

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

**PERFORMANCE AUDIT OF THE CORPORATION FOR
NATIONAL AND COMMUNITY SERVICE'S
COMPLIANCE WITH THE IMPROPER PAYMENTS
ELIMINATION AND RECOVERY ACT OF 2010 (IPERA)
FOR FISCAL YEAR 2014**

OIG REPORT 15-04

Office of Inspector General

Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

Prepared by:

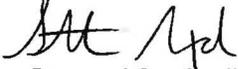
Cotton & Company LLP
635 Slaters Lane, 4th Floor
Alexandria, Virginia 22314

This report was issued to Corporation management on May 15, 2015. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than November 16, 2015, and complete its corrective actions by May 16, 2016. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



May 15, 2015

TO: Wendy Spencer
Chief Executive Officer

FROM: Stuart Axenfeld 
Assistant Inspector General for Audit

SUBJECT: Office of Inspector General (OIG) Final Report 15-04: *Performance Audit of the Corporation for National and Community Service's Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2014*

Attached is the OIG Final Report 15-04: *Performance Audit of the Corporation for National and Community Service's Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2014*. The audit was conducted by Cotton & Company LLP in accordance with standards established by the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Under the Corporation's audit resolution policy, a final management decision on the findings and recommendations in this report is due by November 16, 2015. Notice of final action is due by May 16, 2016.

If you have questions pertaining to this report, please contact Thomas Chin, Audit Manager, at (202) 606-9362 or t.chin@cncsoig.gov; or me at (202) 606-9360 or s.axenfeld@cncsoig.gov.

Attachment

cc: Jeffrey Page, Chief Operating Officer
Kathryn Gillis, Director of Office of Accountability and Oversight
Cyprian Ejiasa, Chief Financial Officer
Jeremy Joseph, General Counsel
Edith Shine, Associate General Counsel
Michael Gillespie, Partner, Cotton & Company LLP

**OFFICE OF INSPECTOR GENERAL
PERFORMANCE AUDIT OF THE
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**PERFORMANCE AUDIT OF THE
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S
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IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT OF 2010 FOR
FISCAL YEAR 2014**

I. EXECUTIVE SUMMARY

For fiscal year (FY) 2014, the Corporation for National and Community Service (CNCS) did not perform a reliable assessment of the susceptibility of its programs and activities to improper payments, nor did it did it reliably estimate the amount or the rate of improper payments in the AmeriCorps Program. As a result, the improper payments information reported in CNCS's FY 2014 Agency Financial Report (AFR) is unreliable and is also incomplete in other respects. We found significant flaws at every stage of CNCS's improper payments assessment process. Some of those flaws had a tendency to understate CNCS's improper payments.

Given the infirmities discovered in this evaluation, we believe that CNCS has not met its obligation to perform a susceptibility analysis in FY 2014 and should not wait two years before performing a reliable analysis. Instead, CNCS should use the information in this evaluation to conduct a more accurate risk assessment in FY 2015, develop a better estimate of improper payments in the AmeriCorps Program, and accurately report the results.

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) requires Federal agencies to identify and reduce improper payments and report annually on their efforts in the AFR. IPERA also requires each agency's Inspector General to perform an audit of the agency's compliance with IPERA. To fulfill this obligation, the Office of Inspector General (OIG) contracted with Cotton & Company LLP (referred to as "we" in this report) to conduct a performance audit of CNCS's compliance with IPERA for FY 2014.

Our audit found that CNCS did not meet the IPERA compliance requirements outlined in Office of Management and Budget (OMB) Memorandum M-15-02. The specific findings are discussed in detail below.

- CNCS's improper payments reporting in the FY 2014 AFR was not complete and accurate and was not completed in accordance with OMB A-136 reporting requirements.
- CNCS's risk assessment was not supported by a complete, accurate, and systematic method.
- CNCS did not prepare a statistically valid estimate of improper payments.
- CNCS did not consistently follow the methodology outlined in its certified sampling plan.
- CNCS did not properly identify improper payments.

We also identified the following other matters relating to our evaluation of CNCS's performance in reducing and recapturing improper payments:

- CNCS did not adequately report on high-dollar overpayments.
- CNCS does not have a cost-effective program in place to recover improper payments.

Because CNCS failed to meet IPERA requirements, the information reported in the AFR is not complete and accurate, and as a result, the estimated improper payment rate and dollar amount reported cannot be relied upon. Further, CNCS may not have identified all high-dollar overpayments and cannot demonstrate that it has a cost-effective program in place to recover improper payments.

We recommend that CNCS take the following corrective actions:

- Implement internal controls and review procedures over the *Improper Payments* subsection of AFR Section IV, *Other Information*, to ensure that elements required per OMB Circular A-136 are reported in the FY 2015 AFR and that the information is complete and accurate.
- Re-perform the IPERA risk assessment in FY 2015, using an improved process to ensure that it is complete, accurate, and supported by a systematic method.
- Engage a qualified statistician to implement a statistically valid sampling plan and provide oversight throughout the planning and estimation process to ensure that the results are valid and that CNCS is in compliance with IPERA.
- Take appropriate action to improve the statistical sampling process, including ensuring that individual samples with indicia of improper payments are not eliminated from consideration.
- Develop a comprehensive testing methodology supported by appropriate criteria and documentation, and consistently apply that methodology to selected sample items.
- Improve the process for identifying and reporting on high-dollar overpayments.
- Implement a cost-effective program to recover improper payments.

CNCS management generally concurred with the overall findings and recommendations in the audit report and stated that it has already begun implementing many of the recommendations.

II. BACKGROUND

The Improper Payments Elimination and Recovery Act of 2010 (IPERA), Public Law (PL) 111-204, dated July 22, 2010, amended the Improper Payments Information Act of 2002 (IPIA), PL 107-300. IPERA requires agencies to periodically review and identify programs and activities that may be susceptible to significant improper payments, and to report on their actions to reduce and recover improper payments. As directed under IPERA, the Office of Management and Budget (OMB) issued Memorandum M-11-16, *Issuance of*

Revised Parts I and II to Appendix C of OMB Circular A-123, on April 14, 2011. This memorandum provides agencies with detailed guidance on the implementation of IPERA. The enactment of the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), PL 112-248, dated January 10, 2013, provided an opportunity for OMB to re-examine existing guidance to ensure that agencies are effectively reducing improper payment rates while also complying with multiple legislative and administrative requirements. OMB issued Memorandum M-15-02, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, on October 20, 2014. OMB Memorandum M-15-02 modifies all prior OMB Circular A-123, Appendix C guidance.

OMB Memorandum M-15-02, Part II, Section A, Subsection 3 expands on the Inspector General (IG)'s responsibilities as outlined in IPERA, including:

- Reviewing agency improper payment reporting in the agency's annual Agency Financial Report (AFR) and accompanying materials.
- Determining whether the agency is in compliance with IPERA.

The IG is also directed to evaluate the accuracy and completeness of agency improper payment reporting, as well as the agency's performance in reducing and recapturing improper payments.

This performance audit was designed to meet the objectives identified in the Objectives, Scope, and Methodology section of this report (Appendix B), which address the IG's responsibilities as described in OMB Memorandum M-15-02, Part II, Section A, Subsection 3.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The contents of this report were discussed in an exit conference with Corporation for National and Community Service (CNCS) management on April 23, 2015. CNCS management's written response to the draft report are summarized in Section IV below and have been included in their entirety as Appendix C to this report.

III. AUDIT RESULTS

Based on the audit procedures performed, we determined that CNCS did not meet five of the six applicable OMB criteria for compliance noted in the audit objectives. The following table identifies each criterion and states whether CNCS met the criterion. Following the table are brief synopses of the related compliance findings. The detailed findings and recommendations are included in Appendix A to this report.

OMB Criteria for IPERA Compliance	Results¹	Explanation of Results
Published a Performance and Accountability Report (PAR) or AFR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.	Not Compliant	CNCS published an AFR for FY 2014 and posted the report and accompanying materials to the agency website; however, the information was not complete, accurate, and reliable, nor was it reported in accordance with OMB A-136 reporting requirements. See Finding 1.
Conducted a program-specific risk assessment for each program or activity that conforms to Section 3321 of Title 31 U.S.C. (if required).	Not Compliant	CNCS conducted a program-specific risk assessment; however, the risk assessment was not supported by a complete, accurate, and systematic method and is therefore unreliable. See Finding 2.
Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under [the agency's] risk assessment (if required).	Not Compliant	CNCS published an improper payment estimate for the AmeriCorps State and National Cost Reimbursement Grant Program; however, the estimate was not statistically valid. The testing results, and therefore the reported estimates, are unreliable. See Findings 3, 4, and 5.
Published programmatic corrective action plans in the PAR or AFR (if required).	Not Compliant	CNCS did not publish corrective action plans for all identified root causes of improper payments. See Finding 1.
Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments.	Compliant	CNCS published an annual reduction target. It had not established reduction targets in prior years because it had not previously published an improper payments error rate.
Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR.	Not Compliant	CNCS's AFR did report an improper payment rate of less than 10 percent for the AmeriCorps State and National Cost Reimbursement Grant Program; however, the lack of a statistically valid sampling process makes these results inaccurate and unreliable. See Findings 3, 4, and 5.

Compliance Findings

CNCS did not meet five of the six applicable OMB criteria for IPERA compliance. The detailed findings and recommendations are included in Appendix A to this report.

¹ OMB Memorandum M-15-02 requires that the compliance review clearly state the agency's compliance status (i.e., compliant or non-compliant). The results were reported in accordance with this requirement, and further explanation is provided to support instances where CNCS partially met compliance criteria.

Finding 1. CNCS's improper payments reporting in the FY 2014 AFR was not complete and accurate, nor was it completed in accordance with OMB A-136 reporting requirements.

CNCS's improper payments reporting in the FY 2014 AFR was not complete and accurate, nor was it completed in accordance with OMB A-136 reporting requirements. Among other issues, CNCS:

- Reported inaccurate information for the AmeriCorps State and National Program improper payment estimate, including the current-year (CY) estimated improper payment dollar value² and CY+1 estimated outlays.³
- Did not document that it had developed the CY improper payment estimate using a 12-month reporting period other than FY 2014 and did not consistently use the same 12-month reporting period throughout the IPERA assessment.⁴
- Did not report on payment recapture audits or recovery auditing efforts.
- Did not report the actions and methods it used to recoup overpayments identified in the FY 2014 IPERA assessment or report a justification regarding whether any overpayments had been determined not to be collectable.
- Did not report on the Do Not Pay Initiative to Prevent Improper Payments.

CNCS management lacked understanding of the OMB A-136 reporting requirements and did not have adequate procedures, supervision, or oversight to ensure that information reported in the AFR was complete and accurate, and that it was reported in accordance with OMB A-136 requirements.

We recommend that CNCS take appropriate action to implement internal controls and review procedures over the *Improper Payments* subsection of AFR Section IV, *Other Information*, to ensure that the elements required per OMB Circular A-136 are reported and that the information is complete and accurate.

² CNCS appropriately calculated the error rate itself using FFR expenditures; however, CNCS should have applied that error rate to the total CY outlays reported.

