



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

October 1, 2012– March 31, 2013

Fiscal Year 2013 Semiannual Report No. 1

Corporation for National and Community Service

Response to the OIG Semiannual Report

and Report on Final Action

Over the past year, the Corporation for National and Community Service (CNCS) has been working diligently to strengthen internal controls and grantee oversight. This renewed effort is safeguarding the American people's investment in our core mission of transforming lives and improving communities.

CNCS leadership is focused on integrity, accountability and transparency and is creating a culture and an infrastructure committed to those values. Within the last year alone, we have established an Office of Accountability and Oversight and hired a new Chief Financial Officer. We formed the Financial Integrity Steering Committee (FISC), a governance body that provides oversight of financial-related business processes and ensures appropriate controls over financial reporting. In addition, we are strengthening oversight of our grantees and programs. These important new accountability measures also will enhance the impact of our programs generally by reducing risk and protecting the investment in national service for taxpayers.

This Inspector General's (OIG) Semiannual Report to Congress (SAR or Report) covers the six-month period from October 1, 2012 through March 31, 2013. During this period, the Corporation for National and Community Service (CNCS) made management decisions on three audits and completed final action on or closed four audits. Subsequent to the end of the reporting period, we made one additional management decision and completed final action on one additional audit. In addition, there are facts to correct and several items reported in the SAR about which CNCS wishes to provide you with additional relevant information.

CNCS Is Moving Forward with Reviews of Its Grant Programs under the Improper Payments Elimination and Recovery Act (IPERA), (SAR p. 6)

CNCS agrees we need to assess our grants programs' susceptibility to significant levels of improper payments and, as noted by the OIG, will conduct an IPERA assessment of the AmeriCorps program in 2013. However, CNCS disagrees with the OIG assumption that the questioned costs in six grantee audits conducted in FY 2012 by the OIG predicts what the IPERA assessment will show. As the OIG notes, these problematic grantees are not representative of the CNCS grantee community. In fact, for five of the six grantees cited by the OIG, CNCS staff asked the OIG to conduct the audits because our monitoring activity indicated potential financial issues. Making Inspectors General aware of when there are financial concerns with grantees is one of the Federal government's most effective grants oversight practices. The six audits OIG referred to shows that this process is working well at CNCS, but it is not an appropriate basis to make more general conclusions about the levels of improper payments for all grantees.

Moreover, our experience with our audit resolution process (during which CNCS determines whether the costs questioned by the OIG should in fact be disallowed by CNCS as improper) has shown that not all costs questioned in OIG audits will be improper payments. Of the six audits referenced by the OIG, CNCS has draft management decisions on two with questioned costs of \$398,255. Of those questioned costs, CNCS found that \$247,718 were legitimate costs and CNCS has proposed to disallow \$150,537. Upon final disallowance these will be considered to be improper payments. Because the costs questioned in OIG audits are not a definitive indication of disallowed costs (and therefore, improper payments), CNCS has chosen to develop its IPERA assessment by conducting a random sample of payments charged to AmeriCorps cost reimbursement grants in 2013 to determine the level of susceptibility to significant levels improper payments. To complete its IPERA analysis, CNCS plans to conduct IPERA assessments of Senior Companion and Foster Grandparents grantees in FY 2014.

The OIG also states that CNCS has not yet taken advantage of the “valuable resource provided by the Department of Treasury’s Do Not Pay Business Center.” CNCS is already coordinating with the Department of the Treasury, and will begin using the Do Not Pay single point of entry soon. However, it should be noted that CNCS has long used a number of the component data sets within the new Do Not Pay database (Excluded Parties, the Central Contractor Repository, the A-133 audit clearinghouse and others) to verify grantee eligibility before making individual awards.

