

# Comments of the Honorable Deborah J. Jeffrey Inspector General, Corporation for National and Community Service Regarding FY 2020 Funding Level for CNCS-OIG

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An Inspector General may submit a separate message to Congress when “the Inspector General concludes that the budget submitted by the President would substantially inhibit the Inspector General from performing the duties of the office.” Inspector General Act of 1978, as amended, Section 6(f)(3)(E). The President’s Fiscal Year (FY) 2020 Budget contemplates eliminating the Corporation for National and Community Service (CNCS). It therefore does not address the operational needs of the Office of Inspector General (CNCS-OIG) if CNCS continues to operate. This message outlines the resources necessary to sustain effective oversight of CNCS as a going concern.

For FY 2020, CNCS-OIG requests an operating budget of \$7.0 million. This \$1.25 million increase over FY 2019 levels would restore CNCS-OIG to slightly above the level of support that this Office enjoyed in FY 2009.<sup>1</sup> Funding at the current \$5.75 million level would substantially inhibit our oversight.

The additional resources are necessary to protect the taxpayers’ billion-dollar investment in national service at a critical juncture. ***CNCS has begun a restructuring that will change dramatically the way in which it manages grants. That restructuring carries risks that will require a significant increase in our oversight for the foreseeable future. At the same time, close oversight will be needed to ensure that CNCS corrects legacy challenges in the infrastructure necessary to support effective grant management.***

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<sup>1</sup> CNCS-OIG’s enacted appropriation history is as follows:

Fiscal Year	Enacted Budget (in millions)
2009	\$6.5 million
2010	\$7.7 million
2011	\$7.68 million
2012	\$3.99 million
2013	\$3.78 million
2014	\$5.0 million
2015	\$5.25 million
2016	\$5.25 million
2017	\$5.75 million
2018	\$5.75 million

In FY 2012, CNCS-OIG experienced a devastating (and unexplained) 49 percent funding cut, which forced the Office to lay off most of our auditors and investigators. The Office continues gradually to rebuild the capabilities lost as a result.

## Mission and Recent Accomplishments

CNCS-OIG promotes efficiency and effectiveness in CNCS programs and holds CNCS officials and grantees accountable for misconduct. We strengthen CNCS by conducting audits and reviews to identify wasteful spending and mismanagement, investigating fraud and wrongdoing, recommending appropriate policies and best practices, and taking other steps to prevent and detect fraud, waste, and inefficiencies in CNCS programs and operations. Our recent work has been instrumental in:

- Identifying systemic failures by grantees to complete the criminal history checks required by law to exclude convicted murderers and sex offenders from national service positions, and persuading CNCS to outsource this critical process to qualified vendors;<sup>2</sup>
- Finding \$100 million of excess funds in the National Service Trust, due to flaws in financial management and financial reporting, correction of which reduced the Trust's liabilities and obligations and makes those funds available to pay future national service education awards;
- Establishing ongoing partnerships with grant fraud prosecutors in multiple United States Attorney's Offices to pursue vigorous civil fraud recoveries and penalties for misspent funds;
- Discovering weaknesses in the National Civilian Community Corps' multi-million-dollar member recruitment contract that jeopardized the success of the program, causing NCCC to end the contract and perform an improved procurement; and
- Finding grantee fraud and other malfeasance and mismanagement that led CNCS to terminate grants and redirect the funding to other, more responsible grantees.

We appreciate the support that CNCS-OIG has received from the Corporation's leadership and from the Congress for this important oversight work, including in multiple oversight hearings in the past three years.<sup>3</sup>

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<sup>2</sup> CNCS-OIG has served as a resource to other Federal agencies that face similar issues. In FY 2020, we will conduct a targeted review of those grantees that have chosen not to use the vendors to conduct their criminal history checks and will consider whether to examine the effectiveness of the vendors.

<sup>3</sup> Committee on Education and the Workforce, Subcommittee on Education and Workforce Training, United States House of Representatives. "[Demanding Accountability at the Corporation for National and Community Service](#)" on May 24, 2016, "[Examining the Corporation for National and Community Service and Its Failed Oversight of Taxpayer Dollars](#)" on March 28, 2017 and "[Fraud, Mismanagement, Non-Compliance, and Safety: The History of Failures of the Corporation for National and Community Service](#)" on April 17, 2018.