³ CNCS appropriately calculated this figure using obligations and outlays data reported in the FY 2015 Congressional Budget Justification; however, it calculated the estimated outlays as \$325,600,000 rather than \$325,393,000.

⁴ CNCS conducted the risk assessment on a population of disbursements for the reporting period July 1, 2013, through June 30, 2014, and selected the statistical sample from a population of FFR expenditures reported between April 1, 2013, and March 31, 2014. It then extrapolated the statistical sample results on a population of FFR expenditures reported between January 1 and December 31, 2013.

Finding 2. CNCS's risk assessment was not supported by a complete, accurate, and systematic method to identify programs that are susceptible to significant improper payments.

CNCS's risk assessment was not supported by a complete, accurate, and systematic method to identify those programs that are susceptible to significant improper payments. Among other issues:

- CNCS's risk assessment conclusions for all programs were based on a population of disbursements that may not have been complete and accurate.
- CNCS made a \$2 million error in the calculation used to allocate the National Service Trust (Education Awards) between the AmeriCorps State and National Service Award and the National Civilian Community Corps (NCCC) and AmeriCorps Volunteers in Service to America (VISTA) program awards.
- CNCS did not consider all relevant risk factors in determining susceptibility to significant improper payments in the National Service Trust (Education Awards) disbursements, including awards improperly certified or disbursed for the benefit of individuals who had not undergone the required criminal history background checks (CHC).
- CNCS did not consider risks related to the findings reported in CNCS OIG reports, including weaknesses present throughout CNCS's procurement process and the high rate of errors in grantees' determinations that early-exiting AmeriCorps members qualified for partial education awards because they left the program due to compelling personal circumstances.
- The transaction testing underlying the risk assessment deviated significantly from the testing plans and training documentation, and these deviations could potentially understate CNCS's improper payments. Re-performance testing found that 11 of the 16 transactions tested were incorrectly reported as proper payments despite failing to comply with CHC requirements, while another was incorrectly reported as a proper payment despite lack of documentation to support the transaction amount.

CNCS does not have adequate procedures, controls, supervision, or oversight to ensure that a complete, accurate, and systematic method is in place for the IPERA risk assessment, or that CNCS complies with its own testing plans and criteria.

We recommend that CNCS improve its IPERA risk assessment process so that it is complete and accurate, and so that it represents a systematic method. In addition, CNCS should re-perform the IPERA risk assessment in FY 2015, using an improved process to ensure that it is complete, accurate, and supported by a systematic method.

Finding 3. CNCS did not prepare a statistically valid estimate of improper payments as required by IPERA.

IPERA requires each agency to produce a statistically valid estimate of the improper payments made by each risk-susceptible program and activity and to include the results in its AFR. CNCS's sampling plan did not thoroughly and adequately address all aspects of

statistical sampling and estimation, despite being certified by a qualified statistician. In addition, CNCS made ad-hoc decisions and inconsistently applied criteria throughout the sampling and estimation process. As a result, CNCS did not prepare a statistically valid estimate of improper payments as required by IPERA. The results reported in the AFR therefore cannot be relied upon.

CNCS did not have adequate procedures, supervision, oversight, or quality control procedures to ensure that the statistical methodology for selecting the IPERA sample is comprehensive and accurate, and that it actually followed its sampling methodology. Specific deficiencies included:

- Lack of an appropriate approach for sample failures and replacements. For example, by treating as a sample failure items for which the grantee's internal financial information (i.e., the general ledger) did not support the Federal funds reported as expended according to its Federal Financial Report (FFR)⁵, CNCS eliminated from the sample population transactions with an increased risk of being improper payments. In addition, of the 17 items deemed sample failures, we found that 14 should have been included, and that at least 7 of those items should have been identified as improper payments.
- Incorrect and inconsistent selection of transactions for testing. We found that CNCS selected the wrong dollar amount for testing in 3 out of 45 instances, according to its own methodology.
- Failure to create and/or retain the documentation supporting sample selection.
- Calculating the error rate based on data from a different period than that from which the samples were selected.
- Using the wrong formula to determine the sample size and failing to validate that the results of its statistical sample achieved the desired level of precision.

We recommend that CNCS take appropriate action to engage a qualified statistician throughout the improper payment assessment process. The statistician should implement a statistically valid sampling plan and provide oversight throughout the planning and estimation process to ensure that CNCS is in compliance with IPERA.

Finding 4. CNCS did not consistently follow the methodology outlined in its certified sampling plan.

CNCS did not follow the methodology outlined in its certified sampling plan, nor did it provide any explanation as to why it did not follow the plan. The sampling plan was signed by a qualified statistician who certified that it would result in a statistically valid estimate.

⁵ For example, CNCS requested general ledger detail from a state Commission to support \$535,231 of costs claimed through an FFR for the period ending September 30, 2013. The general ledger detail provided by the commission supported \$2,725,964 of expenses but did not include any support for how the \$535,231 was calculated. As CNCS was unable to reconcile the general ledger data to the FFR amount claimed, it deemed the transaction a sample failure.

CNCS also did not have adequate procedures, supervision, oversight, or quality control procedures to ensure that it followed its sampling methodology and properly described the methodology in its public statements and reports. As a result, the description of CNCS's statistical sampling methodology in AFR Section IV, *Other Information*, did not accurately describe the actual practices as implemented because CNCS did not consistently follow the approach identified within the methodology's sampling plan.

We recommend that CNCS take appropriate action to improve its statistical sampling process, such as developing a certified sampling plan prior to selecting the IPERA sample and applying the sampling plan consistently, ensuring that the implemented statistical sampling process is accurately described in the AFR, and ensuring that the data extracted from the grant system reflects the data that was evaluated during the improper payment assessment process.

Finding 5. CNCS did not properly identify improper payments.

CNCS failed to develop an appropriately comprehensive testing methodology to determine the estimated rate and dollar amount of improper payments for the AmeriCorps State and National program reported in the FY 2014 AFR and was inconsistent in applying the limited test procedures that it developed. Further, the documentation did not identify the specific attributes tested for all samples in order to determine whether a particular transaction was a proper or improper payment. We noted a variety of weaknesses in CNCS's transaction evaluation sheets for key testing areas of program operation costs, staff/member timesheets, and staff/member eligibility (including CHCs).

We sampled 45 transactions tested by CNCS and used the training guides and transaction evaluation checklists provided by CNCS to evaluate whether the payment should be deemed proper or improper. We determined that 20 transactions that CNCS had deemed to be proper payments should have been classified as improper payments according to the CNCS testing documents. It is therefore likely that CNCS's improper payment estimate may be understated.

CNCS relied on the expertise of the individuals selected to perform the IPERA assessment review and of those chosen to conduct the secondary review,⁶ as they were familiar with both AmeriCorps and the Code of Federal Regulations (CFR), and therefore did not think it was necessary to include additional details on the evaluation sheets. CNCS also did not have adequate procedures, supervision, or oversight available to ensure that supporting documentation was adequately provided and maintained. As a result, and as our re-performance testing suggested, the estimated improper payment error rate and dollar amount may be significantly understated.

We recommend that CNCS take the appropriate actions described in our Notice of Findings and Recommendations to develop a comprehensive testing methodology and consistently apply that methodology to selected sample items. Specific recommendations include

⁶ All transactions that were deemed improper payments during the initial review underwent a secondary review in which designated CNCS program experts re-assessed the transactions to verify whether the payment was proper or improper.

updating test plan evaluation sheets to address all allowability/eligibility criteria applicable to CNCS-sponsored payments, conducting mandatory training for all CNCS reviewers involved in the improper payment assessment process, updating training and testing materials on conducting improper payment assessments, and implementing quality control procedures over the improper payment assessment process.

Other Matters to be Reported

As part of our audit, we also determined whether CNCS's efforts to reduce and recapture improper payments were in accordance with IPERA requirements. We found that CNCS failed to comply in two areas summarized below. The detailed findings and recommendations are included in Appendix A to this report.

Finding 6. CNCS did not adequately report on high-dollar overpayments.⁷

CNCS did not report quarterly to OMB and the CNCS OIG on high-dollar overpayments identified, or a lack of high-dollar overpayments, for the following programs that CNCS identified as susceptible to significant improper payments: AmeriCorps State and National Cost Reimbursement Grants, Foster Grandparents Program (FGP), and the Retired and Senior Volunteer Program (RSVP). Further, CNCS management did not consider all relevant sources of information available to the agency to assist in identifying improper payments subject to high-dollar overpayment reporting, as it only considered the FY 2014 IPERA assessment results and did not include other agency processes, such as grants monitoring and oversight activities.

As a result, CNCS is not compliant with OMB's reporting requirements for high-dollar overpayments, and management may not have identified all high-dollar overpayments.

We recommend that CNCS implement a process to identify high-dollar overpayments in programs susceptible to significant improper payments based on results of grants monitoring, oversight activities, and all relevant sources, and ensure that it reports to OMB and CNCS OIG regarding whether there are any identified high-dollar overpayments.

Finding 7. CNCS does not have a cost-effective program in place to recover improper payments.

CNCS did not perform an assessment to determine whether it would be cost effective to conduct recovery audits on its programs that expend \$1 million or more annually,⁸ as

⁷ A high-dollar overpayment is any overpayment that is in excess of 50 percent of the correct amount of the intended payment and that meets the following criteria: (a) Where the total payment to an individual exceeds \$25,000 as a single payment or in cumulative payments for the quarter; or (b) where the total payment to an entity exceeds \$100,000 as a single payment or in cumulative payments for the quarter.

⁸ For purposes of IPERA reporting, CNCS identified the following programs that expend \$1 million or more annually: AmeriCorps State and National Cost Reimbursement Grants, FGP, Senior Companions Program, RSVP, Social Innovation Fund, VISTA Member Costs, VISTA Grants, National Trust Service (Education Awards), Volunteer Generation Fund, NCCC Member Costs, Other CNCS Grants, AmeriCorps Fixed Amount Grants, Staff Payroll, Vendor Payments, Credit Card Payments, and Travel Payments.

required by IPERA. The results of recovery activities performed are not readily available and accessible to assist in determining if these activities are effective in recovering improper payments,⁹ and CNCS was unable to provide evidence supporting recovery activities for the five improper payments identified in the FY 2014 IPERA assessment that related to non-CHC issues.

CNCS management lacked a complete understanding of all corresponding reporting responsibilities and did not have adequate supervision and oversight over the process. As a result, CNCS cannot demonstrate that it has a cost-effective program to recover improper payments.

We recommend that CNCS take appropriate action to implement a cost-effective program to recover improper payments, which includes implementing a process to report on disallowed costs, improper payments, and recovered payments from existing recovery activities that occur within the grants monitoring and oversight process.

IV. SUMMARY OF CNCS MANAGEMENT'S RESPONSE

CNCS management generally concurred with the overall findings and recommendations in the audit report and stated that it has already begun implementing many of the recommendations. The response included a list of corrective actions currently underway, as well as corrective actions that CNCS intends to implement in FY 2015. These corrective actions include updating CNCS's risk assessment process, statistical sampling plan, improper payment testing approach, and quality control procedures.

