

CORPORATION

FOR NATIONAL

★ SERVICE

May 29, 1998

The Honorable Albert Gore, Jr.
President of the Senate
Washington, DC 20510

The Honorable Newt Gingrich
Speaker of the House of Representatives
The Capitol
Washington, DC 20515

Dear Mr. Vice President and Mr. Speaker,

I hereby transmit the Inspector General's Semi-Annual Report to the Congress along with the Corporation's Report of Final Action, as required under Section 5 of the Inspector General Act. These reports cover the six-month period from October 1, 1997 to March 31, 1998. During this period, the Corporation made management decisions on 32 audits and took final action on 23 audits. Tables I, II and III contain the information required by the Act regarding these audits and the status of final actions by management on audits. Final action is still pending on 18 audits. The Corporation continues to eliminate the backlog of overdue final actions as expeditiously as possible.

Two of the reports issued by the Inspector General in this reporting period – related to training and technical assistance agreements and to summary results of audits and reviews of the Corporation's grants from FY 1995 through FY 1997 – have provided especially valuable feedback to us. Corporation actions related to these reports are described below.

Review of Training and Technical Assistance Agreements

As recommended in the Inspector General's Review, the Corporation has implemented changes to strengthen policies and procedures to document the solicitation and selection processes used to award training and technical assistance agreements, and to assure their proper oversight. To improve the Corporation's record-keeping, a centralized filing system was set up as recommended in the Review and federal guidelines.

The Inspector General also recommended that the Corporation stop using cooperative agreements to obtain training and technical assistance services and use contracts instead. After careful consideration and analysis, the Corporation has determined that cooperative agreements better meet our needs. Cooperative agreements, like those used by such federal agencies as the Department of Agriculture and the National Science Foundation, affords the Corporation the flexibility and efficiency to handle minor changes in such agreements. Using the contract format can lead to contract modifications which could result in higher costs and delays in the delivery of services. However, based upon the Inspector General's comments, the Corporation recognized the need to improve aspects



of its use of cooperative agreements and improvements have been implemented and are being monitored. For example, the Corporation developed an oversight and monitoring protocol for staff to use in their on-going responsibilities related to monitoring technical assistance cooperative agreements.

Summary of Results of the Inspector General's Audits and Reviews of Corporation Grants, Fiscal Year 1995 through Fiscal Year 1997

The Corporation agrees with the Inspector General's assessment that many of the programs awarded new Corporation grants have had difficulty in administering their grants. The information presented is helpful as we continue to strengthen our training and oversight functions. For example, the Corporation recently disseminated a *Reference Manual for Commission Executive Directors and Members*. The manual includes new procedures for the State Commissions to use when fulfilling their quality assurance and monitoring responsibilities of their grantees. It includes a checklist of fiscal and compliance requirements that staff should review on site visits to grantees, such as reviewing financial systems and systems for tracking member service hours. The reference manual is currently being adapted for National Direct grants. Also, the Corporation is developing a financial review self-assessment protocol to aid the State Commissions in assessing their own financial management systems. This training tool will be issued soon.

Annual Financial Statement Audit

As reported by the Inspector General, the Corporation has issued a *Plan for Correcting Auditability Assessment Findings*. The Plan calls for issuing progress reports to Congress every 60 days, with the goal of obtaining a clean opinion on the Corporation's financial statements for fiscal year 1998. We transmitted the first progress report to the Congress on May 18, 1998, and we are on schedule in correcting weaknesses identified in past reviews. The Inspector General has engaged of KPMG Peat Marwick LLP to assess the Corporation's corrective actions and the state of its management controls systems, and to perform an audit of the Corporation's fiscal year 1997 Statement of Financial position. The Corporation looks forward to the forthcoming management controls assessment, which will be of great assistance both as a gauge of our progress to date and as guidance on what more we need to do to attain our goal of a clean audit.