## **The high risks associated with the Transformation and Sustainability Plan require additional oversight.**

CNCS's leaders have begun an ambitious Transformation and Sustainability Plan that will reorganize the Corporation and alter many of its core business practices, including grantmaking and grant management. Aspects of this plan present heightened risks of fraud, waste and mismanagement that warrant particularly close oversight. The restructuring of grant management will involve:

1. Consolidation of 46 field offices and certain centralized operations for grant management and program management into eight regional hubs. This will likely lead to substantial turnover in staff and career leaders and consequent loss of institutional knowledge about CNCS program operations, risks, requirements, and grantees;
2. Dramatic expansion in the responsibilities of field staff, who will for the first time be responsible for assisting grantees with both programmatic and financial operations across all CNCS grant programs with differing purposes and legal requirements, with training as yet undeveloped;
3. Monitoring of more than 3,300 active grants to be performed by a new Compliance Monitoring office based at headquarters, whose responsibilities, staffing and strategies have not yet been determined;
4. Grant monitoring based on a grant risk model that is not yet complete or validated and which does not have individual monitoring activities aligned to specific risks;
5. Reduction in onsite and related grant monitoring in FY 2019;
6. Extended periods of full-time telework for field staff during the transition;
7. Planned simplification of the grant application substance and process, with content not yet determined; and
8. Pressure to implement these changes by the end of FY 2020, limiting planning, issue spotting and risk mitigation.

This reorganization will foreseeably disrupt grant monitoring and will leave CNCS especially vulnerable to fraud and waste. The changes will also make it more difficult for CNCS itself to prevent, mitigate or promptly detect and correct internal and external abuses. Moreover, due

to existing limitations in internal controls, grant risk management and information technology support, CNCS lacks a reliable infrastructure to support the transition or compensate for the additional risks.

In this heightened risk environment, greater independent oversight is necessary to protect the integrity of CNCS's programs and the communities that they serve. This must include not only more audits and investigations but innovative oversight activities that produce quick results and allow CNCS to make improvements during the restructuring.

CNCS's leaders have stated that the future of national service depends on the effectiveness of the transformation plan, including the restructuring of grant management and the operation of the new regional hubs. The compressed timetable to implement these fundamental changes lends special urgency to the need for robust oversight.

### **Legacy issues that impair CNCS's current and future operations require ongoing oversight.**

CNCS also continues to grapple with many unresolved legacy issues that may impede or threaten the effectiveness of its restructuring.<sup>4</sup> I mention only a few of them.

***The Corporation's information technology (IT) infrastructure for grant management is outdated and unable to meet current grant management business needs.***<sup>5</sup> An infusion of \$30 million since FY 2014 to develop a modern, risk-based IT system capable of data analytics and automated monitoring procedures did not produce the promised results, and CNCS ended that contract. Consequently, CNCS currently lacks the analytical tools required for cost-effective monitoring of its grant portfolio. The Corporation has now committed another \$3.9 million, hired a different contractor to create a "minimum viable product" and returned to the drawing board; it will not have an operable grant management system at the end of this contract in October 2019. Taken together, the cost of these efforts and the track record to date demonstrate the need for close oversight of this mission-critical project.

Despite investment and effort, ***CNCS's cybersecurity and privacy protections remain ineffective.*** The Corporation has made little progress and does not have a comprehensive strategy to achieve effective IT security. The lack of cybersecurity places at risk not only CNCS's operations but also the personally identifiable information of more than 1 million AmeriCorps alumni. In the FY 2018 evaluation of information security and privacy, CNCS-OIG offered 25 recommendations to help the Corporation move forward on each cybersecurity element.

CNCS's financial management and financial reporting have so deteriorated that, ***for the past two years, CNCS has not produced auditable financial statements.*** Independent auditors in FY 2018

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<sup>4</sup> Some of them are included as objectives of the transformation plan.

<sup>5</sup> This was the conclusion reached in 2014 of a study conducted by MITRE Corporation. See also [CNCS-OIG FY 2017 Management Challenges](#).

found ten material weaknesses and two significant deficiencies.<sup>6</sup> Without our independent oversight, CNCS, the Congress and the public would remain unaware of these substantial problems. The Corporation has historically relied on outside auditors, rather than its own staff and internal controls, to prevent and detect basic flaws in its financial management and to suggest how they should be remedied. CNCS's lack of progress to date on these issues establishes the need for careful and expert monitoring of corrective actions. As of this writing, CNCS has yet to submit a corrective action plan for these critical problems.