V. AUDITOR'S COMMENTS ON CNCS MANAGEMENT'S RESPONSE

The corrective actions that CNCS is implementing will improve its ability to comply with IPERA; however, the corrective actions identified did not address all of our recommendations. We recommend that the CNCS OIG follow up with CNCS management to ensure that appropriate corrective actions have been taken to address all of the recommendations in the audit report.

COTTON & COMPANY LLP



Michael W. Gillespie, CPA, CFE
Partner
April 23, 2015

⁹ The results of monitoring activities are documented and stored in each individual grant record in eGrants; however, there is no reporting mechanism in eGrants by which CNCS management can summarize all disallowed costs, improper payments, and recoveries initiated and recovered as a result of grants oversight and monitoring activities.

DETAILED FINDINGS AND RECOMMENDATIONS

Finding 1: CNCS's improper payments reporting in the FY 2014 AFR was not complete and accurate, nor was it completed in accordance with OMB A-136 reporting requirements.

CONDITIONS: CNCS did not report improper payments information in AFR Section IV, *Other Information*, in accordance with OMB A-136 reporting requirements, and the information reported was not complete and accurate. Specifically:

1. In AFR Section IV, subsection *Improper Payments*, Section III, *Corrective Actions*:
 - a. CNCS did not use OMB's required categories to identify and report root cause information (including error rate and error amount) for the corrective actions described for the \$6.67 million in estimated improper payments relating to CHC noncompliance issues. CNCS is required to report root cause information based on the following three categories: Administrative and Documentation errors, Authentication and Medical Necessity errors, and Verification errors. In addition, the corrective action described for improper payments related to CHC noncompliance does not address the true root cause of the issues, as it only addresses CHC checks on current program members and does not implement policies and procedures that will result in future CHCs being performed in accordance with relevant policies and procedures.
 - b. CNCS did not describe corrective actions taken to address the \$5.63 million in estimated improper payments that were not related to CHC noncompliance. CNCS is required to report corrective actions for each type of root cause identified.
2. In *Improper Payments* Section IV, *Improper Payment Reporting*, Table 1, *Improper Payment Reduction Outlook*:
 - a. CNCS did not include RSVP and FGP in the list of programs and indicate when CNCS expected to produce an estimated improper payment error rate for these programs, even though CNCS's FY 2014 risk assessment identified both programs as susceptible to significant levels of improper payments. CNCS is required to list all risk-susceptible programs regardless of whether an error measurement is reported. Where no measurement is reported, CNCS should indicate when it expects to complete a measurement.
 - b. CNCS reported inaccurate information for the AmeriCorps State and National Program. Specifically:
 - i. CNCS did not correctly calculate the CY estimated improper payment dollar value reported. CNCS appropriately calculated the error rate itself using Federal Funds Report (FFR) expenditures; however, it should have applied that error rate to the total CY outlays.

- ii. CNCS made a mathematical error in calculating the CY+1 estimated outlays. CNCS calculated this figure using obligations and outlays data reported in the FY 2015 Congressional Budget Justification. While the approach for determining the CY+1 estimated outlays was appropriate, CNCS calculated the CY+1 estimated outlays as \$325,600 (in thousands) rather than \$325,393 (in thousands).
- iii. CNCS did not document that it had developed the CY improper payment estimate using a 12-month reporting period other than FY 2014, as required by OMB guidance. In addition, CNCS did not consistently use the same 12-month reporting period throughout the IPERA assessment. CNCS conducted the risk assessment on a population of disbursements for the reporting period July 1, 2013, through June 30, 2014, and selected the statistical sample from a population of FFR expenditures reported between April 1, 2013, and March 31, 2014. CNCS then extrapolated the statistical sample results on a population of FFR expenditures reported between January 1 and December 31, 2013.

3. In *Improper Payments Section V, Recapture of Improper Payments Reporting*:

- a. CNCS did not report on payment recapture audits or recovery auditing efforts for programs that expend \$1 million or more annually, nor did it list whether any programs and activities were excluded from its payment recapture auditing program as a result of being deemed not cost effective. CNCS is required to report on its recapture program, and if it excludes programs from review as a result of being deemed not cost effective, it should list those programs and provide justification for doing so.
- b. CNCS did not report the actions and methods it used to recoup overpayments identified in the FY 2014 IPERA assessment, nor did it report a justification for any overpayments determined not to be collectable.
- c. CNCS did not report on improper payments identified and recovered through sources other than payment recapture audits. CNCS is required to report on these improper payments, as applicable.

4. CNCS's FY 2014 AFR did not contain Subsection X, *Agency Reduction of Improper Payments with the Do Not Pay Initiative*, including the required narrative discussion and Table 7, *Implementation of the Do Not Pay Initiative to Prevent Improper Payments*.

CRITERIA: OMB Circular No. A-136, Section II.5.8 provides the following guidance with respect to improper payments reporting in the AFR:

Subsection III. Corrective Actions. Any agency that has programs or activities that are susceptible to significant improper payments shall describe the corrective action plans for:

- a. *Reducing the estimated improper payment rate and amount for each type of root cause identified. Agencies shall report root causes information (including error rate and error amount) based on the following three categories: Administrative*

and Documentation errors; Authentication and Medical Necessity errors; and Verification errors. This discussion must include the corrective action(s), planned or taken, most likely to significantly reduce future improper payments due to each type of error an agency identifies, the planned or actual completion date of these actions, and the results of the actions taken to address these root causes. If efforts are ongoing, it is appropriate to include that information in this section, and to highlight current efforts, including key milestones. Agencies may also report root cause information based on additional categories, or sub-categories of the three categories listed above, if available.

- b. Grant-making agencies with risk-susceptible grant programs shall briefly discuss what the agency has accomplished in the area of funds stewardship past the primary recipient. Discussion shall include the status of projects and results of any reviews.*

Subsection IV. Improper Payment Reporting

- a. The table that follows (Table 1) is required for each agency that has programs or activities that are susceptible to significant improper payments. Agencies must include the following information:*
 - i. All risk-susceptible programs must be listed in this table whether or not an error measurement is being reported;*
 - ii. Where no measurement is provided, the agency should indicate the date by which a measurement is expected;*
 - iii. If the Current Year (CY) is the baseline measurement year, and there is no Previous Year (PY) information to report, indicate by either note or by "n/a" in the PY column;*
 - iv. If any of the dollar amount(s) included in the estimate correspond to newly established measurement components in addition to previously established measurement components, separate the two amounts to the extent possible;*
 - v. Agencies are expected to report on CY activity, and if not feasible, then PY activity is acceptable if approved by OMB. Agencies should include future year outlay and improper payment estimates for CY+1, +2 and +3 (future year outlay estimates should match the outlay estimates for those years as reported in the most recent President's Budget).*
- b. Agencies should include the gross estimate of the annual amount of improper payments (i.e., overpayments plus underpayments) and should list the total overpayments and underpayments that make up the current year amount. In addition, agencies are allowed to calculate and report a second estimate that is a net total of both over and under payments (i.e., overpayments minus underpayments). The net estimate is an additional option only, and cannot be used as a substitute for the gross estimate. Agencies may include the net estimate in Table 1 or in a separate table.*

Subsection V. Recapture of Improper Payments Reporting

- a. *An agency shall discuss payment recapture audit (or recovery auditing) efforts, if applicable. The discussion should describe: the agency's payment recapture audit program; the actions and methods used by the agency to recoup overpayments; a justification of any overpayments that have been determined not to be collectable; and any conditions giving rise to improper payments and how those conditions are being resolved (e.g., the business process changes and internal controls instituted and/or strengthened to prevent further occurrences). If the agency has excluded any programs or activities from review under its payment recapture auditing program (including any programs or activities where the agency has determined a payment recapture audit program is not cost-effective), the agency should list those programs and activities excluded from the review, as well as the justification for doing so (i.e., a discussion of the analysis conducted to determine that a payment recapture audit program would not be cost-effective). Include in your discussion the dollar amount of cumulative recoveries collected beginning with FY 2004. [...]*

- d. *As applicable, agencies should also report on improper payments identified and recovered through sources other than payment recapture audits. For example, agencies could report on improper payments identified through: statistical samples conducted under IPIA; agency post-payment reviews or audits; Office of Inspector General reviews; Single Audit reports; self-reported overpayments; or reports from the public. Specific information on additional required reporting for contracts was included in Section 7 of OMB memorandum M-1104, issued in November 2010. Reporting this information is required for FY 2011 reporting and beyond. Agencies should use this chart to report this information. The information from Section 7 of OMB memorandum M-11-04 mentioned above may be included in the table or in narrative format below the table. If previous year (PY) information is not available, indicate by either note or by "n/a" in the relevant column or cell.*

Subsection X. Agency reduction of improper payments with the Do Not Pay Initiative

The Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), Public Law 112–248, requires OMB to submit to Congress an annual report, "which may be included as part of another report submitted to Congress by the Director, regarding the operation of the Do Not Pay Initiative, which shall: (A) include an evaluation of whether the Do Not Pay Initiative has reduced improper payments or improper awards; and (B) provide the frequency of corrections or identification of incorrect information." To support this requirement, agencies shall provide a brief narrative discussing the agency's actions attributable to the Do Not Pay Initiative and respective databases, to include an evaluation of whether the Do Not Pay Initiative has reduced improper payments or improper awards; identifying the frequency of corrections or identification of incorrect information; and include completion of the table that follows (Table 7).

OMB Memorandum M-15-02 Part I, Section A, Subsection 15 includes the following guidance:

To the extent possible, data used for estimating improper payments in a given program should coincide with the fiscal year being reported (for example, the estimate reported in the FY 2014 AFR or PAR should be based on data from FY 2014). However, agencies may utilize a different 12-month reporting period with approval from OMB. This request for approval shall be submitted to OMB no later than June 30 in the fiscal year for which the estimate is being reported and shall be documented in the AFR or PAR. For example, the estimate reported in the FY 2014 AFR or PAR could be based on data from FY 2013, if approved by OMB. As another example, the estimate reported in the FY 2014 AFR or PAR could be based on data from the last two quarters of FY 2013 and the first two quarters of FY 2014, if approved by OMB. For consistency purposes, the agency shall continue using the same time period for subsequent reporting years, unless a different time period is proposed by the agency and approved by OMB. Therefore, agencies do not need to re-submit a request for approval every year, only when they are planning to change their reporting time period.

CAUSE: CNCS management lacked understanding of the OMB A-136 reporting requirements and did not have adequate procedures, supervision, or oversight to ensure that information reported in the AFR was complete and accurate and was reported in accordance with OMB A-136 requirements.

EFFECT: CNCS is not in full compliance with IPERA requirements as outlined in OMB Memorandum M-15-02. In addition, the form and content of the information reported in FY 2014 AFR Section IV, *Other Information*, are not in full compliance with the requirements of OMB A-136, and information reported is not complete and accurate.

