

CORPORATION
FOR NATIONAL
 SERVICE

May 31, 2001

The Honorable Richard Cheney
President of the Senate
Washington, DC 20510

The Honorable Dennis Hastert
Speaker of the House of Representatives
The Capitol
Washington, DC 20515

Dear Mr. Vice President and Mr. Speaker,

Enclosed is the Inspector General's Semi-Annual Report to the Congress along with the Corporation's Report on Final Action, as required under Section 5 of the Inspector General Act.

These reports cover the six-month period from October 1, 2000 through March 31, 2001. During this period, the Corporation made management decisions on 38 audits and completed final action on or closed 18 audits. Subsequent to this period, the Corporation made final management decisions on two additional audits.

Financial Management and Reporting. As the semi-annual report notes, the Inspector General issued the audit of the Corporation's fiscal 2000 financial statements during this reporting period. The Corporation is pleased that it received an unqualified opinion and is also pleased that the report recognizes many improvements in internal controls. Testing of compliance with laws and regulations disclosed no instances of noncompliance, and only one area of Corporation operations remains materially weak - grants management. We are proud of these accomplishments, and are continuing our work to strengthen grants management. Most importantly, we are designing and implementing a single grants management system and revising and strengthening our A-133 policies and procedures.

State Commission Surveys. The semi-annual report raises issues with the Corporation's decisions related to state commission monitoring of subgrantees. The Corporation reiterates that it has several processes and requirements in place to ensure state commissions monitor their subgrantees appropriately. We require state commissions to use the OMB Circulars common across the grant programs of the Federal government for administering and monitoring their subgrantees (OMB Circulars A-102; A-110; A-122; A-133; A-21 and A-87). In addition, at the end of 1999, the Corporation established additional guidance for its state commissions entitled *State Administrative Standards*. In three specific standards, the Corporation further delineates the state commission's monitoring responsibilities related to its subgrantees. These standards indicate that, among other strategies, the commissions must employ a risk-based monitoring strategy, conduct monitoring site visits to subgrantees, provide feedback from site visits and assure that subgrantees remedy deficiencies within appropriate timeframes.



The OIG recommends that the Corporation revise its guidance on subgrantee monitoring to specify minimum procedures to be performed. The Corporation has established minimum thresholds for the monitoring and oversight process consistent with and more extensive than the federal-wide standards issued by OMB. We advocate a risk-based approach that allows commissions to consider experience, organizational history, past performance and the factors recited above. However, we believe the implementation of procedures recommended by the OIG would be contradictory to OMB regulations, and control and restrict the current flexibility of a state commission to assess its programs and promulgate a monitoring plan based on risk.

It is worth noting that OMB Circular A-133 addresses risk in pass-through entities' (e.g., state commissions) monitoring as "factors such as size of the award, percentage of total program's funds, complexity of the compliance requirements may influence the extent of monitoring procedures." The Circular goes on to state that "Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed-upon procedures for certain aspects of subrecipient activities, such as eligibility requirements, reviewing the results of single or program-specific audits." This is the approach taken by the Corporation.

Reported Final Action Issues. The OIG semi-annual report also notes that OIG disagrees with Corporation management's decision to close a number of audit reports, noting seven recommendations that the OIG considers open. The Corporation closed the audits containing most of those recommendations because they repeat in more recent audits rather than double counting them. We are tracking and resolving 5 of the 7 listed recommendations through more recent audits. Two of the recommendations the OIG listed are contained in audit report 00-38 which the Corporation has not closed.

Decisions Related to Audits of Corporation Contracts. The OIG indicates in its report that it did not concur with Corporation decisions on contract audits because the management decision did not resolve the questioned costs findings. The Corporation did not determine the amount of disallowed costs in the management decision. However, the management decision describes in detail how we plan to render a final decision on the allowability of questioned costs. A management decision cannot incorporate a final decision on the allowability of questioned costs under a contract if an equitable adjustment is needed in the contract terms or additional auditing is required. We informed the OIG in our management decisions that additional auditing or other contract actions were required prior to rendering a final decision that would be sustainable upon appeal.

