new duties armed with the tools that they will need to perform them effectively and efficiently. Prioritizing the core business infrastructure improvements and deferring the reorganization will increase the new structure's capabilities and likelihood of success.

We outline below the grounds for CNCS-OIG's significant reservations about the feasibility of successfully completing the transformation effort in the next 13 months and the serious risks of attempting to do so. The discussion begins by explaining the nature of the risks associated with the proposed restructuring. Thereafter, we turn to the legacy issues, why they should be

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[1] CNCS's outline of the Plan, including its six goals, is available at https://www.nationalservice.gov/about-cncs/transformation-and-sustainability-plan.

[2] Indeed, we recommended just such a review in the Management Challenges report that we issued in December 2016. *See* https://www.cncsoig.gov/sites/default/files/cncs_management_challenges.pdf

resolved before any reorganization and how they illustrate limitations in the organizational capacities of CNCS.

I.   **The changes associated with reorganization carry high risks.**

The planned restructuring will significantly change the way in which CNCS manages its grants. Approximately 200 CNCS staff members—nearly all the Corporation's program officers and grant officers—have been told to expect reduction-in-force (RIF) notices. If they wish to continue to work for CNCS under the new structure, they were required to apply for jobs this past month (with the benefit of a hiring preference).

Reorganization of grant management will involve:

1. *Consolidation of program and grant management.* The plan calls for CNCS to consolidate into eight regional hubs: (a) 46 State Offices, which house the program officers for Senior Corps and VISTA; (b) program officers for AmeriCorps State and National (ASN), located at CNCS headquarters; (c) grant officers for ASN, now at CNCS headquarters; and (d) grant officers for Senior Corps and VISTA, located in Philadelphia, PA. CNCS will not pay relocation costs. This will likely lead to turnover in staff and career leaders and consequent loss of institutional knowledge about CNCS program operations, risks, requirements and grantees;

2. *Dramatic expansion in the responsibilities of regional staff.* Under the current division of labor, staff members focus exclusively on programmatic issues *or* financial issues, and they service either ASN *or* Senior Corps/VISTA. Under the restructuring, regional staff members will be responsible for assisting grantees with programmatic *and* financial operations, across *all* CNCS grant programs.[3] Even rehired seasoned staff members will need to learn the requirements of programs new to them and a new financial or programmatic skill set;

3. *Critical training not yet developed.* The Government Accountability Office's (GAO's) 2017 evaluation of grant monitoring at CNCS identified inadequacies in the training offered to program officers.[4] Nevertheless, training to acquaint the regional staff with their new responsibilities has not yet been developed or tested for adequacy, and planning has just begun. At our suggestion, CNCS has agreed in principle to pilot-test the not-yet-

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[3] Per CNCS's description, the regional staff will develop projects, assess grant applications, manage the grants programmatic and financial performance and assist grantees in all of the programs.

[4] *See* GAO-17-90, *Monitoring Efforts by Corporation for National and Community Service Could Be Improved*, published Mar 21, 2017, at pp. 31-34 (GAO Monitoring Report) (emphasizing the need for improved training of program staff and recommending that CNCS executives update critical competencies for grant monitoring and establish a training planning process linked with agency goals and competencies).

developed training plan, but no details as to the nature and extent of the testing are yet available.[5] Reportedly, CNCS intends to rely heavily on the creation of comprehensive reference guides to fill gaps in knowledge. Agency leaders concede that staff will not be fully trained when the regional offices are established;

4. ***Centralized compliance monitoring***. Monitoring of a portfolio of more than 3,300 active grants per year will be performed by a new Monitoring unit based at headquarters, whose responsibilities, staffing (currently contemplated at 12-18 individuals) and strategies have not yet been determined. At present, monitoring is performed by the program and grant officers who have the greatest contact with and most knowledge of grantees. It is not clear how this small workforce will be able to handle the full grant monitoring portfolio and expand subrecipient monitoring, one of the key recommendations of GAO's 2017 report;[6]

5. ***Incomplete grant risk model***. Grant monitoring will be based either on (a) modification of the existing grant risk model, known by CNCS to be inadequate and to omit known fraud risks; or (b) a new, more sophisticated grant risk model that is not yet complete or validated and which does not have individual monitoring activities aligned to specific risks. GAO's 2017 report found numerous inadequacies in the existing grant risk model, including, for example, requiring monitoring visits every six years without regard to the presence of risks, grouping multiple potentially serious risks under a single under-weighted factor, treating a grantee's lack of financial competency (including bankruptcy) as a low risk that would not trigger close monitoring, risk indicators that are too frequently applicable to distinguish relative risk among grants, and the lack of validation.[7] CNCS-OIG has also identified the omission of significant known fraud risks, such as related-party transactions;

6. ***Reduction in onsite and related grant monitoring in FY 2019***. Travel budgets for onsite monitoring have been reduced, limiting grant monitoring.[8] In FY 2018, the programs conducted 309 onsite monitoring visits to grantees. In FY 2019, we are told that only 117 site visits will occur. The change was made as an interim measure, in part to redirect funds to the transformation plan and in part because the program heads feared that a large staff exodus would preclude the usual onsite monitoring. CNCS accomplished the

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[5] For example, it is unclear whether the pilot will be limited to current staff who will need training to prepare them for expanded responsibilities, or whether it will include staff entirely new to CNCS, who will need even more extensive training.

[6] GAO Monitoring Report at pp. 22-25, 36.

[7] *Id*. at pp. 15-19.

[8] CNCS has been slow to respond to our requests for information about the reduction in travel funds, and the data provided to date have been incomplete, internally inconsistent or not consistent with information provided by leadership.

reduction in two ways. First, it eliminated the requirement of a monitoring visit every six years, but it did not reassess what score should be considered "high" risk, did not recalibrate the model or reweight the risk factors, did not consult with GAO and did not make other changes recommended by GAO or by CNCS-OIG that might have increased risk scores.[9] Second, CNCS decided not to conduct site visits for certain grants scheduled to end in FY 2019, because, according to the Chief Program Officer, it considered the agency's *prospective* risk to be low. (CNCS originally briefed us that 34 grants fell into this category, but later corrected the number to eight.) Certain fraud risks, however, increase substantially towards the end of a grant, especially where the grantee is not constrained by an ongoing relationship with the grantor.

In addition to travel limitations, half of ASN's program officer slots are vacant, increasing substantially the workload of the remaining ASN staff, who assist and monitor CNCS's largest grant program. CNCS's executive leadership did not anticipate this eventuality, have not acknowledged the program staff deficit and assert that ASN program leaders have not told them that lack of personnel or resources will impede oversight of the grant portfolio.

The reduction in onsite monitoring is significant, because CNCS has historically relied upon site visits for comprehensive monitoring of at-risk grants. While some programs have previously monitored individual compliance aspects via desk reviews, *i.e.*, offsite review of documents furnished by a grantee, they do not have the tools to conduct comprehensive monitoring remotely. Although CNCS's risk assessments and onsite monitoring are far from perfect, it is difficult to understand the move to an improvised monitoring strategy developed on short notice, while CNCS was preparing to hire a Director of Monitoring whose responsibilities would include developing a new risk-based monitoring approach.

7. ***Extended periods of full-time telework for field staff during the transition***. The 46 State Offices are slated to close during May-July 2019. Since the last regional offices are not scheduled to open until June 2020, some field staff may be required to telework for more than one year. As we understand it, CNCS has not developed any additional internal controls to avoid time and attendance fraud or to fill the gaps upon staff departures. Nor has CNCS prepared measures to compensate for the loss of motivation and focus that CNCS employees may exhibit due to job insecurities and searches for other employment -- creating a real risk that they will not provide the oversight and assistance needed to protect CNCS programs and beneficiaries;

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[9] We believe that CNCS misapplied GAO's findings. The report noted that an interval of six years since the last monitoring visit does not, *standing alone*, indicate high risk and should not, *without more*, dictate a site visit. GAO did not, however, say that elapsed time is irrelevant or recommend eliminating it entirely from consideration. .

8. ***Planned simplification of the grant application substance and process***, with content to be determined. Per Federal requirements, risk assessment and mitigation plans should play a substantial role in grant award decisions. An accurate understanding of the specific risks that each grantee poses is indispensable to prudent grantmaking and should precede and be incorporated into revisions to the grant application; and

9. ***Pressure to implement these changes by the end of FY 2020***, limiting planning, issue spotting and risk mitigation.

The net result is that, after the reorganization, the regional staff that administers $755 million of grants will be incompletely trained for their duties and unfamiliar with some of the grant programs for which they are responsible. Many will likely be entirely new to CNCS. These staff will play integral roles in recommending which grants should be funded and will have primary responsibility for assisting grantees in understanding and complying with program rules and requirements. This condition poses a high risk of serious errors.