RECOMMENDATIONS: We recommend that CNCS take appropriate action to implement internal controls and review procedures over the *Improper Payments* subsection of AFR Section IV, *Other Information*, to ensure that the elements required per OMB Circular A-136 are reported and that the information is complete and accurate. Specifically, the agency should:

- 1a. Report corrective actions for all root causes of improper payments identified in the IPERA assessment. (Condition 1)
- 1b. Report root cause information (including error rate and error amount) based on OMB's required categories. (Condition 1)
- 1c. Perform detailed analysis to identify the true root cause of improper payments and develop corrective actions that focus on long term solutions to address the root cause, rather than one-time efforts to address historical challenges. (Condition 1)
- 1d. Report all programs identified by the CNCS risk assessment as susceptible to significant improper payments in Table 1, *Improper Payment Reduction Outlook*, and report the year in which CNCS expects to produce an estimated improper payment error rate for those programs for which CNCS does not produce an estimate in the current fiscal year. (Condition 2)

- 1e. Report the CY estimated improper payment dollar value in Table 1, *Improper Payment Reduction Outlook*, by applying the estimated improper payment error rate to the CY outlays. If the CY outlays do not represent the universe from which CNCS derived the estimated improper payment rate, then CNCS should include a footnote explaining the universe used. In addition, CNCS should explain which 12-month reporting period it used to derive the estimated improper payment rate. (Condition 2)
- 1f. Report information on payment recapture audits or recovery auditing efforts, if CNCS has determined them to be cost effective. If CNCS determines that payment recapture audits are not cost effective for certain programs, it should list which programs have been excluded and include the justification for the exclusion. (Condition 3)
- 1g. Report actions and methods that CNCS used to recoup overpayments identified, or include a justification as to why CNCS determined that overpayments were not collectable. (Condition 3)
- 1h. Report improper payments identified and recovered through sources other than payment recapture audits, including CNCS grants monitoring and oversight activities and single audits (formerly referred to as OMB A-133 audits), in order to demonstrate CNCS's commitment to recovering Federal funds that should not have been paid. (Condition 3)
- 1i. Report information on CNCS's reduction of improper payments under the Do Not Pay Initiative. (Condition 4)

Finding 2: CNCS's risk assessment was not supported by a complete, accurate, and systematic method to identify programs that are susceptible to significant improper payments.

CONDITIONS: CNCS's risk assessment was not supported by a complete, accurate, and systematic method of reviewing all programs and identifying those that are susceptible to significant improper payments. Specifically:

1. CNCS's risk assessment conclusions for all programs were based on a population of disbursements that may not have been complete and accurate. CNCS obtained a population of disbursements from the general ledger for the period from July 1, 2013, through June 30, 2014, totaling \$929,922,586.73. CNCS used this population to identify programs susceptible to significant risk of improper payments; however, it did not perform a reconciliation to verify that the population was complete. CNCS is required to conduct a risk assessment on the complete population of programs and activities.
2. CNCS based its conclusion regarding risk susceptibility for Vendor Payments (procurement) disbursements on a population that was not supported or reconciled. Of the total population of disbursements included in the risk assessment analysis, CNCS defined \$41,577,981.45 as the population of Vendor Payments (procurement) disbursements. CNCS performed a quantitative analysis of the procurement population and stated that only \$12.9 million of these disbursements were subject to findings related to procurement practices reported in OIG Report 14-09, *Audit of Blanket Purchase Agreements for Professional Consulting Services*; however, CNCS was unable to provide documentation to show how it arrived at this total.

3. CNCS based its conclusion regarding risk susceptibility for AmeriCorps Fixed Amount Grants disbursements on a population that had not been evaluated for reasonableness. Of the total population of disbursements included in the risk assessment analysis, CNCS defined \$2,477,092.40 as the population of AmeriCorps Fixed Amount Grants; however, CNCS did not perform any analysis on this population and was unable to explain the discrepancy between the population of disbursements used for the IPERA risk assessment and the amount of AmeriCorps Fixed Amount Grants awarded between 2010 and 2013, which totaled approximately \$223 million.
4. CNCS made a \$2 million error in the calculation used to allocate the National Trust Service (Education Awards) between the AmeriCorps State and National Service Award and the NCCC and VISTA program awards. This error further demonstrates the lack of accuracy in CNCS's risk assessment. CNCS defined \$114,821,499.98 of the total population of disbursements included in the risk assessment analysis as National Trust Service (Education Awards). CNCS then determined the portion of the National Trust Service attributable to the AmeriCorps State and National Service Award and the portion attributable to NCCC and VISTA programs by applying an allocation based on the total service award expense. CNCS incorrectly calculated the portion of the National Service Trust that is attributable to the AmeriCorps State and National Service Award as \$98.5 million, rather than as \$100.45 million.
5. CNCS's risk assessment conclusions for the FGP, RSVP, Senior Companions Program (SCP), and Social Innovation Fund (SIF) may not be valid due to the following:
 - a. Although CNCS was not required to achieve an estimate of improper payments with a 90 percent confidence interval of plus or minus 2.5 percent in its statistical risk assessment for the FGP, RSVP, SCP, and SIF programs, its stated goal was to do so, and the risk assessment stated that it had achieved this goal. However, CNCS reported those results without verifying that it had in fact achieved the desired confidence level and precision.
 - b. CNCS's testing procedures deviated significantly from the training documents and test plans it had prepared to guide its IPERA analysis. The deviations substantially impacted the testing results. We conducted re-performance testing for 16 sample transactions using CNCS's training documents and test plans and noted the following deviations:
 - i. CNCS ultimately concluded that 12 of the 16 transactions did not represent improper payments, although the initial reviewer classified them as improper. Based on the root cause criteria in the training document, however, we determined that all of the 12 sample transactions were improper.
 - ii. CNCS did not perform testing on the correct dollar amount that should have been selected per the sampling methodology for 2 of the 16 sample transactions reviewed. Based on the documentation provided, we are unable to determine whether these are inadvertent errors in applying the sampling methodology or deliberate changes. As CNCS sampled the incorrect dollar amount, the testing results did not represent the true sampled population.

- iii. See Finding 5, *CNCS Did Not Properly Identify Improper Payments*, for additional discussion regarding CNCS's lack of a comprehensive testing methodology, inconsistency in applying its limited methodology in testing sample items, and lack of sufficient supporting documentation.
6. CNCS did not appropriately consider the findings reported in CNCS OIG Report 14-09, *Audit of Blanket Purchase Agreements for Professional Consulting Services*, in its qualitative evaluation of Vendor Payments (procurement) disbursements in the risk assessment. CNCS concluded that the findings were only related to certain types of procurement vehicles and not to the entire \$41,577,981.45 population of Vendor Payments disbursements. Various findings in OIG Report 14-09 are potentially applicable to procurements other than consulting services and should have been considered in connection with the full population of Vendor Payments disbursements included in the risk assessment. Further, CNCS did not review additional task orders in conjunction with the IPERA risk assessment, as recommended in OIG Report 14-09.
7. CNCS did not consider all relevant risk factors in determining the National Service Trust (Education Awards) disbursements' susceptibility to significant improper payments. Specifically, CNCS's qualitative evaluation did not consider the findings related to improper payments due to documentation issues that were identified in OIG Report 12-04, *Audit of Earned Education Awards Resulting from Compelling Personal Circumstances*. Further, CNCS did not consider how risks related to CHC noncompliance and other eligibility issues relate to the National Service Trust (Education Awards) disbursements.

CRITERIA: OMB Memorandum M-15-02, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, dated October 20, 2014, and effective starting in FY 2014, provides the following guidance for conducting the risk assessment:

Part I, Section A, Subsection 4 states the following:

The law anticipates that agencies will examine the risk of, and feasibility of recapturing, improper payments in all programs and activities administered. The term "program" includes activities or sets of activities recognized as programs by the public, OMB, or Congress, as well as those that entail management or policy direction. This definition includes, but is not limited to, all grants including competitive grant programs and block/formula grant programs, non-competitive grants such as single sources awards, regulatory activities, research and development activities, direct Federal programs, all types of procurements (including capital assets and service acquisition), and credit programs. It also includes the activities engaged by the agency in support of its programs.

Part I, Section A, Subsection 9 states:

Unless an agency has specific written approval from OMB to deviate from the steps explained below, agencies are required to follow these steps to determine whether the risk of improper payments is significant and to provide valid annual estimates of improper payments. The agency is responsible for maintaining the

documentation to demonstrate that the following steps (if applicable) were satisfied.

Step 1: Review all programs and activities and identify those that are susceptible to significant improper payments. [omitted]

b. Systematic Method. All agencies shall institute a systematic method of reviewing all programs and identify programs susceptible to significant improper payments. This systematic method could be a quantitative evaluation based on a statistical sample or a qualitative method (e.g., a risk-assessment questionnaire). At a minimum, agencies shall take into account the following risk factors likely to contribute to improper payments, regardless of which method (quantitative or qualitative) is used:

- i. Whether the program or activity is new to the agency
- ii. The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts
- iii. The volume of payments made annually
- iv. Whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office
- v. Receive major changes in funding, authorities, practices, or procedures
- vi. The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate
- vii. Inherent risks of improper payments due to the nature of agency programs or operations
- viii. Significant deficiencies in the audit reports of the agency including, but not limited to, the agency Inspector General or the Government Accountability Office (GAO) audit report findings, or other relevant management findings that might hinder accurate payment certifications, and
- ix. Results from prior improper payment work

Step 2: Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities for those programs that are identified in Step 1 as susceptible to significant improper payments.

CAUSE: CNCS does not have adequate procedures and controls in place or adequate supervision and oversight to ensure that a complete, accurate, and systematic method is in place for the IPERA risk assessment.

EFFECT: CNCS may not have accurately identified all programs that are in fact susceptible to significant improper payments and are therefore subject to the requirement to obtain a statistically valid improper payment estimate.

RECOMMENDATIONS: We recommend that CNCS re- perform the IPERA risk assessment in FY 2015 and take action to improve the risk assessment process so that it is complete, accurate, and represents a systematic method. Specifically, the agency should:

- 2a. Reconcile the population of disbursements used in the IPERA risk assessment to supporting records in order to ensure the completeness of the population used to determine which CNCS programs are susceptible to significant risk of improper payments. (Condition 1)
- 2b. Implement procedures and controls, including supervision and quality review of quantitative calculations and analyses conducted in the IPERA risk assessment, to ensure that conclusions are based on complete and accurate information and data. (Conditions 2, 3, and 4)
- 2c. Implement the following procedures if a statistical sample is used to evaluate whether programs are susceptible to significant improper payments: (Condition 5)
 - i. Calculate the precision level achieved based on the actual number of samples tested to ensure that CNCS management has an understanding of the statistical results.
 - ii. Update training and testing materials to include more specific requirements for evaluating whether a payment is proper or improper, including how to document each step of the review and how to maintain and store supporting documentation. See Finding 5, *CNCS Did Not Properly Identify Improper Payments*, for additional recommendations for updating test plans, conducting testing, and documenting test results.
 - iii. Ensure that samples are selected appropriately and in accordance with the specified sampling methodology.
- 2d. Perform sample testing of Vendor Payments (procurement) disbursements to validate CNCS management's conclusion that findings identified in OIG Report 14-09 do not indicate that Vendor Payments (procurement) disbursements are susceptible to significant risk of improper payments. (Condition 6)
- 2e. Enhance the existing qualitative risk assessment process to include verifying all of the relevant risk factors described by OMB, to ensure that CNCS has considered all known OIG findings, GAO findings, or other relevant management findings that might hinder accurate payment certifications. (Condition 7)

Finding 3: CNCS did not prepare a statistically valid estimate of improper payments as required by IPERA.