In making our final decision on the allowability of direct and indirect costs, we use the cost and payment guidance in the Federal Acquisition Regulation (FAR). During the audit resolution process, we verify the allowability of direct costs, indirect rates, and fees, using the applicable criteria in the FAR, Cost Accounting Standards (CAS), and the revised terms of the contract, if any. All of these actions need to be performed prior to reaching a final decision on the allowability of costs and fees under our contracts. Any unallowable costs that are sustained by the contracting officer during our review will be disallowed and reported to the OIG in a final resolution memorandum.

Status of Recommendations on Corporation Management Issues. The Corporation has made substantial progress in addressing recommendations made by the OIG. However, Table V in the semi-annual report does not reflect status reports provided to the OIG by the Corporation during the reporting period on corrective action completed related to the recommendations, nor does it reflect recommendations that close because they repeat in more recent audits. In its audit resolution system, the Corporation records 479 recommendations made by the OIG in the audit reports listed in Table V. Of these recommendations, the Corporation has corrected and closed 388 recommendations or about 80 per cent, and is still working on 91 recommendations. Of the recommendations in this latter category, most are related to audits issued in fiscal years 2000 and 2001. The enclosed Table IV provides detailed information on the Corporation's progress related to management recommendations.

Audit Resolution Processes. The Corporation has put in place an audit resolution system and has a detailed tracking system that records each review made by the OIG, and its final disposition. The Inspector General is concerned regarding the number of recommendations and the dollar amount of questioned costs that remain unresolved after one year. However, in most cases, as described above, the unresolved questioned costs relate to contract audits that require additional auditing work and review of incurred cost submissions from contractors before the Corporation can determine which costs to allow and disallow. In addition, the OIG records of unresolved recommendations include recommendations that repeat in future audits. As already noted, the Corporation closes recommendations that repeat, tracks them in current audits and appropriately notes this practice in the tracking system. Table IV in the Corporation's response describes Corporation actions related to those management recommendations.

Overall, the Corporation has shown, and continues to show good results in management improvements. Management controls are stronger, improvements have been and are being made in infrastructure, and major technology and systems work has been successfully implemented and more is underway. The Corporation has established its management priorities and is aggressively working to implement those priorities within the resources available.

We are sending copies of this semi-annual report to interested Congressional committees, the Office of Management and Budget, and the Corporation's Board of Directors. We will also make copies available to others on request.

If you have any questions concerning these reports, please contact me or Luise Jordan, the Corporation's Inspector General.

Sincerely,



Wendy Zenker
Acting Chief Executive Officer

TABLE I

ACTION TAKEN ON AUDIT REPORTS
(for the Period October 1, 2000 through March 31, 2001)

	<u>Number of Reports</u>	<u>Disallowed Costs (\$000)</u>
A. Audit reports with final action not taken by the commencement of the reporting period October 1, 1998.	51	
B. Audit reports issued by the OIG during the period	13	
C. Audit reports for which final action was taken during the reporting period	18	
1. Recoveries		
(a) Collections and offsets	7	\$171
(b) Property in lieu of cash		
(c) Other (reduction of questioned costs)		
2. Write-offs	0	
3. Audits with no disallowed costs	11	
D. Audit reports for which final action was not taken by the end of the reporting period. ¹	46	
E. Additional audit reports for which management decisions were made during the six-month reporting period and for which final action is underway. ²	29	

¹ This includes 33 audits for which final action is not overdue.

² Management decisions on 14 of the remaining 17 audits were made in previous reporting periods or are not yet due.

TABLE II
AUDITS WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE
(for the period October 1, 2000 through March 31, 2001)

	<u>Number of Audit Reports</u>	<u>Dollar value (\$000s)</u>
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period.	0	-
B. Audits which were issued during the period	0	-
C. Total audit reports on which management decisions were made during the period.	0	-
D. Audit reports pending action during the period	0	-
E. Audit reports for which final action was taken during the period	0	-
1. Value of recommendations that were completed	0	-
2. Value of recommendations that management concluded should not or could not be implemented or completed	0	0
3. Total of 1 and 2	0	-
F. Audit reports for which no management decisions were made during the reporting period	0	0

TABLE III

**STATUS OF AUDIT REPORTS WITH MANAGEMENT DECISIONS THAT HAD NO FINAL ACTION WITHIN ONE YEAR OF THE ISSUANCE OF THE REPORT
(As of May 22, 2001)**