These changes will leave CNCS especially vulnerable to fraud and waste and less able to prevent, mitigate or promptly detect abuses. To date, CNCS has not offered any strategies or plans to mitigate these risks. The goals, processes, techniques and priorities for grant monitoring remain undetermined and will likely be untested when the reorganization begins. Due to existing limitations, CNCS's internal controls, grant risk management and grant management information technology cannot compensate for the added risks because they too are flawed and underdeveloped.

II. Unless they are resolved first, legacy core business deficiencies will hinder the reorganization.

To support effective grant management, CNCS must correct legacy weaknesses in its infrastructure and core business processes. We summarize below unresolved issues that are likely to impede the effectiveness of the proposed restructuring.

A. <u>CNCS's IT infrastructure for grant management has long been inadequate and remains incapable of supporting CNCS's core mission</u>.

The Corporation's information technology (IT) infrastructure for grant management is outdated and unable to meet current business needs or support robust oversight. An evaluation of CNCS's eGrants system performed by MITRE Corporation in 2014 confirmed that the IT infrastructure does not meet the current or future needs of the Corporation's programs and does not provide reliable data to inform management's key decisions. Among the highlights of the MITRE findings:

- There is a substantial and widening gap between the services that the Office of Information Technology (OIT) can currently provide and the increasing business needs of CNCS's expanding mission, greater regulatory and reporting demands and faster operational tempo;

- Current IT assets do not support evidence-based decision-making by CNCS management;

- The IT system does not reliably produce consistent and valid information; assembling basic information requires staff to spend considerable time looking for, compiling and validating information from many sources; and

- The IT system cannot provide data analytics, an increasingly important management tool for comparing performance, benchmarking, identifying patterns and trends and reducing fraud and waste.

In response to these initial findings, CNCS invested $30.5 million to replace eGrants with a modern, risk-based IT system capable of data analytics and automated monitoring procedures. This effort was unsuccessful, and CNCS ended the project and terminated the contract in late 2017. It is not clear how much of the work was or can be salvaged. Despite the expenditures to date, CNCS thus continues to rely on an obsolete platform that lacks the analytical tools required for cost-effective administration and monitoring of its grant portfolio.

The Corporation's current leadership team has now committed an additional $3.9 million to develop a new grant management IT system and hired a different contractor to create a "minimum viable product" (MVP). The project is essentially a proof of concept, based on the VISTA program's small number of simple grants, and CNCS will not have an operable grant management system at the end of this contract in October 2019. Considerable work would be necessary to enhance the MVP to meet the complex requirements of ASN, which includes State Commissions, national direct grantees and subrecipients. In addition, the MVP does not incorporate grant risk features, a necessary component of modern grant management.

Effective IT support for grant administration is a mission-critical system. In its absence, staff lack the timely, accurate and complete information and tools needed to perform their responsibilities efficiently and to protect CNCS grantees and program funds. The current outdated system inhibits real-time, continuous monitoring and wastes the time of skilled personnel. Under the existing structure, the experience and institutional memories of CNCS's program staff have counterbalanced this weakness to some degree. The planned change in staffing and responsibilities, with limited training, will remove that counterbalance, increasing the need for an effective and user-friendly grant management IT infrastructure.

B. <u>Regional and monitoring staff need a complete, validated grant risk model to inform risk-based grant decisions</u>.

Federal requirements demand that agencies effectively identify, assess and respond to the important risks that impact their mission. Before awarding Federal funds, grantmaking agencies

must evaluate a variety of applicant risks and may impose special requirements to manage or mitigate those risks.[10] By understanding and evaluating the risks presented by grants, an agency can target its technical assistance and monitoring resources where they are most needed to help grantees and to protect public funds. Disciplined risk management can help CNCS make intelligent grant decisions and maximize the positive impact of its programs.

CNCS has not yet completed and tested a grant risk model that can inform its core business throughout the grant lifecycle, from grantmaking, through grant administration and monitoring, to grant closeout.[11] Both CNCS-OIG and GAO have found severe inadequacies in CNCS's grant risk assessments,[12] leading to imprudent grant awards, misdirection of assistance and monitoring resources and failure to timely detect and correct fraud and mismanagement. CNCS has worked intermittently on this project since 2014, but that work has been repeatedly halted or interrupted by other priorities.[13]

An accurate grant risk model should be integral to CNCS's core grantmaking business and should drive key grant decisions. We believe that CNCS should concentrate efforts and resources on completing and piloting the grant risk model and developing risk-aligned assistance and monitoring activities before reorganizing. CNCS-OIG has suggested implementing a portion of the contemplated model immediately to capture risk-related information before the disruption that will accompany reorganization. (Indeed, better information about portfolio risk may improve decisions about the optimal reorganization strategy and hiring strategy.) Because the new grant risk model may not be ready for use in FY 2020, CNCS also needs to be ready with an alternative that remedies the most substantial weaknesses in the current model. Attempting to complete these fundamental tasks simultaneously with the loss of institutional knowledge, disruption of substantial turnover and staff relocations, a new division of labor and responsibilities, and experimenting with a new monitoring staff and structure is unrealistic and unnecessarily risky.

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[10] 2 C.F.R. sections 200.205(b), 200.207.

[11] The risk model should inform: (1) grant competition, by identifying the information that CNS should solicit in its grant application and obtain from third-parties; (2) including in grant award decisions a realistic assessment of CNCS's ability to manage risks and creating a plan for managing the risks associated with each grant; (3) identifying technical assistance and monitoring priorities; (4) developing targeted, cost-effective monitoring activities that align to specific risks; (5) design and development of the grant management IT infrastructure, including data analytics capabilities; and (6) routine and automatic identification of outliers, anomalies and trends.

[12] See GAO Monitoring Report, pp. 15-37 (finding weaknesses in CNCS's grant risk assessments and monitoring activities); see *Management Challenge No. 1: Strengthening Grant Oversight*, CNCS-OIG FY 2017 Management Challenges, pp. 4-8 (same).

[13] For example, in response to Questions for the Record (QFRs) following a March 28, 2017, oversight hearing before the House Committee on Education and the Workforce, Subcommittee on Higher Education and Workforce Development, the Chief Risk Officer (CRO) twice stated that new grant risk assessment criteria would be developed by the end of 2017 and would be tested for accuracy and effectiveness by the end of 2018. Lori Giblin QFRs dated June 12, 2017, Nos. 1 and 6. CNCS did not meet either of those dates. Halfway through FY 2019, the risk model remains incomplete and unvalidated.

C. Extraordinary efforts are needed to repair financial management, accounting and reporting from the current unauditable state.

CNCS has been unable to produce auditable financial statements for the last two years. Independent financial statement auditors have twice issued a "disclaimer of opinion," the worst possible outcome of a financial statement audit. The auditors found a substantial likelihood of material misstatements in the financial information published by CNCS for FYs 2017 and 2018. They determined that CNCS could not support some of the largest line items on its books.

Further, the auditors identified "pervasive material weaknesses" in CNCS's critical internal controls. Financial management and reporting at CNCS deteriorated from four material weaknesses and one significant deficiency in FY 2017, to ten material weaknesses and two significant deficiencies in FY 2018, all of which CNCS failed to prevent or detect. Troublingly, the Corporation made no progress in correcting the FY 2017 findings, which carried over to the FY 2018 report. The description of these serious defects occupies 25 pages of the auditors' report on CNCS's most recent financial statements.[14]

The material weaknesses found by the auditors touch on multiple aspects of CNCS's operations and activities and had substantial real-world effects. These included:

- CNCS's internal controls did not detect numerous and pervasive weaknesses in accounting and financial reporting that affected material items on the Corporation's financial statements.

- CNCS overstated the amounts needed to pay current and future Education Awards earned by AmeriCorps members. As a result, CNCS's appropriations requests understated to Congress the amount available to pay future awards by as much as $100 million.

- The model used to establish CNCS's largest single liability—the Education Awards payable and to be payable—included calculation errors, was methodologically unsound and lacked quality controls, resulting in significant errors. For example, CNCS continued to show on its books as a liability approximately $50 million in long-expired Education Awards, which could never be redeemed.

- There were unexplained disparities between CNCS's grant records and its financial management systems with respect to grant awards and expenditures.

- CNCS did not validate or properly document the basis for its required estimate of Grant Accruals Payable and Advances; it could not show that the reported figures were accurate or correctly derived.

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[14] OIG Report No. 19-01, *Audit of the Corporation for National and Community Service's Fiscal Year 2018 Consolidated Financial Statements*, pp. 5-29. https://www.cncsoig.gov/sites/default/files/OIG_Report_19-01_0.pdf

- CNCS lacked adequate controls to ensure that funds were properly obligated to defray procurement costs or that it de-obligated funds for stale or invalid purchase orders.