***CNCS has not yet completed and tested a grant risk model that can inform its core business,*** from grant-making, to grant monitoring, to grant closeout. Both our Office and the Government Accountability Office have found severe inadequacies in CNCS's grant risk assessments, leading to misdirection of monitoring resources and failure to detect problems in a timely fashion.<sup>7</sup> CNCS has worked intermittently on this project since 2014, but that work has been interrupted by other priorities. Even with recent progress, we do not have a target date for CNCS to finalize, test and validate its risk model and incorporate it into grantmaking and management. CNCS-OIG has worked closely with the Chief Risk Officer on this mission-critical priority, and we anticipate that close oversight will assist in moving this project forward.

Similarly, ***CNCS does not have a menu of monitoring activities that correspond to specific risks.*** An accurate grant risk model and risk-aligned monitoring are essential to make prudent and efficient use of the taxpayers' money, to identify problems before they become crises and to intervene early when a grantee veers off-course.<sup>8</sup> In order to be effective, CNCS's grant management IT structure must likewise incorporate a valid risk model and risk-aligned monitoring activities. CNCS's adoption of a new grant monitoring structure, new personnel and division of responsibilities, and as yet undetermined monitoring methods counsels in favor of particularly close oversight of this key function.

## **Additional oversight activities to be undertaken with requested funding**

With the additional \$1.25 million above our FY 2018 appropriation, CNCS-OIG will develop an Inspection and Evaluation (I&E) capability to assess in real time the implementation of CNCS's restructuring, other aspects of the Transformation Plan and their effects on the core business, grant management and monitoring. This will enable the Corporation to act quickly during the transition to adjust course as needed. And, to deter fraud during and after this transition period,

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<sup>6</sup> [CNCS-OIG Report No. 19-01, Audit of the Corporation for National and Community Service's \(CNCS\) Fiscal Year 2018 Consolidated Financial Statements](#). Four of the material weaknesses recurred from the prior year, and many related to the largest and most consequential lines in the Financial Statements. The auditors were forced to disclaim an opinion, the worst possible outcome of a financial statement audit.

<sup>7</sup> [CNCS-OIG FY 2017 Management Challenges](#) and [GAO Report No. GAO-17-90, Grants Management: Monitoring Efforts by Corporation for National and Community Service Could Be Improved](#).

<sup>8</sup> [CNCS-OIG FY 2017 Management Challenges](#) and [CNCS-OIG Special Review: Prohibited Activities: Missed Opportunities, Red Flags Ignored and Next Steps to Improve Grants Management at CNCS](#).

we will develop new relationships with the United States Attorney's Offices in each new region to refer fraud cases to Federal civil and criminal prosecutors, as well as using available administrative remedies to protect Federal funds from fraud.

To meet this increased scope, CNCS-OIG will engage the necessary evaluators, as well as an additional auditor, investigator and data analyst. We will also increase travel funds necessary to provide more direct oversight of CNCS grantees and subgrantees throughout the country. These measures will assist us in identifying risk, addressing it proactively and being especially nimble to meet the expected and unanticipated challenges posed by the restructuring.

At the same time, CNCS-OIG will continue to protect our national service programs by:

- Auditing and reviewing high-risk CNCS activities and selected high-risk grantees, to identify problematic practices, recommend improvements and determine costs that should be recovered;
- Pursuing an active caseload of civil, criminal and administrative matters to hold individuals and organizations accountable and to recover misspent funds;
- Maintaining a robust hotline operation to receive and process allegations of fraud, waste and mismanagement by CNCS, grantees or contractors;
- Performing the mandatory audits and evaluations of CNCS's financial statements, cybersecurity, improper payments and compliance with the DATA Act, each of which has recently uncovered serious flaws or fundamental noncompliance;
- Maintaining a Whistleblower Coordinator to educate staff about prohibitions on retaliation and the rights and remedies of staff who have been subjected to retaliation, and to conduct retaliation investigations of allegations concerning grantee and contractor staff;
- Increasing outreach to regional staff, grantees and subgrantees concerning whistleblower protection so that those with first-hand knowledge of fraud, waste and abuse involving CNCS funds can easily and effectively report those allegations to our Office.
- Recommending revisions to CNCS policies, procedures, regulations and conducting training, focusing on strengthening internal controls to prevent and detect waste, fraud and abuse; and

- Recommending suspensions and debarments to protect the integrity of CNCS programs.

Thank you for considering these comments and for your consistent and strong support for the important mission of CNCS-OIG. Investing in our oversight curbs waste, promotes better and more efficient government and protects the integrity of national service. We therefore respectfully ask that Congress fund CNCS-OIG at a level of \$7.0 million in FY 2020.