CONDITIONS: CNCS's sampling plan did not thoroughly and adequately address all aspects of statistical sampling and estimation, despite being certified by a qualified statistician. In addition, in applying its limited methodology, CNCS made ad-hoc decisions and inconsistently applied criteria throughout the sampling and estimation process. As a result, CNCS did not prepare a statistically valid estimate of improper payments as required by IPERA. Specific contributing factors include:

1. CNCS's sampling methodology did not address and document the approach for designating sampled transactions as sample failures or for selecting replacement sample items.
 - a. CNCS did not develop any policies or procedures for identifying or replacing sample items. To account for possible sample failures, CNCS selected 250 sample items, rather than the calculated sample size of 221. Instead of appropriately distinguishing which sample items could be replaced and replacing transactions as sample failures were identified, CNCS requested documentation to support all 250 sampled transactions, removed transactions it deemed as sample failures, and then stopped testing after it completed its analysis on the calculated sample size of 221 transactions.
 - b. CNCS's certified sampling plan did not address the types of transactions or the criteria that must be met for a transaction to be deemed a sample failure. In addition, CNCS did not consistently and thoroughly maintain documentation to support decisions made and their rationale.
 - c. We reviewed the 17 transactions that CNCS classified as sample failures and noted that 14 of the transactions should in fact have been subject to IPERA testing. Specifically,
 - i. Seven transactions should have been deemed partial or full improper payments because the sampled dollar amount either could not be identified by CNCS, as the reviewer was unable to reconcile the general ledger data to the total amount claimed in the FFR, or was found to be improper by the CNCS reviewer. By eliminating these sample items from the population, CNCS eliminated transactions that had indications of being improper payments.
 - ii. Seven transactions should have been tested because the sampled dollar amount was either located within a transaction applying administrative/indirect expenses to a grant, or was located within a transaction applying prior-period adjustments to a grant.
2. CNCS did not correctly or consistently use its methodology for selecting transactions to test. Specifically:
 - a. CNCS did not consistently apply an approach for dealing with irreconcilable FFR data. If reviewers were unable to reconcile the initial amount claimed on the FFR, they would deem the transaction a sample failure and remove it from the sample population; however, these should have been treated as improper payments. If the reviewers were unable to reconcile subledger/subgrantee data to the amount claimed in the FFR, they used two separate approaches:
 - i. If the sampled dollar amount was located within the unsupported portion of an FFR, the reviewer would deem the transaction a "sample failure" and remove it from the sample population. These transactions should have been treated as improper payments.

- ii. If the sampled dollar amount was located within the supported portion of an FFR, the reviewer tested the transaction and left it within the sampled population, noting no exception with the FFR reconciliation.
 - 1) In four cases we were unable to determine whether the correct dollar amount had been selected, as we could not verify that the transaction detail provided supported the costs claimed in the sampled FFR.
 - b. CNCS did not consistently select the randomly selected dollar amounts. We examined the audit trails provided for 45 selected dollar amounts and identified three instances in which it was clear that CNCS did not select the appropriate dollar amount based on its methodology and therefore tested the incorrect transaction.
- 3. CNCS failed to maintain adequate documentation to support the selection of sample items in accordance with its certified sampling plan. Specifically:
 - a. CNCS could not provide documentation that supported the accuracy of the cumulative totals used to select the initial sampled dollar amount within the FFR. We were therefore unable to verify that CNCS tested the correct FFRs.
 - b. CNCS did not always maintain adequate documentation to support that it had selected the appropriate sampled dollar amount within the FFR. We examined the audit trails provided for 45 selected dollar amounts and identified two instances in which we were not able to verify that CNCS had selected the correct dollar amount due to a lack of supporting documentation and were therefore unable to verify that CNCS tested the correct transaction.
- 4. CNCS calculated the error rate using a population of AmeriCorps State and National Cost Reimbursement Grant Program FFR expenditures that does not reconcile to the population of FFR expenditures from which the sample was selected.
 - a. CNCS personnel unintentionally used the population of AmeriCorps State and National Cost Reimbursement Grant Program FFR expenditures reported on FFRs with due dates between January 1 and December 1, 2013, to calculate the estimated improper payment rate reported in the AFR, rather than the population of FFRs with due dates between April 1, 2013, and March 31, 2014, which was used to select the IPERA sample transactions.
- 5. CNCS did not validate whether the results of its statistical sample achieved the desired level of precision at a 90 percent confidence interval, as planned.
 - a. CNCS did not accurately calculate the sample size required to provide a precision level for estimation at a 90 percent confidence interval of plus or minus 2.5 percent. CNCS used Cochran's formula,¹⁰ which applies a normal distribution, to calculate the minimum sample size. As CNCS used monetary

¹⁰ Cochran's formula is a method of applying Cochran's theorem, which is used to justify results relating to the probability distributions of statistics used in analyzing variance.

unit sampling (MUS), however, it should have used an MUS formula, which uses a binomial distribution, to determine the appropriate sample size.

- i. In addition, under Cochran's formula the sample size to reach the desired level of precision should have been 226, rather than the 221 that CNCS calculated in its sampling plan.
- ii. CNCS did not provide documentation to support that it determined whether its sample achieved the desired level of precision at the 90 percent confidence level based on the sample results.

CRITERIA: IPERA Section 2, Subsection (b), Paragraphs (1) and (2) state the following with regard to the requirements for the estimation of improper payments:

b) Estimation of Improper Payments - With respect to each program and activity identified under subsection (a), the head of the relevant agency shall –

(1) produce a statistically valid estimate, or an estimate that is otherwise appropriate using a methodology approved by the Director of the Office of Management and Budget, of the improper payments made by each program and activity; and

(2) include those estimates in the accompanying materials to the annual financial statement of the agency required under section 3515 of title 31, United States Code, or similar provision of law and applicable guidance of the Office of Management and Budget.

Additionally, OMB Memorandum M-15-02, Part I, Section A, Subsection 9 provides the following guidance regarding the statistical sampling and estimation plans:

Step 2.2: Content of Statistical Sampling and Estimation Plans. Agencies shall clearly and concisely describe the statistical methods that will be used to design and draw the sample and produce an improper payment estimate for the program in question. The plans shall explain and justify why the proposed methodology is appropriate for the program in question-this explanation must be supported by accurate statistical formulas, tables, and any additional materials to demonstrate how the sampling and estimation will be conducted and the appropriateness of those statistical methods for the program. Agency sampling and estimation plans must be complete and internally consistent. The following aspects must be clearly addressed:

- a. *Probability Sampling. Improper payment estimates shall generally be based on probability samples and shall provide estimates of the sampling error for the amount of the improper payments. Agencies may use simple random samples if those are appropriate, but many agencies have employed more complex stratified or multi-stage or clustered samples in order to obtain estimates of different components of the program that are more actionable than can be afforded by simpler sample designs. Depending on the nature and distribution of the payments made by a program, many agencies also use unequal probabilities of selection to capture larger payments with higher probability (i.e., probability proportionate to size). If the universe of payments for a program or a*

component/stratum of the program is small, agencies may review a complete census of payments in those cases and would not have any sampling error for that component or stratum-assuming a statistician is consulted on this approach.

- b. Assumptions about the amount of Improper Payments. The agency may use their initial determination of the potential improper payment in Step 1, above, to aid in determining the sample size. Since most agencies have been conducting ongoing reviews of their improper payments for some time, they should utilize results from previous years and make appropriate adjustments to the sample size and even the sample design based on previous findings in order to obtain a more efficient sample or obtain more useful estimates of improper payments by program component.*
- c. Appropriate Sample Sizes. Because of the imprecision of the risk assessment performed in Step 1, agencies should ensure that they select a sample that will meet the minimum precision requirements in Step 2.2.d below. For initial estimates of improper payments, agencies should take a conservative approach and use higher estimated improper payments in their sample size calculations to ensure that they will meet the precision targets. As noted above, since most agencies have been conducting ongoing reviews of their improper payments for some time, they should utilize results from previous years and make appropriate adjustments to the sample size.*
- d. Precision. Agencies should design the sample and select a sample size sufficient to yield an estimate of improper payments with a 90 percent confidence interval of plus or minus 2.5 percent of the total amount of all payments for a program around the estimate of the dollars of improper payments. For example, if the total amount of all payments for a program was \$1,000,000,000 and the estimated total of improper payments based upon the statistical sample was \$80,000,000, the 90 percent confidence interval around the estimate should be no more than plus or minus \$25,000,000-i.e., \$55,000,000 to \$105,000,000. These guidelines for precision shall be taken as the minimum, and agencies are encouraged to increase samples above the minimum to achieve greater precision in their estimates in order for agencies to better understand underlying causes of improper payments and creating action plans. Agencies shall maintain documentation to support the calculation of these estimates.*
- e. Sample Design Documentation. Agency sampling and estimation plans shall generally provide sufficient documentation of the sample design so that a qualified statistician would be able to replicate what was done or so that OMB, agency Inspector General, or GAO personnel can evaluate the design. Agencies shall clearly identify the frame or source for sampling payments and document its accuracy and completeness. All stages of selection, any stratification, and/or any clustering shall be clearly described. Explicit strata shall be clearly defined, as should any variables used for implicit stratification. Tables shall generally be provided showing the size of the universe and sample by strata (if applicable). Sampling*

plans shall also specify whether cases are selected with equal or unequal probabilities and how the probabilities of selection are determined when they are unequal.

- f. Documentation of Estimation Formulas. Agency sampling and estimation plans shall include documentation of the statistical formulas that will be used to estimate the amount of improper payments (and the associated confidence intervals for the sample) and to project those results to the entire program. Documentation should include appropriate citations for these formulas. Agency sampling and estimation plans must be complete and internally consistent (for instance, estimation formulas must appropriately reflect the complexity of the sample design).*
- g. Updates and Changes to Agency Plans. Agencies should update their sampling and estimation plans, as needed, to reflect the current design and methods being used and incorporate refinements based on previous results, consultations with others, and/or recommendations from Inspectors General, GAO, or OMB. Any updated plans will need to be submitted to OMB no later than June 30 of the fiscal year for which the estimate is being produced (e.g., the sampling methodology to be used for the FY 2014 reporting cycle must be submitted by June 30, 2014). The plans shall include all the components described in steps 2.1 and 2.2 above. A plan that is being updated or changed should include some language explaining why the plan is changing and how the plan is different from the one previously submitted.*

Dollar-Unit Sampling – A Practical Guide for Auditors, by Donald A. Leslie, Albert D. Teitelbaum, and Rodney J. Anderson, contains detailed information regarding how to calculate the appropriate sample size when using dollar unit-sampling, including the specific formula to use.

GAGAS provides specific field work standards and requirements for non-financial statement audit engagements, including planning and documentation. These standards require the development and documentation of criteria specific to achieving audit objectives and the retention of sufficient and appropriate documentation related to testing audit objectives in order to enable re-performance.