- CNCS could produce no documentation to support $14 million of the $20 million balance of Other Liabilities at June 30, 2018.

During FY 2018, no one at CNCS was qualified by training, experience or expertise to remedy these serious weaknesses in financial management and accounting. Instead, CNCS relied on two senior officials, neither one an accountant, to understand and address complex accounting issues identified by the auditors. Inexplicably, CNCS allowed the position of Director of Accounting and Financial Management Services (AFMS) – the Corporation's principal accounting officer -- to remain vacant for nearly all of FY 2018. The current Director of AFMS now bears all of the responsibility for correcting CNCS's accounting in general, as well as correcting the serious weaknesses identified in the financial statement audits. Positions in AFMS are still vacant, and that department has lacked the resources necessary to make progress on the significant issues that need to be addressed.

In addition to the many open audit issues, CNCS has recently acknowledged that limitations in its existing accounting system impede efficient operations. Consequently, the Corporation is exploring a shared services arrangement with the Department of Treasury for accounting support, with implementation to take place next year.[15] The Chief Financial Officer (CFO) has acknowledged that, in view of the challenges of the current accounting system, preparing for the transition to a shared services environment will place heavy demands on AFMS and the entire CFO function, followed by an interval of training for all users.

In other words, CNCS intends to *simultaneously*:

a. Undertake the substantial effort to prepare for transition to shared services;

b. Correct the ten material weaknesses and two significant deficiencies from FY 2018;

c. Participate in testing of internal controls for each material weakness to be performed by the Chief Risk Officer;[16]

d. Respond to auditors' information requests for the FY 2019 financial statement audit;

e. Conduct the routine operations need to support the daily functioning of CNCS; and

f. Meet the additional demands associated with reorganization.

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[15] CNCS may also contract for shared services for Human Capital, Procurement and Travel services, each of which will require its own preparation.
[16] CNCS's Chief Risk Officer advises that, as a result of the FY 2018 audit findings, CNCS now considers each of these material weaknesses to be high-risk and will therefore subject them to extensive testing in the next six months.

CNCS has not demonstrated that it has the resources or the capacity to accomplish all of these priorities at the same time.

        D. <u>Efforts to improve cybersecurity have stagnated</u>.

Despite investment and effort, CNCS's cybersecurity and privacy protections remain ineffective. The Corporation has made little progress since last year and does not have a comprehensive strategy to achieve effective IT security. This jeopardizes not only CNCS's operations but also the personally identifiable information of more than 1 million AmeriCorps alumni.

In the FY 2018 evaluation of information security and privacy, CNCS-OIG offered 25 recommendations to help the Corporation move forward on each cybersecurity element. CNCS has recently hired a new Chief Information Officer, and we hope that he will bring some stability and focus to improving cybersecurity. However, CNCS's IT department will face competing priorities in supporting the development and implementation of a new grant management IT infrastructure and in servicing the new regional offices that CNCS plans to roll out over the next 13 months. Even with contractors taking the lead on the grant management project, these simultaneous efforts will tax the capabilities of CNCS's Office of Information Technology and potentially leave CNCS's private data at risk.

Conclusion

It is our strong recommendation that CNCS delay the reorganization to a regional structure until it resolves its core infrastructure deficiencies and can provide a suitable platform for effective, risk-based grant management and reliable financial management and reporting. If the future of national service depends on the successful implementation of the leadership's Transformation and Sustainability Plan, then it is worth avoiding unnecessary risks and taking reasonable steps to maximize the likelihood of success. Doing that requires adequate and thorough planning, risk management, pilot-testing proposed approaches and ensuring that the Corporation implements the infrastructure necessary to support the contemplated organizational changes, both geographical and in the functions and responsibilities of CNCS's staff.

To date, CNCS has not demonstrated that it can successfully (a) implement and test a valid grant risk model with aligned monitoring activities; (b) develop a grant management IT infrastructure adequate to support efficient risk-based grant administration; (c) repair its financial management to an acceptable level and successfully transition to shared services; and (d) mature its cybersecurity to protect private and confidential information. Given the lack of success to date, it is unrealistic to expect that CNCS can accomplish these demanding objectives while *simultaneously* executing the challenging reorganization developed by Corporation leadership.

MEMORANDUM

FROM: Barbara Stewart, Chief Executive Officer, Corporation for National and Community Service

TO: Deborah Jeffrey, Inspector General

DATE: May 2, 2019 (*Rev. May 16, 2019)*

SUBJECT: Agency Response to the OIG's Management Alert Provided to CNCS on May 14, 2019

"In a constrained budget environment, government agencies face considerable pressure to maximize the efficiency of their internal operations as they strive to 'do more with less.' The need is particularly acute at CNCS, where historic underinvestment in personnel and infrastructure, coupled with increasing demands and rising standards, requires rapid improvement across the agency."

- CNCS Office of Inspector General "FY 2017 Management Challenges" report, December 2016

"We are encouraged that the CEO and her leadership team are engaging these issues after years of inaction by their predecessors."

- CNCS Office of Inspector General Management Alert provided to CNCS on May 14, 2019

CNCS appreciates the opportunity to respond to the concerns and opinions that the Office of Inspector General (OIG) raises in the Management Alert provided to CNCS on May 14, 2019. CNCS is well underway in implementing a Transformation and Sustainability Plan, a set of six goals that will ensure that CNCS has a strong operational foundation that strengthens our ability to provide efficient and cost-effective services and position national service for greater impact and growth for another 25 years and beyond. The agency is 25 years old this year and, as the OIG notes in its FY 17 Management Challenges report: *"CNCS operates much as it did 23 years ago, when programs of different origins were cobbled together to form the Corporation. The intervening two decades have seen substantial changes in the nonprofit sector and across the Federal government. Re-examination of CNCS's fundamentals – agency structure, priorities, programmatic investments and administrative functions – is due."*

CNCS appreciates the support of the OIG and values the Inspector General's opinions. To her credit, many of the issues CNCS is addressing have been identified by the OIG for many years, as well as others including the Government

Accountability Office, Congress, and our customers who are grantees/sponsor organizations that CNCS serves in communities across the country.

Since I joined CNCS fifteen months ago as Chief Executive Officer, I have made it my priority to address these long-standing issues and position CNCS for long term sustainability. While change is never easy, I believe the plan addresses our agency's critical challenges and makes improvements that, in most cases, can not and should not wait. It's important to remember that most of these ideas came from multiple prior Administrations and this plan draws from recommendations developed by agency career staff more than two years prior to my arrival. CNCS leaders have spent significant time and effort since then listening to stakeholders and refining both the content and the implementation of the plan.

The OIG's Management Alert raises important topics; however, we believe that to avoid risk, CNCS must address more of these critical issues rather than fewer of them as the OIG is opining. CNCS's efforts to improve financial management are largely independent of the other Transformation and Sustainability Plan components, such as the realignment of grant management roles and office location structure. Our Transformation and Sustainability Plan, announced in June of 2018, will take numerous years to implement. We are already demonstrating that we can successfully execute on these improvements. Today:

➢ We are making significant progress in addressing the material weaknesses that were identified in the agency's FY17 and FY18 financial management audits. These problems built over time and they will take additional time – very likely beyond the completion of FY19 audit – to completely resolve. Additionally, resolving these issues may identify other issues we've not yet resolved. Nevertheless, this is a top priority for CNCS and we are making good progress.

➢ We are halfway through a very complex hiring process to support the realignment of our grant management roles and new regional office structure. Since the announcement of the Transformation and Sustainability Plan in June 2018, and the announcement of decisions on roles and locations in November 2018, we have consistently achieved or exceeded our stated timelines and milestones. We are thrilled to report that, so far, more than 60% of eligible employees who are impacted by these changes have applied for the new positions in the agency – an indication of the significant experience and institutional memory we will retain. We believe these changes – which are creating new career ladders for employees, among other benefits – will ultimately help our agency improve its historical 20%+ annual employee attrition rate.

➢ Meanwhile, we continue to deliver on CNCS's core mission. CNCS recently announced approximately $560 million dollars in AmeriCorps State and National funding for communities across the country. The portion of ASN's grant dollars supported by strong or moderate levels of evidence grew to 41 percent, up from 27 percent in just two years. In March, we announced more than $13.6 million in funding to support Senior Corps RSVP programs in more than 150 communities across the country. These grants will leverage the experience and skills of more than 50,000 Senior Corps volunteers. CNCS employees continue to provide training, technical assistance, and monitoring across the spectrum of our programs.