CNCS Has Enhanced Its Use of Single Audit (A-133) Reports; CNCS’ Review Shows That 13% of Single Audit Reports Present Significant Findings Impacting CNCS Grants (SAR p. 7-8)

CNCS understands the importance of the A-133 report in evaluating the financial and programmatic capability of its grantees and has long-standing practices in place to use the tool in evaluating financial and programmatic compliance. CNCS staff review A-133 audits for grantees and applicants every year before awarding grants, as well as each quarter for recently submitted audits, and ensure that grantees are taking necessary corrective action. We agree that CNCS needed to improve our process for documenting audit follow-up in the official grant record and take audit findings into account before making grant award decisions. CNCS revised its A-133 follow-up procedures and retrained grants staff on how to document A-133 follow-up in our electronic grants system. Beginning with the 2013 grant competitions, CNCS is using A-133 findings as part of the grant-making decisions process.

OIG refers to its recently adopted practice of providing a quarterly list to CNCS of recently issued A-133 audit reports that identify grantees with material weaknesses, significant deficiencies, or other adverse findings. CNCS reviews the A-133 audit reports when it receives the quarterly list from the OIG. This new process facilitates use of recently issued A-133 audits as part of CNCS’ oversight of grantees and is another area of collaboration with the OIG that is

very beneficial to CNCS' grant management processes. During this SAR reporting period, OIG identified 182 A-133 audit reports for CNCS to review.

The OIG asserts in the SAR that one third of the 182 Single Audit Reports it identified had "significant findings" findings that required "immediate" follow-up by CNCS. Our analysis suggests that the OIG is basing its conclusion on its review of a *summary* of findings from the audit, not on a review of the A-133 audit itself. Thus, CNCS considers the OIG's characterization to be misleading. Using audit follow-up procedures adopted by the Office of Management and Budget Single Audit Workgroup, the Council of Inspectors General for Integrity and Efficiency (CIGIE) and the Council on Financial Assistance Reform (COFAR), CNCS identified that 22 of the 182 A-133 reports OIG references in its SAR required CNCS to resolve the audit findings.

Through that process, CNCS first determined that OIG had erroneously included 11 reports in the 182 reports it identified. Of the remaining 171 (for which CNCS has oversight responsibilities), CNCS determined that 149 audits had audit findings related to parts of their operations, but that those findings were not control or compliance findings that affected either the organization's accounting of Federal grant funds in general or CNCS grants specifically. Therefore, CNCS determined that only 22 reports of the 182 reports identified by OIG included material audit findings for which CNCS, as Oversight Agency, must ensure audit findings are addressed and corrective actions are implemented. CNCS is currently working to resolve and ensure that corrective actions are completed on all 22 reports.³ In summary, a more accurate reflection of the scope of problems identified by the A-133 reports identified for review by the OIG would be to say that approximately 13%, or approximately one-eighth (not one-third) of the reports required corrective action or significant follow up by CNCS. See Attachment 1: CNCS Corrected List of A-133 Audits that Require CNCS Follow-up.

Washington State Service Commission Issues Raised in the State-Wide Single Audit Have Been Effectively Resolved Effectively (SAR p. 8)

We appreciate the OIG alerting CNCS to findings from the 2011 A-133 audit of Washington State that included two findings relating to the Washington State Commission for National and Community Service, but want to note that CNCS was already following up on these audit findings through our standard processes.

The OIG's comments in the SAR overstate the audit's findings. OIG stated that a grantee of the Washington State Commission did not conduct criminal history checks of prospective AmeriCorps members. In fact, the program being audited had actually conducted the required

³ Of these reports, CNCS identified 11 with no questioned costs but with cross-cutting findings that affect all Federal grants. The remaining 11 reports indicated five had findings and questioned costs related to CNCS programs and six had questioned costs in other Federal agency grants and cross-cutting findings that require follow-up.