Audit Resolution

As reported by the Inspector General, the Corporation has made significant progress in resolving open audit findings, reducing the number of overdue management decisions from 25 reports to four. The Corporation has also made progress to complete corrective actions, reducing the backlog from 23 to 18, and we are committed to making more progress in the next period.

We appreciate the Inspector General's concerns about proper documentation to support costs. Indeed, the resolution of many audits with questioned costs included actions to address the

The Honorable Albert Gore, Jr.
The Honorable Newt Gingrich

- 3 -

grantees' underlying accounting and internal control structures to assure adequate documentation and fewer questioned costs in the future. We are developing a new tracking system and audit resolution process to reach final decisions more expeditiously.

Management Decisions with which Inspector General Disagrees

The Inspector General correctly notes that in the past, the accounting procedures relating to the administration of the Corporation's gift fund, which is the repository of private donations made to the Corporation, did not segregate restricted and unrestricted gifts. As noted in the Corporation's response to Inspector General Report 97-30, the Corporation kept gift fund activity to an absolute minimum until the accounting weaknesses were corrected. Based on the Inspector General's recommendations, the Corporation has instituted new gift fund guidelines and internal controls governing the entire process of solicitation, acceptance, and expenditure of gifts, including segregation of restricted and unrestricted gifts. Relying on the advise of our General Counsel's office, the Corporation has concluded that there was no violation of the Antideficiency Act, because the Corporation's expenditures from the gift fund did not involve an over-obligation of an appropriation or fund.

Review of Legislation and Regulations

Regarding the Inspector General's comments on the administration of the National Service Trust, we note that the fiscal year 1998 VA, HUD, and Independent Agencies Appropriations Act instructed the Corporation to provide the Congress a report on the feasibility of outsourcing the activities of the National Service Trust, including a cost analysis and recommendations on how this outsourcing could be implemented. The Corporation has secured a vendor for this study and expects to provide a report to the Committees on Appropriations by the June 30, 1998 deadline.

In summary, the Corporation continues to implement the necessary policies and procedures, management controls, and strong management practices it takes to become a high-performing organization, including auditability. We are working cooperatively with the Inspector General, the Congress and partners in national service toward that end.

We are sending copies of this report to interested Congressional committees, the Office of Management and Budget, and our Board of Directors. We will also make copies available to others on request.

Any questions concerning these reports may be directed to me or Luise Jordan, the Inspector General.

Sincerely,



Harris Wofford
Chief Executive Officer

Enclosures.

TABLE I

ACTION TAKEN ON AUDIT REPORTS

(for the period October 1, 1997 - March 31, 1998)

	<u>Number of Audit Reports</u>	<u>Disallowed Costs (\$000)</u>
A. Audit reports with final action not taken by the commencement of the reporting period (October 31, 1997).	52	
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B. Audit reports upon which management decisions were made during the six-month reporting period.	32	\$930
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C. Total audit reports for which final action was taken during the reporting period.	23	
1. Recoveries		
(a) Collections and offsets	9	\$112
(b) Property in lieu of cash		
(c) Other (reduction of questioned costs)		
2. Write-offs	2	\$ 3
3. Audits with no disallowed costs	12	
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D. Audit reports for which no final action was taken by the end of the reporting period.	18	

TABLE II
**AUDITS WITH RECOMMENDATIONS TO PUT FUNDS
TO BETTER USE**
(for the period October 1, 1997 - March 31, 1998)

	<u>Number of Audit Reports</u>	<u>Funds to be Put to Better Use (\$000s)</u>
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period.	0	0
B. Audit reports on which management decisions were made during the period.	1	\$9
C. Total audit reports pending final action during the period (Total of A and B).	1	\$9
D. Audit reports on which final action was taken during the period.	1	\$9
1. Value of recommendations that were completed.	1	\$9
2. Value of recommendations that management concluded should not or could not be implemented or completed.	0	0
3. Total of 1 and 2.	1	\$9