<u>Audit Number</u>	<u>Date Issued</u>	<u>Title</u>	<u>Disallowed Costs</u>	<u>Status of Action/Reason No Final Action Was Taken</u>
98-02	4/27/98	Review of Pre-award Financial Assessment of Grant Applications	N/A	One recommendation remains open on this audit – to revise grants policies and procedures related to pre-award financial assessment. Revised polices and procedures are drafted and under review within the CFO office for issuance in June.
98-23	7/8/98	Auditability Assessment of the Corporation's FY97 Statement of Financial Position	N/A	The Corporation closed this audit because the remaining open recommendations repeat and are being tracked through the FY2000 audit.
99-01	10/9/98	Audit of the Corporation's FY97 Statement of Financial Position	N/A	The Corporation closed this audit because the remaining open recommendations repeat and are being tracked through the FY1999 report on internal controls (00-38).
99-02	11/17/98	Recommended Improvements to the Corporation's Internal Controls (Management Letter)	N/A	The Corporation completed corrective action on this audit and reported final action complete to the OIG on June 30, 2000.
99-04	1/22/99	Audit of Congressional Hunger Center Cooperative Agreement	\$111,351	In appeal.
99-05	2/26/00	Evaluation of the Corporation's Monitoring and Oversight of Cooperative Agreement Awarded to Congressional Hunger Center	0	As of 3/31/01, 4 of the 5 recommendations were closed. The final recommendation is being reassessed for effectiveness and revised for inclusion in CFO grant policies on financial monitoring of grantees.
99-09	5/6/99	Audit of Corporation Contracts with Biopherics, Inc	\$739,458	The Corporation must complete incurred cost audits for fiscal years 1996-1998 on this contract before final action can be completed. The review will be completed by January 30, 2002.
99-10	8/2/99	Audit of Corporation Contracts with TvT, Inc.	\$294,094	In Appeal. The Office of General Counsel is reviewing a recommendation to refer this appeal to the Armed Forces Board of Contract Appeals.

99-12	4/6/99	Audit of the Corporation's FY 1998 Statement of Financial Position	N/A	The Corporation completed corrective action on the audit on November 13, 2000, after the final open recommendation was resolved.
99-15	9/14/99	Audit of Corporation's Oversight and Monitoring of the Health Benefits Programs	N/A	The Corporation issued its Management Decision on this audit on December 22, 2000. As of May 20, 2001, all but one corrective action had been completed. The final corrective action will be completed when a contract is in place for outside expertise to assist in performing technical analysis of health benefits.
99-18	8/27/99	Audit of Corporation Contracts with GS Tech, Inc	\$50,850	The Corporation issued its Management Decision on this audit on November 12, 2000. Additional auditing is required to audit costs through 2/20/00 that were not reviewed during the OIG audit. Estimated completion date is March 30, 2002.
00-01	3/31/00	Audit of the Corporation's FY 1999 Financial Statements	N/A	The Corporation closed this audit on April 4, 2001, when the IG issued the audit of the FY 2000 financial statements. The remaining open recommendations in this 1999 audit are repeated in the 2000 audit and are being tracked there.
00-02	11/30/99	Audit of the Corporation's Contract with Aguirre Int'l.	TBD	During the course of audit resolution, Corporation staff found errors in the allocation of indirect cost rates that needed to be corrected by the contractor's cognizant agency, U.S. AID. AID has elected not to do so due to budget constraints. Therefore, the Corporation must perform an incurred cost audit for fiscal 1998 to determine the allowable indirect costs. Expected completion is March 30, 2002.
00-04	12/14/99	Evaluation of the Corporation's Oversight and Monitoring of its cooperative agreement with the National Association of Child Care Resource Referral Assns.	N/A	The Corporation issued its Management Decision on the audit on May 15, 2001. Corrective action will be completed by August 2001 when a final indirect cost rate is approved.
00-09	2/09/00	Pre-audit Survey of the Tennessee Commission	N/A	The Corporation issued its Management Decision on March 30, 2001. Final action will be completed as a result of the Administrative Standards Review scheduled for July 2001.
00-14	3/28/00	Pre-audit Survey of the Pennsylvania Commission on Community Service	N/A	The Corporation issued its Management Decision on March 30, 2001. The Corporation conducted the Administrative Standards Review in April 2001. Final corrective action should be complete by June 30, 2001.