GAGAS also requires that documentation be prepared in sufficient detail to enable an experienced auditor, having no previous connection with the engagement, to understand from the documentation the nature, timing, extent, and results of procedures performed; the evidence obtained and its source; and conclusions reached, including evidence that supports the auditor's significant judgments and conclusions.

CAUSE: CNCS does not have adequate procedures, supervision, oversight, or quality control procedures to ensure that the statistical methodology developed to select the IPERA sample is comprehensive and accurate, or that CNCS follows its sampling methodology.

EFFECT: The estimated improper payment rate and dollar amount presented in AFR Section IV, *Other Information*, were produced based on a statistical sampling methodology that was not properly implemented; the results are therefore not statistically valid and do not

comply with IPERA. As a result, the estimated improper payment rate and dollar amount may not be accurate and cannot be relied upon.

By presenting an improper payment estimate in AFR Section IV, *Other Information*, CNCS management is erroneously implying to the user of the AFR that the estimate of improper payments for the AmeriCorps State and National Cost Reimbursement Grant Program is statistically valid and in compliance with IPERA.

RECOMMENDATIONS: We recommend that CNCS take appropriate action to engage a qualified statistician throughout the improper payment assessment process. The statistician should implement a statistically valid sampling plan and provide oversight throughout the planning and estimation process to ensure CNCS is in compliance with IPERA. Specifically, the agency should:

- 3a. Update its statistical sampling methodology to define what types of transactions may be deemed sample failures and how to replace them when selecting sample items. Specifically, the methodology should address: (Condition 1)
 - i. The appropriate method for selecting and replacing sample items. If CNCS selects additional replacement items beyond the minimum sample size in order to account for sample failure, it should begin testing only the minimum sample size of items. When CNCS appropriately determines an item to be a sample failure, it should randomly select a replacement from the additional items.
 - ii. The criteria that must be met for a transaction to be deemed a sample failure. Instances for which CNCS is unable to reconcile the general ledger data to the total amount claimed in the FFR should not be classified as sample failures; rather, they should be deemed partial or full improper payments, depending on the reconciling issue. Likewise, transactions that are administrative/indirect expenses or occur in a prior-period adjustment to a grant should not be classified as sample failures; they should be tested, as they represent actual transactions using Federal funds.
- 3b. Implement controls such as supervision and oversight to ensure that CNCS follows a consistent methodology to select and test sample transactions, as documented in the certified sampling plan. Specifically: (Condition 2)
 - i. The methodology should include an approach to consistently deal with irreconcilable data at both the FFR and sub-grantee ledger level. All instances of irreconcilable data should be considered a partial or full improper payment due to lack of documentation.
 - ii. CNCS should perform a secondary review of selected sample transactions to ensure that the correct dollar amount was selected.
 - iii. CNCS should ensure that, if any changes are made to the methodology documented in the certified sampling plan, the change and the rationale for the change are documented and approved, and the sampling plan is modified to reflect the actual methodology used.

- 3c. Implement improved standards for retaining documentation to support the selection of sample transactions. CNCS should ensure that documentation is prepared and retained in sufficient detail to enable an experienced reviewer, having no previous connection with the IPERA assessment, to understand the results of the procedures performed and the conclusions reached. (Condition 3)
- 3d. Implement controls such as supervision and oversight to ensure that the estimated improper payment error rate is calculated using the population from which the sample items are selected. (Condition 4)
- 3e. Calculate the minimum sample size using the appropriate formula for the sampling method, and implement quality control procedures to ensure that the sample size is accurately calculated. (Condition 5)
- 3f. After completing testing, calculate the level of precision achieved at the 90 percent confidence interval. If the precision achieved exceeds the desired precision, consider what actions are necessary. (Condition 5)

Finding 4: CNCS did not consistently follow the methodology outlined in its certified sampling plan.

CONDITIONS:

- 1. CNCS did not consistently follow the methodology outlined in its certified sampling plan, nor did it provide any explanation as to why it did not follow the plan. The sampling plan was signed by a qualified statistician who certified that the plan would result in a statistically valid estimate. While not every deviation from a sample plan will necessarily affect the statistical validity of a sample, AFR Section IV, *Other Information*, subsection *Improper Payments*, Section II incorrectly summarizes the statistical sampling process that CNCS used to estimate the improper payment rate for the AmeriCorps State and National program.
 - a. CNCS did not initially choose a set of 250 randomly selected samples related only to the AmeriCorps program; it chose the initial 250 sample items from the entire universe of extracted eGrants data, which included costs claimed for all CNCS programs that reported FFRs during a specified period. CNCS then determined how many of the initial 250 sample items related to the AmeriCorps program and subsequently selected as many items as necessary (using new random numbers) until it reached the intended sample population size of 250. CNCS's certified sampling plan stated that it selected the 250 AmeriCorps transactions for testing based on a cumulative total of amounts charged to federal funds by only the AmeriCorps program.
 - b. CNCS did not randomize the data from each grantee's general ledger (or from any subsequent subledgers) before selecting the sampled dollar amount; instead it chose the selected dollar amount from the data as it was provided. CNCS's certified sampling plan states that it will follow the same procedures used to select a random dollar amount within an FFR in selecting a random dollar amount within the grantee data; however, CNCS did not follow this methodology.

2. The population that CNCS used to select its sample did not represent total costs claimed over a 12-month period, nor did it represent the two most recent FFRs for each grantee as stated within its certified sampling plan. Specifically, we noted that:
 - a. The data sequel that CNCS used to pull FFR information from its eGrants system did not extract one year's worth of data, as CNCS had intended:
 - i. CNCS's methodology included extracting all FFRs with due dates between April 1, 2013, and March 31, 2014, to represent a one-year period; however, FFR due dates can be changed by CNCS program personnel, so using this date as a parameter to extract data does not result in a database with consistent information. Rather than selecting one year's worth of data for each grant, the actual population extracted included expenditures incurred from June 2010 through March 2014, almost a three-year period.
 - b. The population did not include two FFRs for each grantee.
 - i. Specifically, we determined that the population included only one FFR each for 838 grants, three FFRs each for 66 grants, four FFRs each for 6 grants, and five FFRs each for 1 grant.

CRITERIA: OMB Circular A-136, Section II.5.8, *IPIA (as amended by IPERA) Reporting Details, Part II, Statistical Sampling*, states:

Any agency that has programs or activities that are susceptible to significant improper payments shall briefly describe the statistical sampling process conducted to estimate the improper payment rate for each program identified with a significant risk of improper payments.

OMB Memorandum M-15-02, Part I, Section A, Subsection 9 states:

Step 2.2: Content of Statistical Sampling and Estimation Plans. Agencies shall clearly and concisely describe the statistical methods that will be used to design and draw the sample and produce an improper payment estimate for the program in question. The plans shall explain and justify why the proposed methodology is appropriate for the program in question-this explanation must be supported by accurate statistical formulas, tables, and any additional materials to demonstrate how the sampling and estimation will be conducted and the appropriateness of those statistical methods for the program. Agency sampling and estimation plans must be complete and internally consistent.

CAUSE: CNCS does not have adequate procedures, supervision, oversight, or quality control procedures to ensure that it follows and properly describes its sampling methodology in its public statements and reports.

EFFECT: The description of CNCS's statistical sampling methodology in AFR Section IV, *Other Information*, does not accurately describe the actual practices as implemented because CNCS did not consistently follow the approach identified within its sampling plan.

RECOMMENDATIONS: We recommend that CNCS take appropriate action to improve the statistical sampling process. Specifically, the agency should:

- 4a. Develop a certified sampling plan prior to selecting the IPERA sample and require personnel to consistently apply the identified methodology when selecting the IPERA assessment sample items. (Condition 1)
 - i. If issues are identified that prevent CNCS from following its certified sampling plan, require the personnel responsible for selecting the IPERA samples to read the statistical sampling plan after selecting their sample and evaluate whether they should make any changes to reflect the actual statistical sampling methodology used.
- 4b. Ensure that the explanation of the statistical sampling process provided in the AFR matches the actual process that was implemented, specifically if the actual process deviated from the planned process. (Condition 1)
- 4c. Review the results of all eGrants data extracts with appropriate IT and grant personnel to ensure that the data extracted from the eGrants system reflects the data that the IPERA assessors intended to evaluate. (Condition 2)

Finding 5: CNCS did not properly identify improper payments.

CONDITIONS: CNCS did not develop a comprehensive testing methodology to determine the estimated rate and dollar amount of improper payments for the AmeriCorps State and National program reported in the FY 2014 AFR, and it inconsistently applied the limited test procedures that it developed. Further, the documentation did not identify the specific attributes tested for all samples in order to determine whether a particular transaction was a proper or improper payment.

The transaction evaluation sheets provided to support the assessment conducted on each of the sampled transactions are essentially documentation checklists. The evaluation sheets required CNCS reviewers to confirm the existence of the requested documents but did not specify what information or data elements the reviewer should use in determining whether a payment was proper or improper. As transactions allocated to CNCS grants are subject to various CFR requirements, reviewers should have examined the documentation provided to support each transaction to ensure that each payment was proper, in whole or in part, per CFR requirements. Specifically:

Staff/Member Timesheets

1. The testing sheet does not address what the CNCS reviewer is required to examine on the timesheets to support staff payroll, FGP/SCP stipends, and AmeriCorps living allowance payments.
2. The testing sheet does not require CNCS reviewers to verify that the amount of the payment was proper in accordance with the hours included on the timesheet.

Staff/Member Eligibility

1. The testing sheet does not address how to examine or verify the proof-of-age eligibility documentation and annual income eligibility form for payments related to FGP/SCP stipends.

2. The testing sheet does not address how to ascertain proof-of-age eligibility and proof of high school diploma/GED/self-certification for AmeriCorps living allowance payments.
 - a. The testing sheet also does not address the requirement that an AmeriCorps member must be a citizen, national, or lawful permanent resident alien of the United States, as required by 45 CFR § 2522.200.
3. The testing sheet requires reviewers to obtain various documentation related to CHCs performed on staff/members based on the date on which they began serving in covered positions. However, the evaluation sheet does not indicate what information in the documentation should be reviewed to determine whether the required background checks were completed properly and prior to the date of the transaction, as required.
 - a. The testing sheet also does not include requirements to verify members'/employees' identities by examining government-issued photo IDs and to obtain support that staff/members provided written authorization for CHCs, as required by 45 CFR § 2540.204.

Other Program Operating Costs

The testing sheet does not address how the CNCS reviewer is required to examine the documentation obtained related to other program operating costs to ensure that all costs are reasonable, allocable, and allowable per the CFR.

We sampled 45 transactions tested by CNCS and used CNCS's training guides and transaction evaluation spreadsheets to evaluate whether the payment should be deemed proper or improper. As the purpose of our testing was to evaluate CNCS's conclusions, we used CNCS's limited testing guides rather than testing each sampled payment against all applicable CFR criteria. Our testing resulted in significantly different results, as we determined that 20 transactions deemed proper payments by CNCS should have been classified as improper payments according to the CNCS testing documents. We did not re-perform testing on 3 of the 45 sampled transactions, as CNCS did not select the appropriate dollar amount for testing. Specifically we found that:

1. The documentation provided by the grantees did not contain all of the documentary support required by CNCS's transaction evaluation sheet.
2. The documentation provided to support the background checks was provided by alternative search providers (ASPs) that did not use the appropriate repositories for their searches.
3. Documentation provided to support CHC results was not sufficient to determine if the CHC had been completed, received by the grantee, and reviewed to ensure that the employee/member was eligible to serve.
4. CHC background checks were untimely, in that individuals were allowed to begin employment before completion or initiation of the checks, contrary to applicable regulations.