Generally, regarding the concerns that the OIG raises, we want to point out:

• **The OIG's analysis is incomplete – it opines about potential risks from taking action, but does not account for the risks of *not* taking action now.** Status quo is not an option for our agency. In fact, not acting now on the realignments CNCS is making to its grant management roles and office structure would force the agency to make staffing cuts this year to its program officer and grants officer positions that serve our grantees, sponsor organizations, and communities. Additional staffing cuts in our program officer and grants officer positions would be required to redistribute the staffing capacity needed to build our new, dedicated compliance monitoring office, which is enabling us to address the potential bias created by the same person

handling both grant approvals and compliance testing – a conflict that the OIG has long identified as a concern.

Instead, CNCS developed and is implementing a thoughtful, integrated strategy that enables options for staff, creates clear lines of accountability and responsibility for different program functions, immediately addresses fundamental flaws in our compliance monitoring structure, and carries less risk than continuing to administer our programs in the same old way – which creates pain points for our customers, and perpetuates state-by-state inconsistencies in the service levels we are able to provide.

- **The OIG's ill-informed perceptions, regrettably, lead to inaccurate assertions.** For example, it was only after the OIG published its request to Congress for additional funding to provide oversight of CNCS's Transformation & Sustainability Plan that we had an opportunity to learn of and correct an inaccurate assertion in their justification, claiming there is heightened risk in the next fiscal year from a "planned simplification of the grant application substance and process, with content not yet determined". Since mid-2018, CNCS leadership has scheduled bi-weekly meetings with the Inspector General and Deputy Inspector General to maintain open lines of dialogue, and we regret that she did not use one of those opportunities to raise the subject to validate its accuracy or seek clarification.

- **The OIG's analysis does not acknowledge the significant talent and capacities of CNCS employees who, with focused leadership, now have nearly 12 months of successfully advancing many facets of the Transformation and Sustainability Plan.** Additionally, the OIG's analysis implies interdependencies that are not critical. We can advance improvements to our organizational structure before our modernized grant system or strengthened accounting systems are fully implemented. In fact, we suggest that some of the agency's past paralysis in addressing problems has been because it waited for conditions across the organization to be perfect which, in my experience as a leader, is never a reality and simply kicks the proverbial can down the road, leading to fewer options, and greater urgency – which CNCS is confronting today.

We appreciate the opportunity to address the topics the OIG has raised and welcome continued discussion with stakeholders who are interested in the improvements CNCS is pursuing. Please see our detailed response to each of the OIG Management Alert assertions, below.

CNCS responses to OIG assertions:

I.   **Addressing the OIG's assertion that "The changes associated with reorganization carry high risks."**

1.   The OIG asserts: *"Consolidation of program and grant management. The plan calls for CNCS to consolidate into eight regional hubs: (a) 46 State Offices, which house the program officers for Senior Corps and VISTA; (b) program officers for AmeriCorps State and National (ASN), located at CNCS headquarters; (c) grant officers for ASN, now at CNCS headquarters; and (d) grant officers for Senior Corps and VISTA, located in Philadelphia, PA. CNCS will not pay relocation costs. This will likely lead to turnover in staff and career leaders and consequent loss of institutional knowledge about CNCS program operations, risks, requirements and grantees;"*

CNCS highly values the knowledge and hands-on experience of its workforce and remains committed to creating greater career advancement opportunities for staff by establishing a regional office structure with career ladders and new opportunities not available in our current state office structure. Retaining our staff is vital to our future success, which is why we intentionally accelerated the internal hiring process for new grant management and monitoring positions, making 97% of the agency's new career opportunities available to internal employees first. So far, more than 125 current

employees have applied for CNCS's new roles, including 60% of the eligible employees who are impacted by the realignment.

The new positions created by the plan have proven to be appealing to staff not only because they enable them to further expand their knowledge of CNCS programs and develop new skill sets, but they provide more promising and robust career paths that do not exist within CNCS's current organizational structure. For example, over 1/3 of current state office staff work in an office with two people, limiting their advancement opportunities. The new regional structure addresses this disparity.

To date, CNCS has experienced a lower annualized attrition rate than its three previous years. The agency attributes this reduced rate to its dedicated workforce who have meaningful connections to the important work that we do, as well as leadership's continued focus on actively involving staff in the implementation of the Transformation and Sustainability Plan. CNCS has kept employee engagement at the core of its change management strategy, including involving more than 45 employees in important working groups over the past year to recommend implementation options and solutions, and create new business processes and training.

Additionally, the agency has consistently reinforced its commitment to the ongoing learning and development of its staff, even amidst implementing this plan. CNCS has also invested in the leadership development of 48 mid-level staff by launching a nine-month cohort-based Emerging Leaders Program. Approximately 55% of the program's participants encumber positions impacted by the realignment of grant management roles. The opportunity to acquire and develop critical leadership skills, advance solutions to agency challenges, and build connections with their peers signaled to these high-potential employees that their talents are valued and they have a bright future at CNCS.

The agency has been intentional about maintaining transparent and consistent communication during this transition period with staff through a variety of avenues including:

- Forums, including regular CEO town halls and Transformation Plan input sessions, where employees can ask questions and voice their thoughts, concerns, and suggestions
- Surveys, suggestion boxes, and a dedicated email address for employees to candidly share their ideas or feedback
- Dedicated SharePoint pages with relevant information, resources, tools, and frequently asked questions (FAQ) pertaining to implementation of the plan
- Regular email updates to inform employees of progress on the plan
- Information sessions on the human capital aspects of the plan, allowing employees to ask and get answers to questions about the plan's impact on them
- Online collaborative discussion forum, known as Service Jam, that encourages open dialogue and idea sharing among all staff, spurring creativity and involvement in the possibilities of our future organization model.

These engagement strategies coupled with our continuous reinforcement of the plan's focus to create a stronger future for our agency and the communities that we serve has paid dividends in retaining our dedicated staff, who remain vital to our plan's success.

2.   The OIG asserts: *"Dramatic expansion in the responsibilities of regional staff. Under the current division of labor, staff members focus exclusively on programmatic issues or financial issues, and they service either ASN or Senior Corps/VISTA. Under the restructuring, regional staff members will be responsible for assisting grantees with programmatic and financial operations, across all CNCS grant programs. Even rehired seasoned staff members will need to learn the requirements of programs new to them and a new financial or programmatic skill set;"*

CNCS's realignment of roles adds some responsibilities, such as the financial review and support of grantees; however, it

removes other duties such as compliance monitoring from regional staff. This will provide a number of benefits to our customers including enabling them to work with one person at CNCS to navigate the full menu of national service programs and to administer the day-to-day programmatic and financial aspects of their grant. Under our current operating model, programmatic and financial support are siloed and grantees interact with multiple points of contact to take routine actions, such as budget amendments or grant renewals, often resulting in inconsistent information and duplication of work for both the grantees and our staff.

CNCS is already developing and implementing strategies to ensure we position employees for success in these new positions, including: establishing a cross-agency working group focused on reviewing and strengthening the documentation of standard operating procedures, policies, and training resources. Our new common resource architecture and training will improve our employees' ability to learn and do their jobs in a more standardized way: for example, we are launching new information tools such as the VISTA project dashboard developed in-house by a team of talented CNCS employees and launched in April 2019, and over the last two years, CNCS has made financial grants management training modules available to program employees.

3. The OIG asserts: *"Critical training not yet developed. The Government Accountability Office's (GAO's) 2017 evaluation of grant monitoring at CNCS identified inadequacies in the training offered to program officers. Nevertheless, training to acquaint the regional staff with their new responsibilities has not yet been developed or tested for adequacy, and planning has just begun. At our suggestion, CNCS has agreed in principle to pilot-test the not-yet-developed training plan, but no details as to the nature and extent of the testing are yet available. Reportedly, CNCS intends to rely heavily on the creation of comprehensive reference guides to fill gaps in knowledge. Agency leaders concede that staff will not be fully trained when the regional offices are established;"*

As CNCS realigns who does what, we are using this opportunity to standardize, streamline, and improve the resources provided to help employees succeed in their jobs, including standard operating procedures, policies, and training. CNCS established cross-agency Business Process and Training & Development working groups to prepare for the standup of the new roles later this fall, a majority of which we anticipate will be filled by experienced staff. It is important to note that because we are not actually introducing new tasks – in fact, we are finding opportunities to remove unnecessary or duplicative tasks, or reorder them as appropriate – the agency already has the necessary business process and training materials. Nevertheless, we are taking the opportunity to standardize, streamline, and improve training, including the creation of a new standardized orientation for all CNCS staff, standardized onboarding/training plans and materials for new positions, and ongoing career development plans for staff. As I have mentioned to employees in our recent Town Halls and Service Jam online forum, my aspiration is for CNCS to be a best-in-class learning organization.