TABLE III

**AUDIT REPORTS WITH MANAGEMENT DECISIONS
THAT HAD NO FINAL ACTION WITHIN ONE YEAR OF
THE ISSUANCE OF THE REPORT**

(as of March 31, 1998)

<u>Audit Number</u>	<u>Date Issued</u>	<u>Auditee</u>	<u>Disallowed Costs</u>	<u>Reason No Final Action Was Taken by March 31, 1998</u>
96-01	03/05/96	Review of New Orleans Youth Action Corps	\$ 31,300	In Collection.
96-04	12/6/95	Arizona/Mexico Border Volunteer Corp	\$64,453	In Appeal.
96-05	2/8/96	National Aids Fund	\$0	Final Action completed 4/10/98.
96-11	8/1/96	HIPPY	\$0	Final Action completed 4/10/98.
96-16	07/09/96	Audit of Greater Miami Service Corps	\$174,349	In Collection.
96-21	03/29/96	Audit of ACORN Housing	\$52,068	In Appeal.
96-29	09/26/96	Review of National Council on Educational Opportunities	\$10,689	In Collection.
96-31	3/20/96	Grants Management	\$0	Agreement has been reached with the OIG that the findings will remain open until the OIG financial audit reports that actions were adequately implemented.
96-32	03/20/96	Pre-Audit Survey of CNS Procurement Process	\$0	The Proposed Management Decision (PMD) was accepted 3/24/98. Corrective action for one remaining finding was included in a comprehensive Corrective Action plan to address audits related to the auditability of CNS which was accepted by the OIG 3/31/98. The Corrective Action plan has been implemented. CNS and the OIG have agreed that Corrective Action - will remain open until the OIG financial audit reports that actions were adequately implemented.
96-36	03/15/96	Audit of CNS Fiscal Year 1994 Financial Statements	\$0	The PMD, including a comprehensive Corrective Action plan to address audits related to the auditability of CNS, was accepted by the OIG 3/31/98. The Corrective Action plan has been implemented. CNS and the OIG have agreed that Corrective Action will remain open until the OIG financial audit reports that actions were adequately implemented.

TABLE III (CONT.)

**AUDIT REPORTS WITH MANAGEMENT DECISIONS
THAT HAD NO FINAL ACTION WITHIN ONE YEAR OF
THE ISSUANCE OF THE REPORT**

(as of March 31, 1998)

<u>Audit Number Issued</u>	<u>Date</u>	<u>Auditee</u>	<u>Disallowed Costs</u>	<u>Reason No Final Action Was Taken by March 31, 1998</u>
96-38	03/29/96	Report on the Results of the Auditability Study	\$0	The PMD, including a comprehensive Corrective Action plan to address audits related to the auditability of CNS, was accepted by the OIG 3/31/98. The Corrective Action plan has been implemented. The plan was implemented with time frames for completion extending from March 31, 1998 to FY 1999.
97-01	11/25/96	PennSERVE	\$433,347	Final Action Completed 5/19/98.
97-05	3/10/97	YouthNet of Greater Kansas City	\$6,291	Final Action Completed 4/10/98.
97-06	3/14/97	Legal Service Corporation	\$0	Final Action completed 5/19/98.
97-09	12/9/97	Follow-up to Auditability Study	\$0	The PMD, including a comprehensive Corrective Action plan to address audits related to the auditability of CNS, was accepted by the OIG 3/31/98. The Corrective Action plan is being implemented. CNS and the OIG have agreed that Corrective Action will remain open until the OIG financial audit reports that actions were adequately implemented.
97-27	3/10/97	Trust Fund FY 95 & 94 F/S	\$0	The PMD, including a comprehensive Corrective Action plan to address audits related to the auditability of CNS, was accepted by the OIG 3/31/98. The Corrective Action plan is being implemented. The plan was implemented with time frames for completion extending from March 31, 1998 to FY 1999.