CRITERIA: OMB Memorandum M-15-02, Part I, Section A, Subsection 2 states:

An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

OMB Memorandum M-15-02, Part I, Section A, Subsection 11 states:

IPERIA requires OMB to instruct agencies to give persons or entities producing improper payment estimates access to all necessary payment data, including access to relevant documentation. In order to produce accurate improper payment estimates, agencies must provide full documentation to persons or entities producing their improper payment estimates. In addition, this documentation must be maintained for the length of time required by the National Archives and Records Administration for the particular type of material being held in order for post-payment audits to be performed and to allow internal and external auditors to replicate reported results.

GAGAS provides specific field work standards and requirements for non-financial statement audit engagements, including planning and documentation. These standards require the development and documentation of criteria specific to achieving audit objectives and the retention of sufficient and appropriate documentation related to testing audit objectives in order to enable re-performance.

GAGAS also requires that documentation be prepared in sufficient detail to enable an experienced auditor, having no previous connection with the engagement, to understand from the documentation the nature, timing, extent, and results of procedures performed; the evidence obtained and its source; and conclusions reached, including evidence that supports the auditor's significant judgments and conclusions.

2 CFR 220, Appendix A, Section J.10.b.(2) requires educational institution salaries allocated to federal awards to be supported by a payroll distribution system that (1) reasonably reflects the activity for which the employee is compensated by the institution, (2) recognizes an after-the-fact confirmation of determination of the actual activity of each employee, (3) is confirmed by responsible persons with suitable means of verification that the work was performed, and (4) prepares reports each academic term, but no less frequently than every six months for professional employees, and no less frequently than monthly for other employees.

2 CFR 225, Appendix B, Section 8.h.(5).(d) requires state, local, and tribal government salaries allocated to federal awards to be supported by a personnel activity report (or timesheet) that (1) reflects an after-the-fact distribution of the actual activity of each employee, (2) accounts for the total activity for which each employee is compensated, (3) is

prepared at least monthly and must coincide with one or more pay periods, and (4) is signed by the employee.

2 CFR 230, Appendix B, Section 8.m.(2) requires not-for-profit agency salaries allocated to federal awards to be supported by personnel activity reports that (1) reflect an after-the-fact distribution of the actual activity of each employee, (2) account for the total activity for which each employee is compensated, (3) are signed by the individual employee, or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee, and (4) are prepared at least monthly and must coincide with one or more pay periods.

2 CFR 220, Appendix A, Section J.10.a states that educational institution salaries allocated to federal awards may include reasonable amounts for activities contributing and intimately related to work under the agreements, such as delivering special lectures about specific aspects of the ongoing activity, writing reports and articles, participating in appropriate seminars, consulting with colleagues and graduate students, and attending meetings and conferences.

2 CFR 225, Appendix B, Section 8.a states that state, local, and tribal government salaries allocated to federal awards are allowable provided that the total compensation for individual employees (1) is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities; (2) follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and (3) is determined and supported as provided in subsection h (referenced above).

2 CFR 230, Appendix B, Sections 8.a and 8.d state that not-for-profit salaries allocated to federal awards are allowable provided that total compensation for individual employees (1) is reasonable for the services rendered and conforms to the established policy of the organization consistently applied to both Federal and non-Federal activities; (2) charges to awards, whether treated as direct or indirect costs, are determined and supported as required; and (3) compensation is reasonable for the actual personal services rendered rather than a distribution of earnings in excess of costs.

45 CFR § 2251.41 states that to receive a stipend as a Senior Companion, an individual must (1) be 55 years of age or older, (2) be determined by a physical examination to be capable of serving adults with special needs without detriment to either himself/herself or to the adults served, (3) agree to abide by all requirements as set forth in 2 CFR 2251, and (4) have an income that is within the income eligibility guidelines.

45 CFR § 2252.41 states that to receive a stipend as a Foster Grandparent, an individual must (1) be 55 years of age or older, (2) be determined by a physical examination to be capable of serving children with exceptional or special needs without detriment to either himself/herself or to the children served, (3) agree to abide by all requirements as set forth in 2 CFR 2252, and (4) have an income that is within the income eligibility guidelines.

45 CFR § 2522.200 states that an AmeriCorps participant must (1) be at least 17 years of age at the commencement of service; (2) have a high school diploma or its equivalent; and (3) be a citizen, national, or lawful permanent resident alien of the United States.

45 CFR § 2540.201 states that an individual is ineligible to serve in a covered position if the individual (1) is registered, or required to be registered, on a State sex offender registry or the National Sex Offender Registry; or (2) has been convicted of murder, as defined in Section 1111 of Title 18, United States Code.

45 CFR § 2540.204 states that the grantee is responsible for following these procedures related to verifying member eligibility by conducting background checks:(1) verifying the individual's identity by examining their government-issued photo identification card; and (2) obtaining prior, written authorization for the State criminal registry check and the appropriate sharing of the results of that check within the program from the individual. (Specifically, Section 2540.207 states that an individual who refuses to consent to a State criminal registry check is not eligible to serve in a covered position.)

2 CFR 220, Appendix A, Section C.2 requires all costs allocated to federal grants by educational institutions to be (1) reasonable, (2) allocable to sponsored agreements, (3) given consistent treatment through application of those generally accepted accounting principles (GAAP) appropriate to the circumstances, and (4) in conformance with any limitations or exclusions set forth in 2 CFR 220 or in the sponsored agreement as to types or amounts of cost items.

2 CFR 225, Appendix B, Section C states that for a cost incurred by a state, local, or tribal government to be allowable under a federal award, it must (1) be necessary and reasonable for proper and efficient performance and administration of federal awards; (2) be allocable to federal awards; (3) conform to any limitations or exclusions set forth in 2 CFR 225; (4) be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit; (5) be accorded with consistent treatment; (6) be determined in accordance with GAAP; and (7) not be included as a cost or used to meet cost-sharing requirements of any other federal award.

2 CFR 230, Appendix B, Section C states that for a cost incurred by a not-for-profit organization to be allowable under a federal award, it must (1) be reasonable for the performance of the award; (2) be allocable to the award; (3) conform to any limitations or exclusions set forth in 2 CFR 230; (4) be consistent with policies, regulations, and procedures that apply uniformly to both federally-financed and other activities of the organization; (5) be accorded with consistent treatment; (6) be determined in accordance with GAAP, and (7) not be included as a cost or used to meet cost-sharing requirements of any other federal award.

CAUSE: CNCS relied on the expertise of the individuals selected to perform the IPERA assessment review and of those chosen to conduct the secondary review, as they were familiar with both AmeriCorps and CFR regulations, and therefore did not think it was necessary to include additional details on the evaluation sheets or within the CNCS training documents. In addition, CNCS does not have adequate procedures, supervision, or oversight available to ensure that sufficient supporting documentation is provided and maintained.

EFFECT: The estimated improper payment error rate and dollar amount may be inaccurate.

RECOMMENDATIONS: We recommend that CNCS take appropriate action to develop a comprehensive testing methodology and consistently apply that methodology to selected sample items. Specifically, the agency should:

- 5a. Update its test plan evaluation sheets to address all allowability/eligibility criteria applicable to CNCS-sponsored payments per the applicable sections of the CFR. (Condition 1)
 - i. Updates should also include testing and concluding on whether a payment is partially or fully improper under CFR regulations.
- 5b. Update training and testing materials to include more specific requirements when evaluating whether a payment is proper or improper. (Condition 1)
 - i. Additional requirements could address (1) how to document each step of the review, (2) how to maintain/store supporting documentation, and (3) where to find all applicable rules and regulations for each CNCS program.
- 5c. Conduct mandatory training for all CNCS reviewers to ensure consistent testing methodology and documentation retention plans. (Condition 2)
- 5d. Implement quality control procedures that require an employee outside of the sampled program to perform a spot check, or limited sample re-performance, to evaluate whether enough detail is provided for a non-expert to be able to understand and re-perform the testing, and whether all documentation necessary to support testing results has been maintained to enable external personnel to re-perform testing and to retain institutional knowledge for subsequent years' IPERA testing. (Condition 2)
 - i. Specifically, ensure that documentation is prepared in sufficient detail to enable an experienced auditor, having no previous connection with the engagement, to understand from the documentation the nature, timing, extent, and results of procedures performed; the evidence obtained and its source; and conclusions reached, including evidence that supports CNCS's conclusions.

Finding 6: CNCS did not adequately report on high-dollar overpayments.

CONDITIONS: CNCS did not report quarterly to OMB and the CNCS OIG on high-dollar overpayments identified, or a lack of high-dollar overpayments, for the following programs that CNCS identified as susceptible to significant improper payments: AmeriCorps State and National Cost Reimbursement Grants, FGP, and RSVP. Further, CNCS management did not consider all relevant sources of information available to the agency to assist in identifying improper payments subject to high-dollar overpayment reporting, as it only considered the FY 2014 IPERA assessment results and did not include other agency processes, such as grants monitoring and oversight activities.

CRITERIA: OMB Memorandum M-15-02, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, dated October 20, 2014, and effective starting in FY 2014, provides the following guidance for high-dollar overpayment reporting:

OMB Memorandum M-15-02, Part III, Section D, Step 1 states:

A high-dollar overpayment can be made to an individual or an entity. A high-dollar overpayment is any overpayment that is in excess of 50 percent of the correct amount of the intended payment under the following circumstances:

- a. Where the total payment to an individual exceeds \$25,000 as a single payment or in cumulative payments for the quarter; or*
- b. Where the total payment to an entity exceeds \$100,000 as a single payment or in cumulative payments for the quarter.*

OMB Memorandum M-15-02, Part III, Section D, Step 2 states:

High-dollar overpayments can be identified by examining one or more relevant sources of information available to agencies. For instance, agencies could identify high-dollar overpayments, where applicable and cost-effective, through:

- a. Agency improper payment testing samples;*
- b. Payment recapture audits; or*
- c. Other sources identified by the agency*

OMB Memorandum M-15-02, Part III, Section D, Step 4 states:

Agencies with programs susceptible to significant improper payments under IPIA are required to report quarterly on high-dollar overpayments that occurred within those specific programs. Agencies may report this information to the public in their own website, or through other mechanisms designed to allow the public to access agency information. For any given quarter, if an agency with programs susceptible to significant improper payments has had no high-dollar overpayments, then the agency should inform OMB and the agency's Inspector General that the agency had no high-dollar overpayments in that quarter. Agencies without any programs susceptible to significant improper payments do not need to report or notify either OMB or the Inspector General.