4. The OIG asserts: *"Centralized compliance monitoring. Monitoring of a portfolio of more than 3,300 active grants per year will be performed by a new Monitoring unit based at headquarters, whose responsibilities, staffing (currently contemplated at 12-18 individuals) and strategies have not yet been determined. At present, monitoring is performed by the program and grant officers who have the greatest contact with and most knowledge of grantees. It is not clear how this small workforce will be able to handle the full grant monitoring portfolio and expand subrecipient monitoring, one of the key recommendations of GAO's 2017 report;"*

CNCS considered various approaches to compliance monitoring and evaluated our monitoring efforts in response to *GAO's report 17-90 (Monitoring Efforts by Corporation for National and Community Service Could Be Improved)* before finalizing our decision to centralize our compliance monitoring efforts. CNCS is centralizing our monitoring efforts to further standardize and strengthen our monitoring activities and provide both uniformity and consistency across our portfolio for our grantees and sponsors. In fact, CNCS met with the Inspector General and her staff on July 12, 2017 to gather her input as to whether compliance monitoring should be maintained at the regional level or centralized at headquarters. The Inspector General recommended at that time, that CNCS should consider centralizing this function due to potential bias

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and conflict of interest given that current staff provide technical assistance and training to grantees and sponsors and then subsequently monitor them and take corrective action.

Centralizing the compliance monitoring function will eliminate both the perception and any actual bias and allow regional portfolio managers more time and opportunity to focus their efforts on training and technical assistance, including strengthening training and technical assistance about sub-recipient monitoring for Commissions and Social Innovation Fund (SIF) grants.

Lastly, the OIG notes in its management alert CNCS's responsibility to monitor 3,300 active grants; however, the OIG has also recommended that the agency focus its efforts on those grants that pose the highest risk to the agency, as opposed to those grants that pose a *de minimus* overall risk to CNCS. By focusing on the total number of grants, the OIG fails to recognize prior advice the office provided to agency leaders that not all risk is the same. The agency is now employing new strategies to remediate the root causes of risk – an example is our recent implementation of a new vendor tool to help grantees conduct a compliant National Service Criminal History Check (NSCHC) – and being more targeted to where the risk is greatest. This includes directing monitoring to grantees that have multiple grants and monitoring all grants within a particular grantee's portfolio.

5.　　　The OIG asserts: *"Incomplete grant risk model. Grant monitoring will be based either on (a) modification of the existing grant risk model, known by CNCS to be inadequate and to omit known fraud risks; or (b) a new, more sophisticated grant risk model that is not yet complete or validated and which does not have individual monitoring activities aligned to specific risks. GAO's 2017 report found numerous inadequacies in the existing grant risk model, including, for example, requiring monitoring visits every six years without regard to the presence of risks, grouping multiple potentially serious risks under a single under-weighted factor, treating a grantee's lack of financial competency (including bankruptcy) as a low risk that would not trigger close monitoring, risk indicators that are too frequently applicable to distinguish relative risk among grants, and the lack of validation. CNCS-OIG has also identified the omission of significant known fraud risks, such as related-party transactions;"*

Over the last two years, the Office of the Chief Risk Officer (OCRO) completed a thorough review of government-wide practices in grant risk assessment, analyzed input from CNCS technical panels on scoring criteria, participated in the Office of Management and Budget's (OMB) Cross Agency Priority (CAP) Goal 8 Workgroup, and consulted with the OIG on the overhaul of the agency's risk assessment tool. During the review, OCRO learned, that while CNCS's grant risk assessment could be improved, the current tool is, in fact, more robust than most grant making entities we assessed. Nevertheless, CNCS is developing a new assessment scorecard that now comprises more than 80 scoring criteria that will appropriately weight those risks identified as most critical by internal and external stakeholders, including those identified by OMB and other federal participants from the CAP Goal 8 Workgroup. As was previously scheduled, on April 30, 2019, CNCS briefed the OIG on the status of the agency's work in developing the new scorecard and the IT platform that can house the tool until such time that OMB rolls out a government-wide resource. Once the new tool has been calibrated and launched into production (anticipated 1Q of FY20), the risk scores and mitigation recommendations will be available to inform decision-making for risk-based monitoring and grant making.

6.　　　The OIG asserts: *"Reduction in onsite and related grant monitoring in FY 2019. Travel budgets for onsite monitoring have been reduced, limiting grant monitoring. In FY 2018, the programs conducted 309 onsite monitoring visits to grantees. In FY 2019, we are told that only 117 site visits will occur. The change was made as an interim measure, in part to redirect funds to the transformation plan and in part because the program heads feared that a large staff exodus would preclude the usual onsite monitoring. CNCS accomplished the reduction in two ways. First, it eliminated the requirement of a monitoring visit every six years, but it did not reassess what score should be considered "high" risk, did not recalibrate the model or reweight the risk factors, did not consult with GAO and did not make other changes recommended by GAO or by CNCS-OIG that might have increased risk scores. Second, CNCS decided not to conduct site visits for certain grants scheduled to*

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end in FY 2019, because, according to the Chief Program Officer, it considered the agency's prospective risk to be low. (CNCS originally briefed us that 34 grants fell into this category, but later corrected the number to eight.) Certain fraud risks, however, increase substantially towards the end of a grant, especially where the grantee is not constrained by an ongoing relationship with the grantor.

In addition to travel limitations, half of ASN's program officer slots are vacant, increasing substantially the workload of the remaining ASN staff, who assist and monitor CNCS's largest grant program. CNCS's executive leadership did not anticipate this eventuality, have not acknowledged the program staff deficit and assert that ASN program leaders have not told them that lack of personnel or resources will impede oversight of the grant portfolio.

The reduction in onsite monitoring is significant, because CNCS has historically relied upon site visits for comprehensive monitoring of at-risk grants. While some programs have previously monitored individual compliance aspects via desk reviews, i.e., offsite review of documents furnished by a grantee, they do not have the tools to conduct comprehensive monitoring remotely. Although CNCS's risk assessments and onsite monitoring are far from perfect, it is difficult to understand the move to an improvised monitoring strategy developed on short notice, while CNCS was preparing to hire a Director of Monitoring whose responsibilities would include developing a new risk-based monitoring approach."

Consistent with the OIG's recommendation in its FY17 Management Challenges report ("This new risk model should inform every aspect of grant management, including: Expanding the menu of monitoring activities and customizing/targeting them to specific risks, to avoid wasting resources monitoring *de minimis* risks."), CNCS continues to reassess and refine its monitoring approach. Therefore, the OIG's comparison of this year's activity with previous years' activity does not accurately reflect CNCS's continued focus on risk and refined strategies. This more targeted approach includes:

- During the first half of FY19 and through June 30, 2019, the agency has undertaken a major effort – including providing new tools, new policies and grant augmentations – to fix the root problem with grantees' historical noncompliance with NSCHC requirements, which resulted in significant disallowed costs for grantees. This was done because CNCS and the OIG identified NSCHC noncompliance as both high-risk and as a significant, ongoing monitoring finding. During this time, CNCS has provided grantees an exemption period to conduct re-checks and, with the OIG's concurrence, opted to focus staff efforts on grantee adoption of the new vendor tool and process to conduct re-checks, rather than traditional CHC monitoring activities.

- The agency discontinued using 'duration since last visit' as a criterion for risk. We received counsel from GAO and the OIG that this criterion was flawed and did not represent true risk to the agency. Upon the removal of this criteria, the number of grantees classified as high-risk dropped to 13; these 13 grantees are being evaluated for the proper follow-up strategy.

- The agency decided not to monitor grants that have no members and/or no CNCS funds for program activity given the low-risk to the agency.

- For the first time, CNCS is piloting enterprise-wide monitoring to grantees that have several streams of service – sending all staff simultaneously to the grantee for a comprehensive visit.

We believe it is a mischaracterization to state that a reduction from last year in the agency's dollars spent on travel specifically targets monitoring. While it is accurate that travel budget allocations across the agency are less than last year, a further examination of the dollars expended thus far demonstrates that the reduction in FY19 has been applied most stringently to representational travel for senior level positions. In addition, FY18 travel dollars represented some very large dollar expenditures for extended disaster relief deployments to support long-term recovery after Hurricane Michael (not monitoring related), so a strict comparison of FY18 dollars to FY19 dollars results in inaccurate assumptions about monitoring.

Finally, we would like to again correct the OIG – as we did in our correspondence on April 12, 2019 – that CNCS has eight high-risk grants scheduled to end in FY19, rather than 34, for which we are choosing not to conduct on-site visits this year, so we can focus on other grants with risk. We are comfortable with this approach, because of those eight projects: three have $0 in program funds in their current award; six have three or fewer members, including three with zero members; and four of those projects received on-site compliance monitoring visits in FY18. Together, the eight projects receive a total of $1,911,724 in federal funding, 40 percent of which is attributed to one project, which barely met the threshold for high priority, and they received an on-site monitoring visit in FY18.