00-16	3/27/00	Pre-audit Survey of the West Virginia Commission on Community Service	N/A	The Corporation issued its Management Decision on March 30, 2001. Final corrective action has been completed on all but one finding. The remaining open finding will be corrected upon review of the revised A-133 follow-up procedure.
00-17	3/28/00	Pre-audit Survey of the Missouri Commission on Community Service	N/A	The Corporation issued its Management Decision on March 30, 2001. Final corrective action has been completed on two of the findings. Final corrective action should be completed on the remaining open findings during the site visit scheduled for June 2001.
00-18	3/24/00	Pre-audit Survey of the Virginia Commission on Community Service	N/A	The Corporation issued its Management Decision on March 30, 2001. Final corrective action has been completed on all but one finding. Final corrective action on the remaining finding will be completed by June 30, 2001.
00-19	2/9/00	Pre-audit Survey of the New Hampshire Commission on Community Service	N/A	The Corporation issued its Management Decision on March 30, 2001. Final corrective action has been completed on five of the findings. Final corrective action should be completed during the Administrative Standards review scheduled for August 2001.
00-21	1/6/00	Audit of the Corporation's Contract with Outsourced Administrative Systems	TBD	The Corporation's Management Decision on this audit indicated that corrective action could not be completed without an incurred cost audit for 1994-1998. The incurred cost submission is now under review and we anticipate completion of the audit by October 30, 2001.

TABLE IV

**Management Response to Status of Recommendations on
Corporation Management Issues
As of May 21, 2001**

Category and Report	Number of Recs. In Report	Number Closed	Number Open	Comments
<i>Financial Management</i>				
Audit of the Corporation's FY2000 Financial Statements, Audit Report 01-01	23	0	23	The Corporation received the audit in March 2001 and will make its Management Decision by August, 2001
Fiscal Year 1999 Management Letter, Audit Report 00-38	31 ¹	26	5	Management Decision issued to OIG on 10/16/00 described corrective action completed.
Review of the Corporation's Action Plan, Audit Report 00-13	22 ²	22	0	The Corporation closed this audit with the issuance of the unqualified opinion on its FY2000 financial statements.
Audit of the Corporation's FY1999 Financial Statements, Audit Report 00-01	27 ³	27	0	The Corporation closed the audit on 4/4/2001, with the issuance of the FY 2000 financial statements because the remaining 2 open recommendations are repeated in and being tracked through the FY2000 audit.
Audit of the Corporation's FY1998 Financial Statements and Management Letter, Audit Reports 99-12 and 99-24	57	57	0	The Corporation reported corrective action complete on Audit Report 99-12 in November 2000 and closed Audit Report 99-24 in March 2001 because the remaining open recommendations are repeated in and being tracked through the FY2000 audit.

¹ OIG Table V, page 22, lists 36 as the number of recommendations in this report. Corporation management tracks the recommendations by the alpha-numeric designation in the OIG Report.

² OIG Table V, page 21, lists 53 recommendations. In the last OIG Semi-annual Report, Table V listed 33 recommendations. The IG has not sent any clarification to Corporation management identifying the 20 additional recommendations. Therefore, until the Corporation receives clarification, it will continue to track the 22 recommendations identified in cooperation with, and agreed to by, the OIG in a 12/7/99 meeting.

³ OIG Table V, page 22, lists 30 as the number of recommendations in this report.