CAUSE: FY 2014 was the first year in which CNCS management performed a complete and comprehensive risk assessment to identify programs susceptible to significant improper payments. As a result, CNCS management lacked a complete understanding of all corresponding reporting responsibilities and did not have adequate supervision and oversight over the process.

EFFECT: CNCS is not in compliance with OMB's reporting requirements for high-dollar overpayments, as described in OMB Memorandum M-15-02. As a result, the CNCS OIG and OMB have not been made aware of any high-dollar overpayments identified or been notified that CNCS did not have any high-dollar overpayments. Further, as CNCS has not used all relevant sources of information available to identify high-dollar overpayments, CNCS management may not have identified all high-dollar overpayments in CNCS's grants monitoring and oversight processes.

RECOMMENDATIONS: We recommend that CNCS take appropriate action to improve the process for identifying and reporting on high-dollar overpayments. Specifically, the agency should:

- 6a. Implement a process to identify high-dollar overpayments in programs susceptible to significant improper payments using all relevant sources of information available to the agency, including the results of grants monitoring and oversight activities and other business processes.
- 6b. Implement a process to ensure that CNCS reports to the CNCS OIG and OMB on a quarterly basis regarding any high-dollar overpayments identified in programs susceptible to significant improper payments, or indicates that no such overpayments existed.

Finding 7: CNCS does not have a cost-effective program to recover improper payments.

CONDITIONS: We identified a number of issues that reflect CNCS's lack of a cost-effective program to recover improper payments. Specifically, we noted the following:

1. CNCS did not perform an assessment to determine whether it would be cost effective to conduct recovery audits on its programs that expend \$1 million or more annually, as required by IPERA. For purposes of IPERA reporting, CNCS identified the following programs that expend \$1 million or more annually: AmeriCorps State and National Cost Reimbursement Grants, FGP, SCP, RSVP, SIF, VISTA Member Costs, VISTA Grants, National Trust Service (Education Awards), Volunteer Generation Fund, NCCC Member Costs, Other CNCS Grants, AmeriCorps Fixed Amount Grants, Staff Payroll, Vendor Payments, Credit Card Payments, and Travel Payments.
2. CNCS management indicated that they plan to use existing recovery activities performed as part of ongoing grants oversight and monitoring activities. However, the results and cost-effectiveness of recovery activities are not readily accessible, nor has CNCS performed a meaningful analysis of their effectiveness in recovering improper payments. The eGrants system stores the results of monitoring activities separately for each individual grant. Nowhere does CNCS cumulate or track all disallowed costs, improper payments, efforts to recover funds, and the success of such efforts, much less compare the totals disallowed against the totals eventually recovered. Further, certain programs and activities that expend \$1 million or more annually, including Staff Payroll, Vendor Payments, Credit Card Payments, and Vendor Payments, do not involve grants and are therefore not subject to the grants oversight and monitoring procedures that CNCS intends to rely on for recovery of improper payments.
3. CNCS has not provided evidence showing any recovery activities for the five improper payments identified in the FY 2014 IPERA assessment that related to non-CHC issues. These five payments totaled \$18,433.88 and were identified as improper payments due to insufficient documentation. As of the conclusion of fieldwork (April 3, 2015), CNCS had not yet collected the additional information necessary to determine whether those payments were allowable or unallowable and whether any costs should be recovered. CNCS also did not have documentation

addressing the current or planned status of research efforts to obtain this information.

CRITERIA: Per the *Improper Payments Elimination and Recovery Act of 2010*, PL 111-204, dated July 22, 2010, CNCS is required to conduct payment recovery audits for each program or activity that expends \$1 million or more annually, if conducting such audits would be cost effective.

PL 111-204, Section 2, Subsection (h), Paragraph 2(A) states:

(A) Conduct of Audits – Except as provided under paragraph (4) and if not prohibited under any other provision of law, the head of each agency shall conduct recovery audits with respect to each program and activity of the agency that expends \$1,000,000 or more annually if conducting such audits would be cost effective.

OMB Memorandum M-15-02, Part I, Section D, Step 2 provides the following clarifying guidance:

Agencies shall have a cost-effective program of internal control to prevent, detect, and recover overpayments. A program of internal control may include policies and activities such as prepayment reviews, a requirement that all relevant documents be made available before making payment, and performance of post-award audits. Effective internal controls could include payment recapture auditing techniques such as data matching with Federal, State and local databases; and data mining and predictive modeling to identify improper payments. However, for agencies that have programs and activities that expend more than \$1 million in a fiscal year, a payment recapture audit program is a required element of their internal controls over payments if conducting such audits is cost-effective. These payment recapture audits should be implemented in a manner designed to ensure the greatest financial benefit to the Federal government.

CAUSE: FY 2014 was the first year in which CNCS management performed a complete and comprehensive risk assessment to identify programs susceptible to significant improper payments. As a result, CNCS management lacked a complete understanding of all corresponding reporting responsibilities and did not have adequate supervision and oversight over the process.

EFFECT: CNCS cannot demonstrate that it has a cost-effective program to recover improper payments because:

1. CNCS management may not be performing recapture audits or other recovery activities for all programs that expend \$1 million or more annually where it may be cost effective to do so, as required by IPERA.
2. CNCS management is not able to evaluate the effectiveness of the existing recovery activities that occur within the grants monitoring and oversight process, as the agency is not able to report on amounts identified as improper and recovered, when applicable.
3. CNCS may not be effectively recovering Federal funds that should not have been paid.

RECOMMENDATIONS: We recommend that CNCS take appropriate action to implement a cost-effective program to recover improper payments. Specifically, the agency should:

- 7a. Conduct an assessment of all programs that expend \$1 million or more annually to determine if payment recapture audits would be cost effective, and report results in the AFR in accordance with OMB A-136 requirements. (Condition 1)
- 7b. Implement a process to report on disallowed costs, improper payments, and recovered payments from existing recovery activities that occur within the grants monitoring and oversight process. This process will also enable CNCS management to monitor and evaluate the effectiveness of those recovery activities. (Condition 2)
- 7c. Perform timely research and follow-through on improper payments identified through the IPERA assessment to recover Federal funds that should not have been paid, and maintain documentation regarding the disposition of each improper payment identified. (Condition 3)

OBJECTIVES, SCOPE, AND METHODOLOGY**Objectives**

The objective of our performance audit was to determine if CNCS met OMB's criteria for compliance with IPERA as described in OMB Memorandum M-15-02, including:

- Publishing an AFR or Performance and Accountability Report (PAR) for the most recent fiscal year and posting that report and any accompanying materials required by OMB on the agency website.
- Conducting a program-specific risk assessment for each program or activity that conforms to Section 3321 of Title 31 U.S.C. (if required).
- Publishing improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).
- Publishing programmatic corrective action plans in the AFR or PAR (if required).
- Publishing, and meeting, annual reduction targets for each program assessed to be at risk and estimating for improper payments (if required and applicable).
- Reporting a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and publishing the rate in the PAR or AFR.

We also evaluated the accuracy and completeness of agency improper payment reporting, as well as CNCS's performance in reducing and recapturing improper payments.

Scope

As established in OMB Memorandum M-15-02, the scope of this performance audit included the improper payment and reporting details in CNCS's FY 2014 AFR Section IV, *Other Information*. We designed procedures to gain an understanding of the risk assessment that CNCS performed to identify programs susceptible to significant risk of improper payments, as well as the statistical sampling process that the agency performed to calculate its improper payment estimate. Our procedures also included having a statistical subject matter expert evaluate the statistical validity of the improper payment estimate.

We also designed procedures to evaluate the completeness and accuracy of the information reported in Section IV, *Other Information*, including re-performing testing of (1) 45 randomly selected sample items that CNCS had tested in determining its improper payment estimate, and (2) 16 randomly selected sample items that CNCS had tested as part of the program-specific risk assessment.

In addition, we designed procedures to evaluate the agency's performance in reducing and recapturing improper payments.

Methodology

To verify compliance, evaluate completeness and accuracy, and evaluate the agency's performance in reducing and recapturing improper payments, we:

- Reviewed CNCS's FY 2014 AFR and confirmed that the report and any accompanying materials were posted to the agency website.
- Reviewed CNCS's FY 2014 AFR and confirmed whether the presentation was in accordance with the form and content requirements outlined in OMB Circular No. A-136, *Financial Reporting Requirements*.
- Evaluated the completeness and accuracy of the IPERA reporting details presented in CNCS's FY 2014 AFR.
- Confirmed whether CNCS conducted a program-specific risk assessment and evaluated the results of the assessment.
- Confirmed whether CNCS published improper payment rate and dollar estimates for all programs and activities identified as susceptible to significant improper payments under the agency's risk assessment.
- Evaluated the statistical sampling process that CNCS used to obtain the improper payment rate estimates published in its FY 2014 AFR.
- Evaluated the reasonableness of CNCS's conclusions and the sufficiency of documentation supporting the results of testing procedures that CNCS performed on sample items as part of the statistical sampling and risk assessment processes.
- Confirmed whether CNCS was required to publish corrective action plans in its FY 2014 AFR.
- Confirmed whether CNCS has published, and met, improper payment reduction targets for each program assessed and measured to be at risk for improper payments.
- Evaluated whether CNCS reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR.
- Evaluated other activities performed by CNCS to reduce and recapture improper payments.

In carrying out this methodology, we applied audit techniques such as inquiry, observation, and re-performance to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings related to the audit objectives.

CNCS MANAGEMENT'S RESPONSE

To: Stuart Axenfeld, Assistant Inspector General for Audit

From: Jeffrey Page, Chief Operating Officer

Cc: Kathryn Gillis, Director of Office of Accountability and Oversight
Cyprian Ejiasa, Chief Financial Officer
Jeremy Joseph, General Counsel
Edith Shine, Associate General Counsel

Date: May 11, 2015

Subject: CNCS management comments on OIG Draft Report: Performance Audit of the Corporation for National and Community Service's Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year 2014

CNCS generally concurs with the overall findings and recommendations identified by Cotton & Co. CNCS initiated its first IPERA reporting efforts in FY 2014. Many of the initiatives surrounding this effort were embarked upon for the first time and CNCS acknowledges several lessons learned. In fact, CNCS had already identified many of the noted issues in its internal review and has already begun implementing many of the recommendations.

Following are current actions underway and corrective actions being implemented by CNCS in FY 2015:

- Assess updated reporting guidance and report its results accordingly
- Incorporate IPERA susceptibility testing in its risk assessment process
- Consult a qualified statistician to update the sampling methodology plan
- Retain statistician to address deviations as they arise and validate that the ending sampling methodology achieves planned objectives
- Review sample failures and consult statistician to ensure they are considered appropriately in the sample set
- Work with CNCS staff to address improper payment reporting of sample failures caused by reporting discrepancies
- Adopted an oversight approval process to address the various calculation errors noted by Cotton & Co
- Maintain detailed work papers throughout the IPERA assessment process

- Develop matrix to document the elements tested for determining improper payments
- Conduct recovery efforts of improper payments identified in the FY 2014 IPERA assessment
- Develop reporting tools for high-dollar overpayments
- Assess feasibility of a payment recapture audit program.

CNCS continues to work diligently to address these concerns and make overall improvements to its IPERA assessment.