7.   The OIG asserts: *"Extended periods of full-time telework for field staff during the transition. The 46 State Offices are slated to close during May-July 2019. Since the last regional offices are not scheduled to open until June 2020, some field staff may be required to telework for more than one year. As we understand it, CNCS has not developed any additional internal controls to avoid time and attendance fraud or to fill the gaps upon staff departures. Nor has CNCS prepared measures to compensate for the loss of motivation and focus that CNCS employees may exhibit due to job insecurities and searches for other employment -- creating a real risk that they will not provide the oversight and assistance needed to protect CNCS programs and beneficiaries;"*

Telework is a familiar environment for many of our employees, and CNCS is committed to ensuring our staff in the field are supported to succeed during the interim period of full-time telework. Best practices in telework urge a focus on outputs and, just as we do today, we will continue to have measures that track technical assistance, compliance monitoring, and VISTA project development and member support. Additionally, we are utilizing this opportunity to provide more clear guidance to staff about program expectations for activities such as monitoring and technical assistance. Managers continue to have tools available to observe the productivity of their staff by using technology to see when they are online and when they are not, through unknown periods of inactivity.

8.   The OIG asserts: *"Planned simplification of the grant application substance and process, with content to be determined. Per Federal requirements, risk assessment and mitigation plans should play a substantial role in grant award decisions. An accurate understanding of the specific risks that each grantee poses is indispensable to prudent grantmaking and should precede and be incorporated into revisions to the grant application;"*

Traditionally, one barrier to entry for federal resources for organizations is the complexity of the grant and project application requirements. Over the past decade, GAO, Congress, and OMB have all weighed in and directed agencies to simplify their processes. In an effort to make CNCS resources available to the broadest set of organizations, while still upholding rigor and federal requirements, the agency has sought to simplify both what information it requires from potential applicants as part of the application process, while leveraging the review of other relevant information used in decision-making (e.g. information available from other public sources, such as Guidestar).

For example, over the past several years, we have decreased the narrative application length from a high of 27 pages down to 10 pages for AmeriCorps State and National applicants. Recently, we undertook an agency-wide approach to simplify the performance measures part of the application, a part of the application that we know – via drop-off rates in the eGrants system – has confounded applicants. This process allowed the agency to streamline the number of performance measures available to grantees during the application process from 233 down to 77 this past year, while simultaneously dropping the number of pages needed to explain the performance measures from 66 pages down to 23 pages.

While the OIG correctly alludes to CNCS's ongoing interest in simplifying the grant application substance and process, they are incorrect to imply there is a significant change – such as a new common application – planned at this point in time.

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9. The OIG asserts: *"Pressure to implement these changes by the end of FY 2020, limiting planning, issue spotting and risk mitigation. The net result is that, after the reorganization, the regional staff that administers $755 million of grants will be incompletely trained for their duties and unfamiliar with some of the grant programs for which they are responsible. Many will likely be entirely new to CNCS. These staff will play integral roles in recommending which grants should be funded and will have primary responsibility for assisting grantees in understanding and complying with program rules and requirements. This condition poses a high risk of serious errors.*

   These changes will leave CNCS especially vulnerable to fraud and waste and less able to prevent, mitigate or promptly detect abuses. To date, CNCS has not offered any strategies or plans to mitigate these risks. The goals, processes, techniques and priorities for grant monitoring remain undetermined and will likely be untested when the reorganization begins. Due to existing limitations, CNCS's internal controls, grant risk management and grant management information technology cannot compensate for the added risks because they too are flawed and underdeveloped."

Implementation of CNCS's Transformation and Sustainability Plan will take many years, with each goal progressing on different timelines. The agency is transitioning to its new grant management and regional structure in three phases over two years, a carefully calibrated timeline that minimizes risk – including our ability to retain our talented employees who, since the June 2018 announcement of the plan, have been informed of the forthcoming change – and supports successful execution, including the ability to adjust and improve along the way during the three phases. This timeline enables CNCS to train existing or new staff in a timely fashion to carry out their responsibilities over the course of the year.

II.   Addressing "unless they are resolved first, legacy core business deficiencies will hinder the reorganization."

A.   The OIG asserts: *"CNCS's IT infrastructure for grant management has long been inadequate and remains incapable of supporting CNCS's core mission."*

CNCS recognizes it is time to modernize our grant management system and work is underway to do so. In the meantime, CNCS continues to maintain its legacy grants and member management systems to support our core mission. As evidence of this, since January 2017, 108 change requests have been prioritized by the program offices in collaboration with the Office of Information Technology (OIT) to develop and deploy enhancements and new capabilities (see chart below). These enhancements to the legacy system have improved many aspects of the grant lifecycle including member management, award compliance and monitoring, member/grant/project application, and accounting and financial management; as well as general IT maintenance and security.

We are currently evaluating the work that was completed to modernize our grants management system. We have awarded a 12-month, $3.9 million-dollar contract to Accenture for a minimally viable product that will help us determine whether the Salesforce platform is right for the agency. This effort is at its mid-point and has thus far produced promising results to help the agency answer some critical questions in terms of its IT platform and capabilities for a future risk-based grants and member management system.

Change Requests	Business Area Impacted
46	Member Management
20	Maintain Systems
11	Accounting & Financial Mgmt (e.g., Payroll, Cost Share)
10	Performance Measures & Progress Reports
6	Award Compliance & Monitoring

5	Member Recruitment & Application
3	Reports & Data Mining
2	Grant/Project Application
2	Grant/Project Award
1	Grant/Project Application Review (e.g., Reviewer Accts, Review Forms)
1	Institution Maintenance
1	Security
108	**Total Change Requests since January 2017**

B.   The OIG asserts: *"Regional and monitoring staff need a complete, validated grant risk model to inform risk-based grant decisions."*

Please see our response to Item 5 above.

C.   The OIG asserts: *"Extraordinary efforts are needed to repair financial management, accounting, and reporting from the current un-auditable state."*

CNCS acknowledges there are large projects to be completed to reach its financial management goals, and we are confident in the significant progress we have made since late FY18 when we filled key vacancies in our Accounting and Financial Management Services (AFMS) department, including two new Accounting Team Leads and a new Director of AFMS.

To date, and guided by the comprehensive Corrective Action Plan we developed last year, 42 of 82 recommendations in our FY18 financial statements audit have been addressed. Six of ten material weaknesses and one significant deficiency have been remediated and are ready for auditor review. By the end of FY19, work will have begun, or will be completed, for all of the financial statements audit's recommendations, material weaknesses, and significant deficiencies. Additional remediation work is ongoing as the AFMS team identifies issues that need to be addressed.

Additionally, CNCS is far along in evaluating alternative, sustainable solutions to how our agency manages its accounting and financial operations. In June 2017, CNCS approached the Administrative Resource Center (ARC) within the Department of Treasury's Bureau of the Fiscal Service for cost estimates for shared services support in the areas of financial management, procurement, travel, and human capital. In June 2018, CNCS engaged ARC to provide more detailed analysis of customer requirements and costs. The final engagement report for all four service areas was delivered in April 2019, and CNCS is currently conducting a cost-benefit analysis.

CNCS recognizes there are potential risks to migrating to shared services and is actively working to mitigate those risks before committing to a migration. First, and foremost, CNCS is only considering a financial management system that is established, tested, and compliant with accounting and cybersecurity requirements. CNCS is not considering customization to system processes, thereby helping to ensure a smooth migration. CNCS is working with a shared services provider (ARC) with a proven track record of migrating and supporting federal agencies. Additionally, during the decision-making process, CNCS and ARC are discussing, at length, potential migration challenges that could arise and mitigation strategies based on ARC's past experience.

We conclude by noting that our efforts to improve financial management are largely independent of the other Transformation and Sustainability Plan components, such as the realignment of grant management roles and office location structure.

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D.   The OIG asserts: *"Efforts to improve cybersecurity have stagnated."*

CNCS's IT security profile has improved considerably over the last few years and we are on track to have closed or remediated 40 of 45 open recommendations. CNCS's remaining five recommendations are contingent on: implementation of the new regional office locations, the new Enterprise Infrastructure Solutions contract, and e-authentication.

Below is a summary of the current OIG's recommendation on CNCS's security profile:

	FY14	FY16	FY17	FY18	Percentage
Total Number of Open Recommendations	1	3	16	25	
Total Approved by OIG to Close			2		**4% approved for closure**
Total Submitted to OIG for Closure			3	9	**27% submitted for closure**
Scheduled to remediate by Sep 2019	1	3	7	15	**58% on target for remediation in FY19**
Scheduled to remediate by TBD			4	1	**11% with a TBD remediation date**

In conclusion, CNCS appreciates the opportunity to respond to the concerns and opinions that the OIG raises in the Management Alert provided to CNCS on May 14, 2019. We think the IG's use of a Management Alert as a response to Congressional staff questions is an improper use of her authority and abuse of the management alert authority. My top priority is to address the long-standing issues that have been identified by the OIG, Government Accountability Office, Congress, as well as our customers, and position CNCS for long term sustainability. CNCS is well underway in implementing our plan, and we are already demonstrating that we can successfully execute on these improvements, many of which are independent from one another. It is important to reiterate that our Transformation and Sustainability Plan, announced in June of 2018, will take numerous years to implement. We look forward to continuing to keep the OIG, Congress, our customers, and other stakeholders informed of our progress and welcome continued discussion with those who are interested in the improvements CNCS is pursuing.

