

May 31, 2012

The Honorable Joseph R. Biden, Jr.
President of the Senate
The Capitol
Washington, DC 20510

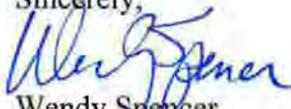
Dear Mr. Vice President:

Enclosed please find the Office of Inspector General's (OIG) Semiannual Report (SAR or Report) to Congress along with the Corporation for National and Community Service's (CNCS) Response and Report on Final Action, as required under Section 5 of the Inspector General Act. These reports cover the six-month period from October 1, 2011 through March 31, 2012.

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

If you have any questions concerning these reports, please contact Robert Velasco, Chief Operating Officer on (202) 606-6632 or Deputy Inspector General, Kenneth Bach, on (202) 606-9377.

Sincerely,



Wendy Spencer
Chief Executive Officer

Enclosures

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May 31, 2012

The Honorable John A. Boehner
Speaker of the House of Representatives
The Capitol
Washington, DC 20515

Dear Mr. Speaker:

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Sincerely,



Wendy Spencer
Chief Executive Officer

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*Agency Response to the
Office of the Inspector General's
Semiannual Report to Congress*

October 1, 2011 – March 31, 2012

Fiscal Year 2012 Semiannual Report No. 1

Corporation for National and Community Service Response to the OIG Semiannual Report and Report on Final Action

This Inspector General's (OIG) Semiannual Report to Congress (SAR) covers the six-month period from October 1, 2011 through March 31, 2012. During this period, the Corporation for National and Community Service (CNCS) made management decisions on eight audits and completed final action on or closed eight audits. Subsequent to the end of the reporting period, CNCS made one additional management decision and completed final action on two additional audits. There are no audits overdue for final action. There are four items reported in the SAR about which CNCS wishes to provide additional relevant information.

Financial Statements Audit (SAR pp. 6-7)

During this SAR reporting period, the OIG issued its report on the annual audit of CNCS's FY 2011 financial statements (Audit). That audit report contained a finding of a material weakness in CNCS's internal controls over financial reporting on the grounds that CNCS did not discover an error made by the Department of Health and Human Services in the grant expenditure data it reported to CNCS during FY 2010. HHS serves as a Federal shared service provider and processes payments to CNCS grantees. In CNCS' response to the Audit, CNCS disagreed with the OIG's conclusion that by not detecting the error in HHS reporting during FY 2010, CNCS had a material weakness in its internal controls over financial reporting. CNCS did not detect that the reported data was erroneous because the error in HHS's reporting was masked by significantly higher grant activity under the American Recovery and Reinvestment Act of 2009. CNCS discovered the error in FY 2011 as part of its routine internal control process and restated its 2010 end-of-year financial statements as a result. While the incorrect amount reported by HHS was significant, the error never created a risk that CNCS had awarded grants beyond the appropriated amounts or that individual grantees had over-expended their grants. Those critical legal requirements are monitored through other internal controls and the erroneous HHS data never threatened CNCS's ability to monitor its obligations and expenditures. The sole impact of the erroneous HHS data was to misstate the estimate of how much (in the aggregate) CNCS' grantees were going to report that they had expended on their grants as of September 30, 2010. Despite the fact that the erroneous HHS data presented no compliance risk for CNCS, we have instituted additional reviews of HHS's data to detect any such future errors.

Compelling Personal Circumstances Audit (SAR pp. 7-8)

During this reporting period, the OIG completed an audit of education awards provided to AmeriCorps members who were released from their AmeriCorps service after completing only a portion of their term of service due to compelling personal circumstances. While the OIG audit found significant weaknesses in the documentation of reasons programs awarded partial education awards, the number represents a very small portion of education awards provided to members. Only 3.05 percent of all AmeriCorps members are released from completing their terms of service for compelling personal circumstances and partial AmeriCorps Segal Education Awards given to those members represent only 2.24 percent of the total amount of all Segal

Education Awards. As noted in the Report, CNCS did not agree with the OIG's recommendation for CNCS or the state service commissions to conduct a second level of review of an individual's compelling circumstances before approving a partial education award. The Kennedy Serve America Act made it clear that the AmeriCorps programs that supervise AmeriCorps members are responsible for determining whether a member should be released for compelling personal circumstances, not the state commissions or CNCS. *See* 42 U.S.C. § 12593(c)(1)(A).