<i>Financial Management, Con't.</i>				
Audit of the Corporation's FY1997 Statement of Financial Position, Audit Report 99-01	2	2	0	Status Report issued to OIG on 6/30/00 closed this audit. See Table III.
Recommended Improvements to the Corporation's Internal Controls, Audit Report 99-02	12	12	0	Status Report issued to OIG on 6/30/00 closed this audit. See Table III.
Auditability Survey and Follow-up Reports, Audit Reports, 96-38, 97-09, 97-29 and 98-23.	141	141	0	Status Report issued to OIG on 6/30/00 closed this audit. See Table III
<i>Procurement & Contract Mngt.⁴</i>				
Audit of Corporation Contracts with Hi-Tech International, Inc., Audit Report 00-23	3	3	0	The Management Decision, issued to OIG on 2/16/01, reported corrective action complete on internal control and compliance issues. See Table III.
Audit of Corporation Contracts with Encore Management, Audit Report 00-22	6	6	0	The Proposed Management Decision, submitted to OIG on 3/07/01, reported corrective action complete on internal control and compliance issues.
Audit of Corporation Contract #95-43-1005 with OASYS, Audit Report 00-21	20	2	18	Management Decision issued on 2/16/01 reported corrective action completed on 2 of 20 recommendations. Corrective action cannot be completed on the remaining recommendations until an incurred cost audit is completed. See Table III.
Follow-up Audit of the Corporation's Procurement Operations, Audit Report 00-12	25	9	16	Management Decision issued on 5/18/01 reported corrective action completed on 9 of 25 recommendations.
Audit of Corporation Contract #94-004 & 97-743-1006 with Aguirre International, Audit Report 00-02	2	1	1	Management Decision issued on 11/20/00 reported corrective action completed on 1 of the 2 internal control and compliance recommendations.

⁴ The management recommendations to the Corporation in most of these audits relate to internal control and compliance findings in the contractor's systems, not Corporation operational issues. The Corporation addressed those findings and reported corrective action completed on them in its Management Decisions, but the audits remain open pending resolution of questioned costs. See Table III for more information.

Audit of Corporation Contract #97-743-1001 with GS Tech, Audit Report 99-18	3	3	0	Management Decision, issued to OIG on 11/21/00, reported corrective action completed on management recommendations. The audit itself remains open pending a decision on an appeal related to cost findings. See Table III.
Audit of Corporation Contract #95-001 with TvT Associates, Audit Report 99-10	2	2	0	Management Decision, issued to OIG on 11/21/00, reported corrective action completed on the management recommendations. The audit itself remains open pending a decision on an appeal related to cost findings. See Table III.
Audit of Corporation Contract #95-743-1009 with Biospherics, Audit Report 99-09	3	3	0	Management Decision, issued to OIG on 11/20/00 reported that the Corporation had closed the management recommendations because the contract had expired. The findings related to costs remain open pending completion of an incurred cost audit. See Table III.
Audit of Corporation Oversight of the Health Benefits Program, Audit Report 99-15	12	8	4	Management Decision issued to OIG on 10/5/00 reported corrective action complete on 8 of 12 recommendations.
Audit of the Corporation's Procurement Policies and Procedures, Audit Rpt. 98-24	26	26	0	Notice of Final Action issued to OIG on 1/27/00 reported all corrective action complete.
<i>Grant Oversight and Monitoring</i>				
State Commission Pre-Audit Surveys Issued during this Period	4	3	1	Recommendations in each case require follow-up through the Corporation's audit resolution and the Commission Standards Review processes. Reviews scheduled over 3 years.
Audit of the Corporation's Grants with the Delaware Commission, Audit Report 01-03.	2	0	2	The Management Decision on this audit is due in July 2001 and will address the recommendations.
Review of the Corporation's Review of Single Audit Reports, Audit Report 01-14	10	0	10	The Management Decision on this audit is due in August 2001 and will address the recommendations.

Audit of Corporation Grants to Health Association of Niagara County, Audit Report 00-05	2	2	0	Management Decision issued on 10/5/00 reported corrective action complete.
Evaluation of the Corporation's Oversight and Monitoring of NACCRRA, Audit Report 00-04	18	8	10	Management Decision issued on 5/15/01 reported corrective action complete on 8 recommendations. Remaining corrective action will be completed by August 2001 when a new indirect cost rate is in place.
<i>Grantee Oversight, Con't.</i>				
Assessment of AmeriCorps Service Hour Reporting, Audit Report 98-19	18	18	0	Notice of Final Action, issued to OIG on 1/21/00, reported all corrective action completed.
Review of Corporation Pre-Award Financial Assessment of Grant Applicants, Audit Report 98-02	3	2	1	Management Decision issued on 9/15/99 reported 2 of 3 recommendations closed.
<i>Audit Resolution</i>				
OIG FY97 Semiannual Report I, issued April 30, 1997	5	5	0	Corporation provided final report to OIG on 1/3/00. Audit resolution system in place and operational.
<i>TOTALS</i>	479	388	91	