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May 20, 2019

MEMORANDUM

TO: Barbara Stewart, Chief Executive Officer

FROM: Deborah J. Jeffrey, Inspector General /s/
                Fara Damelin, Deputy Inspector General /s/

SUBJECT: Comments on CNCS Response to Management Alert: *Unrealistic Transformation Plan Unnecessarily Jeopardizes CNCS Mission*

Thank you for your May 2, 2019 (*rev'd* May 16, 2019), response to our Draft Management Alert. The response reinforces our three main concerns:

1. CNCS leadership does not recognize the significant risks caused by a self-imposed accelerated timeline to implement its reorganization;
2. CNCS leadership overestimates the Corporation's limited capacity and underestimates the specific efforts required to manage multiple transformation risks simultaneously; and
3. CNCS leadership sees no relationship between strong core business functions and the success of this reorganization.

We discuss below a few of the more noteworthy statements in CNCS's response.

- Staff turnover: The response highlights the fact that "60% of eligible employees who are impacted by these changes have applied for the new positions in the agency – an indication of the significant experience and institutional memory we will retain." P.2. ***However, CNCS leadership does not seem to appreciate that its best-case scenario involves 40 percent turnover of program and grant officers in the next 13 months.*** The ultimate turnover is likely to be higher. Internal polling by the union indicates that more than half of the current staff members who have applied for the new positions will continue to look for jobs elsewhere.

  The cohort of new employees will require comprehensive training and close supervision, at a time when veteran staff will likewise be facing the unprecedented challenges of their expanded responsibilities. Senior Corps program officers, who likely constitute most of the returning staff, will need to master the details of AmeriCorps State and National, CNCS's largest and most complex program, and learn the financial management

requirements of all grant programs.[1] Yet CNCS has only recently assembled a working group to develop manuals and training, and there is little if any time for a pilot program to test the effectiveness of either combining the positions or of the contemplated training.

No matter how skilled, talented and engaged the staff may be, CNCS's decision to rush the hiring, training and roll-out of these new portfolio manager positions in the next 13 months increases the risk that grantees will not receive the assistance that they need and that, as a result, money will be misspent and communities will not be well-served.

- Claimed progress to date: The response makes unsupported claims that six of the ten material weaknesses in the financial statement audits "have been remediated and are ready for auditor review." P. 10. In fact, CNCS has not yet produced documentation on two of the six material weaknesses, and the auditors have informed CNCS that the documentation on a third material weakness is missing the critical components. CNCS has likewise not yet provided complete documentation on the two significant deficiencies. We are skeptical of the remaining unvalidated assertions because CNCS has a history of claiming progress that it does not deliver. Throughout the FY 2018 financial statement audit, CNCS repeatedly assured us that it was making steady progress and would shortly have key issues resolved. Not only were the prior issues not resolved, the independent financial statement auditors uncovered additional material weaknesses; CNCS's financial statements remained unauditable.

    CNCS likewise cites progress in resolving cybersecurity issues. P. 11. In fact, the most recent evaluation of CNCS's information security (issued in March 2019) determined that the Corporation's cybersecurity program was Not Effective and reported that CNCS has made very little progress since the prior year: "Although some improvement was made, the overall progress was minimal in advancing the Corporation's information security program to an effective level."[2]

- Reduction in FY 2019 grant monitoring: While CNCS could have stepped up its grant monitoring prior to the reorganization to arm new staff with better information, it did the opposite. First, at the direction of the leadership, all onsite monitoring scheduled for late November 2018 through March 2019 was cancelled. Second, CNCS thereafter improvised

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[1] CNCS suggests incorrectly at page 4 that removing monitoring duties from the field staff would somehow compensate for the significant expansion of responsibilities. Our concern is not the demands on staff time but the substantially greater knowledge and skill required to administer all grants, both programmatically and financially. Moreover, CNCS-OIG has consistently urged that CNCS should not relieve the field staff, who have the greatest contact with grantees, of all monitoring responsibilities.

[2] FISMA evaluation, p. 8, available at https://www.cncsoig.gov/sites/default/files/FY18CNCSFinalFISMAReport.pdf.

changes to the grant risk model that reduced onsite monitoring by nearly two-thirds, in order to transfer funds to the Transformation Plan. CNCS did nothing to increase its monitoring of significant risks, such as lack of financial competency.

- Grants management system: The response concedes that that CNCS must modernize the grants management system but ignores the recent expenditure of $30.5 million that produced no results. CNCS further acknowledges that it has just spent $3.9 million for a minimally viable product to help it "determine whether the Salesforce platform is right for the agency." The Corporation offers no plan for what it will do if this $4 million experiment fails and how the agency intends to provide its workforce and grantees an effective grants management system moving forward. Further, because CNCS chose its simplest grant program for this experiment, a favorable result will not necessarily establish that this platform would suit the large majority of its more complex program grants.

  As for the suggestion that eGrants has improved, change orders are stop-gap measures that cannot adopt this unwieldy and outdated system to current needs. For example, although CNCS personnel do most of their communicating with grantees via email, eGrants lacks the capacity to store emails in grantee files. Consequently, critical information is unavailable to a new staff member who assumes responsibility for a grant. Moreover, eGrants does not support modern grant management tools and approaches. Indeed, the response gives no indication that CNCS leadership understands how an effective grants management system could strengthen the assistance provided to grantees.

- Relationship of Financial Management System to a successful reorganization: CNCS sees little relationship between improving financial management and other aspects of the Corporation's operations. P. 10. The two are in fact intertwined, as the FY 2018 financial statement audit makes clear. Two of the material weaknesses identified by the independent auditors relate specifically to grants: The auditors determined that ***CNCS's financial management system does not accurately record grant expenditures or obligations and awards.***[3] These inaccuracies pose a substantial risk of errors in grant accruals and obligations. Contrary to CNCS's assertions, financial management bears directly on proper administration of, accounting for and stewardship over the $750 million that the Corporation spends annually on grants. Further, without an adequate financial management system, CNCS is unable to accurately track and account for the expenditures associated with its Transformation Plan, inhibiting oversight.

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[3] OIG Report No. 19-01, Financial Statement Audit FY 2019, http://www.cncsoig.gov/sites/default/files/OIG_Report_19-01_0.pdf, at 19-20, 22-23.

- Consolidated grant application: CNCS faults our description of the intended changes to the grant application process and asserts that we failed to seek information about them. Pp. 3, 8. In fact, our description parallels Goal 4 of the Transformation Plan, which states that CNCS will "work toward the development and deployment of a common application for all programs. CNCS will provide applicants and grantees with a single point of entry and common application for its programs."[4] We inquired in writing about the preparation of a common application on March 4, 2019, and again on March 6, 2019, and were told only that CNCS had "not yet" created such a draft. If the Corporation has since abandoned plans for a common application, as page 8 of the response implies, the leadership has failed to advise us of this change.

- Reporting these risks in a Management Alert: CNCS characterizes the preparation of a management alert in "response to Congressional staff questions [as] improper use of [the IG's] authority and an abuse of the management alert authority." P. 11. No authority is cited for this proposition, and none exists.

   CNCS-OIG prepared the management alert in fulfillment of our statutory duty to keep Congress, as well as the agency head, fully and currently informed about problems and deficiencies relating to the Corporation.[5] Members of Congress have taken an active interest in the Transformation Plan, as illustrated by selected letters attached. CNCS-OIG has been discussing various risks presented by the Plan with CNCS leadership since last summer; we summarized our views in writing so that they could be shared with the public and the Congress on a bipartisan basis, as we have done in our briefings.[6] The need to document our concerns became even more acute after we learned in March that a CNCS official had misstated our views about the Transformation Plan to congressional staff.

Conclusion

As the Corporation acknowledges, CNCS-OIG was the first to recognize the serious flaws in CNCS's operations and the risks that they created to the cost-effective administration of national service.

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[4] The Plan appears on the CNCS website at
https://www.nationalservice.gov/sites/default/files/documents/20180606CNCSTransformationandSustainabilityFinal.pdf.