The operation and organizational costs of having AmeriCorps programs submit their determinations to a state service commission or to CNCS for a second level review is inordinately high and not cost-effective compared to the low level of risk involved. In making this decision, CNCS considered the requirements of OMB Circular A-123, which states that “[t]oo many controls can result in inefficient and ineffective government; agency managers must ensure an appropriate balance between the strength of controls and the relative risk associated with particular programs and operation.” In addition, it is the AmeriCorps programs that have the direct contact with and knowledge of the personal circumstances that give rise to member requests to be released from service for compelling reasons. The programs, therefore, are much better suited to assess whether a particular set of circumstances is in fact compelling.

Criminal History Check (SAR p. 10)

The SAR also references recommendations the OIG made to CNCS to strengthen its processes for performing the criminal history check on certain national service members and staff that is required by the National and Community Service Act. CNCS takes its responsibility to safeguard vulnerable populations very seriously and requires grantees to comply with our current Criminal History Check regulations at 45 C.F.R. §2540.203(b). CNCS is revising the regulations to address additional requirements in the Kennedy Serve America Act and to incorporate the OIG recommendations described in the SAR. CNCS submitted the final rule to OMB in April and expects to publish it following OMB review.

Review of the Welfare Reform Act in the Context of Senior Corps (SAR p. 20)

As noted in the report, the Office of Inspector General is of the view that the 1996 Welfare Reform Act, 8 U.S.S. § 1611, may be applicable to our Senior Corps programs and participants in those programs may be required to meet the citizenship and/or residency requirements of that Act. Our General Counsel has reviewed the Act thoroughly and discussed the issue with the OIG. The OIG recognizes that the authority to decide whether the Welfare Reform Act applies to Senior Corps (or any other CNCS program) rests solely with CNCS. We provided the OIG with a memo on April 27, 2012 setting forth in detail our position that the Welfare Reform Act does not apply to the Senior Corps programs.

TABLE I
ACTION TAKEN ON AUDIT REPORTS
(for the Period October 1, 2011 through March 31, 2012)

	<u>Number of Reports</u>	<u>Disallowed Costs (\$000)</u>
A. Audit reports for which final action had not been taken by the commencement of the reporting period	20	\$63
B. Audit reports issued by the OIG during the reporting period	8	\$0
C. Audit reports for which final action was taken during the reporting period	8	\$35
1. Recoveries ¹		
(a) Collections and offsets	5	\$52
(b) Property in lieu of cash	0	0
(c) Other (reduction of questioned costs)	0	0
2. Write-offs	0	0
D. Audit reports for which final action was not taken by the end of the reporting period ²	20	\$28
E. Audit reports for which management decisions were made during or prior to the six-month reporting period and for which final action is underway	6	\$63

¹ Recoveries include audits for which final action was taken in prior reporting periods and offsets reported in management decisions during the reporting period.

² Under OMB Circular A-50, final action is due on audits within one year of the date the report is issued. These audits were issued within that period and final action is not overdue.

TABLE II
REPORTS WITH RECOMMENDATIONS THAT
FUNDS BE PUT TO BETTER USE
ACTION TAKEN ON AUDIT REPORTS
(for the Period October 1, 2011 through March 31, 2012)

	<u>Number of Audit Reports</u>	<u>Dollar Value (\$000s)</u>
A. Reports for which final action had not been taken by the commencement of the reporting period	11	\$119
B. Reports for which management decisions were made during the reporting period	2	\$0
C. Reports for which final action was taken during the reporting period	2	\$114
i. Dollar value of recommendations completed		\$114
ii. Dollar value of recommendations that management has concluded should not or could not be implemented		\$113
D. Reports for which no final action had been taken by the end of the reporting period. ³	9	\$5

³ Final action is not overdue on these audits.

Table III
Reports Described in Prior Semiannual Reports Without Final Action
(for the Period October 1, 2011 through March 31, 2012)

Audit Number	Title	Date Issued	Date Due	Disallowed Cost	Status of Action/Reason No Final Action was Taken
	NONE				