[5] Inspector General Act of 1978, as amended (IG Act), Section 4(a)(5) (responsibility of Inspector General "to keep the head of such establishment and the Congress fully and currently informed, by means of the reports required by section 5 and otherwise, concerning fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations administered or financed by such establishment, to recommend corrective action concerning such problems, abuses, and deficiencies, and to report on the progress made in implementing such corrective action").

[6] The use of management alerts to highlight unattended risks is explained on the CNCS-OIG website at
https://www.cncsoig.gov/about/Management-Alert

The purpose of our Management Alert was not to stop the much-needed reforms but to ensure that they succeed. It is the denial or underestimation of risks, rather than a frank exploration of them, that could leave a weakened CNCS unable to properly administer the funds and programs on which at-risk communities depend.[7]

Because the CNCS leadership team does not share a fundamental and objective understanding of these key risks, the Corporation has not prepared or planned to manage those risks moving forward. CNCS-OIG continues to believe that these risks could be minimized by delaying the arbitrary milestones established for reorganization and allowing the Corporation to focus its attention and limited time and resources on systemic improvements that would ultimately strengthen a different field structure for grant management.

Where the Corporation has engaged CNCS-OIG regarding its specific plans, we have consistently been able to offer practical suggestions to mitigate risks and improve performance. We did this most recently on May 1, 2019, when we suggested accelerated testing and completion of half of the new risk model prior to the reorganization. CNCS-OIG stands ready to do likewise in the future, in partnership with CNCS and its leaders.

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[7] To manage risks effectively, an organization must encourage and welcome discussions of risk, recognizing them as opportunities to anticipate and remedy potential problems. *See*, *e.g.*, *Enterprise Risk Management: Selected Agencies' Experiences Illustrate Good Practices in Managing Risk*, GAO-17-63, December 2016, at 9, 13, 19, 21. It is not clear that CNCS appreciates this.

United States Senate

April 9, 2019

The Honorable Richard Shelby
Chairman
Committee on Appropriations
U.S. Senate
Washington, D.C. 20510

The Honorable Patrick Leahy
Ranking Member
Committee on Appropriations
U.S. Senate
Washington, D.C. 20510

Dear Chairman Shelby and Ranking Member Leahy:

We write to urge you to prohibit further implementation of the elements of the Corporation for National and Community Service's Transformation and Sustainability Plan that call for regionalizing the existing state office structure. CNCS's actions are putting the national service programs and the people they serve at unnecessary risk. The regionalization plan should be paused to allow for a fully transparent and public debate about the optimal structure for the agency to fulfill its mission.

Despite many concerns raised by community stakeholders and Members of the Senate and House of Representatives, CNCS is currently fast-tracking plans to close all state offices by this summer and open new regional offices by June of next year. The plan threatens to disrupt technical assistance, oversight and support of grantees, and critical services in our local communities. It may also lead to a brain drain from the agency as many experienced and dedicated staff face an uncertain future under the new structure.

CNCS has failed to provide a detailed plan that accounts for costs and the impact on grantees, current services, and human capital for the transition to a regional office structure. Given that the Administration proposed again to eliminate the agency, the Fiscal Year 2020 Congressional Budget Justification provides no additional explanation or rationale for the proposed restructuring. In fact, the Inspector General, in a separate message to Congress regarding the Fiscal Year 2020 budget request, noted the high risks associated with this plan, including "pressure to implement these changes by the end of FY 2020, limiting planning, issue spotting, and risk mitigation."

We ask you to prohibit CNCS from further implementation of the regionalization plan until it has undergone an open public process that addresses the concerns of all stakeholders and until there is a detailed plan and resources in place to ensure a successful transition that does not diminish support for grantees at the local level. Ideally, such a major restructuring would be debated in the context of a reauthorization of the National and Community Service Act.

Thank you for your consideration of our concerns and your longstanding support for national service. We look forward to working with you to strengthen CNCS.

Sincerely,

Jack Reed
United States Senator

Sheldon Whitehouse
United States Senator

Richard J. Durbin
United States Senator

Tammy Duckworth
United States Senator

Congress of the United States
Washington, DC 20515

February 15, 2019

Ms. Barbara Stewart
Chief Executive Officer
Corporation for National and Community Service
250 E Street SW
Washington, DC 20024

Dear Ms. Stewart:

As Members of Congress who are deeply committed to promoting national service and supporting the volunteers and stakeholder organizations in their service to our nation, we write to express our strong opposition to the decision by the Corporation for National and Community Service (CNCS) to close all state and territorial offices. We urge you to immediately suspend the closing of state and territorial offices and instead actively engage with Congress and stakeholders – grantees, volunteers, and communities – to develop a modernization plan that reflects stakeholder input, real local needs, and strengthens national service for the future.

We are committed to a strong and effective national service program. Therefore, it is important to put this effort to shutdown state and territorial offices in context. One year ago, you submitted to Congress a budget justification for Fiscal Year 2019 that stated: *"the Budget proposes to eliminate CNCS, returning responsibility to fund national service and volunteerism to the private and nonprofit sectors."*

In June 2018, despite efforts to eliminate the agency, you announced a *"Transformation and Sustainability Plan"* for CNCS. And, in late 2018, the decision was made public to close all state and territorial offices, replacing them with eight regional offices, after little or no consultation with stakeholders or Congress. The development of this plan and the reorganization lacks transparency and fails to identify the budgetary impacts.

Last September, Congress – Republicans and Democrats – ignored the effort to eliminate CNCS and instead passed an appropriation for Fiscal Year 2019 that provided $1.083 billion for national service. The bipartisan commitment to CNCS and national service is clear; however, we expect transparency and accountability from your agency.

It is our view that the hastily developed plan to eliminate state and territorial offices (commencing this month) will not contribute to the success of national service, but rather undermine support for AmeriCorps and Senior Corps grantees and volunteers. Rather than increase efficiency, we are concerned this plan will take critical resources away from stakeholders. Strong local relationships have been forged over the last 25 plus years with state office staff being essential to understanding local needs, especially in underserved rural communities, tribal communities, and areas lacking consistent internet access. The *Transformation and Sustainability Plan* will cause these local relationships to erode and thus deplete the services offered by CNCS in many states.

This weakening of local relationships is not only contrary to the mission of CNCS, but also likely breaches statute. According to section 196(A) of the *National and Community Service Act of 1990* (PL 101-610): *"The Chief Executive Officer shall establish and maintain a decentralized field structure that provides for an office of the Corporation for each State. The office for a State shall be located in, or in <u>reasonable proximity</u> to, such State."*

The *Transformation and Sustainability Plan's* eight new regional offices likely breaches the statutory requirement and congressional intent of having a state office in "reasonable proximity" to stakeholders. For example, when Washington's state office closes stakeholders will be forced to engage with a regional office in Los Angeles – approximately 1,100 miles. Comparatively, stakeholders in Bemidji, MN will be forced to engage with CNCS staff in Kansas City – more than 650 miles away. This distance and inevitable disconnect from local communities is simply unacceptable.

Over the years CNCS volunteers have impacted countless lives and directly improved thousands of communities across the country. The need for national service is more important than ever as our nation faces countless challenges that require uniquely local solutions and local action.

Any plan that drastically alters the scope and/or mission of CNCS must be implemented in consultation and coordination with Congress. For this reason, we urge you to immediately suspend the closing of state and territorial CNCS offices and work with Congress on how best to improve CNCS programming and the quality of national service.

Sincerely,

BETTY MCCOLLUM
Member of Congress

GWEN MOORE
Member of Congress
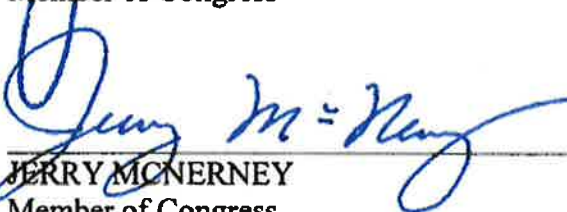
MARCY KAPTUR
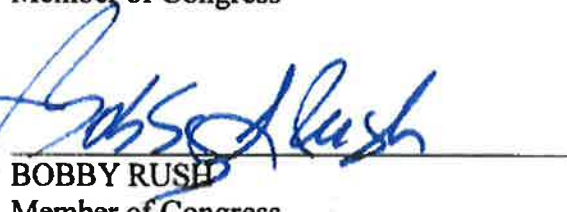Member of Congress

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Member of Congress

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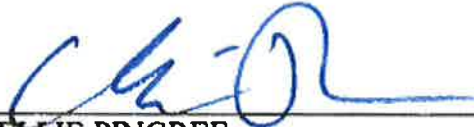
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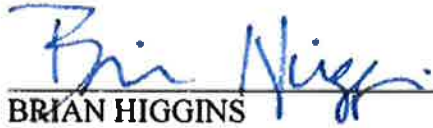
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