criminal history checks, but it did not adequately document its review of those checks. Even the State auditor acknowledged this, saying in the audit report itself that criminal history check certifications were found “in perhaps all” member files. The State auditor asserted that copies of the original background checks were the only acceptable form of documentation per federal law. Neither the Serve America Act nor the applicable CNCS regulations specify how programs are required to document their review of criminal history checks. The program provided certification forms that demonstrated it had conducted criminal history checks which CNCS determined were acceptable documentation for that period. CNCS did not agree with the State auditor’s interpretation of CNCS’ documentation requirements and, by applying our regulations and clarifications, allowed the questioned costs. CNCS is working with the State Commission to reinforce that its ongoing monitoring of grants will provide reasonable assurance that grantees are in compliance with current documentation requirements. CNCS also confirmed that the State auditor’s follow-up on the 2011 findings during the 2012 audit demonstrated the Commission had taken effective corrective action on all findings. In addition, the actual amount of questioned costs in the audit was \$84,731 (relating to the living allowances paid to seven members). While the audit stated that the questioned costs could be statistically projected to \$600,000, CNCS later determined that almost all of the questioned cost were allowable (rendering the projected number reported by OIG moot).

CNCS Seeks Legislative Relief Regarding Criminal Background Checks (SAR p. 19)

In the SAR, the OIG asserts that CNCS is seeking to change the criminal history check requirements established in the 2009 Serve America Act (SAA) for “ease of administration” and states that under the proposed criminal history check provision, fingerprint checks would be limited to those persons who work with children. These statements are incorrect.

To clear up any confusion about the legislative change being requested, it is important to note that the proposed legislative framework was developed by CNCS based on years of experience implementing the SAA requirements, as well as consultation with the national service field and with the Federal Bureau of Investigation. In the time since the enactment of the SAA, CNCS has found that the current statutory structure is inefficient and does not even necessarily provide the protections it was intended to provide.

Under the current legislative and regulatory framework, a program working with certain vulnerable populations (children, people with disabilities and people over the age of 60) must perform a three-part criminal history check for each national service participant. By statute, the check is comprised of (1) a check of the National Sex Offender Public Registry (NSOPR); (2) a search of the state criminal registry or repository; and (3) a fingerprint-based check from the FBI which must be obtained through the state repository. Programs working with non-vulnerable populations are required to perform a two-part check comprised of the NSOPR and either the state or FBI check. The current law also provides that a program may be relieved of the special

rule for vulnerable populations if the program is precluded by state law from obtaining the required checks.

The required fingerprint based FBI check often simply cannot be obtained by CNCS programs due to limitations on access to this check imposed either by state laws, state legal interpretations, or lack of state resources. Alternatives to obtaining the checks through the state can be cost-prohibitive, and often times do not meet FBI standards for reliability. Because so many national service programs are affected by state repositories which are precluded by state law from performing fingerprint-based FBI checks, many grantees request and are granted an exception to the rule requiring them to obtain this check.

CNCS remains committed to protecting the safety of the individuals served by its programs. CNCS is confident that the proposed language reflects and codifies that commitment by focusing the most stringent checks on the most vulnerable populations, and giving CNCS the authority to adopt regulations that provide a more comprehensive and effective approach to protecting vulnerable populations. This approach also affords greater respect for individual state laws on this topic.

Finally, the proposed framework does not limit fingerprint based checks to those national service participants that work with children. Under the new framework, a grantee working with any population other than children may satisfy the requirement by performing the two-part check comprised of the National Sex Offender Public Registry check and *either* a fingerprint-based check from the FBI *or* a search of the state criminal registry or repository. Many of our grantees have chosen to obtain the fingerprint based checks instead of the state repository checks. CNCS has every reason to expect this pattern to continue even if the proposed framework is adopted.

CNCS Will Comply With New Government-Wide Conference Reporting Requirements, When They Apply (SAR p. 20)

Section 3003(a) of the Consolidated and Further Continuing Appropriations Act, 2013 (the “Act”) requires CNCS to submit an annual report to the OIG detailing certain aspects (enumerated in Section 3003(b)) of conferences for which the cost to the U.S. Government was more than \$100,000 and that are “held by” CNCS. Section 3003(c) of the Act requires CNCS to notify the OIG of the date, location and number of employees attending any conference “held by” CNCS within 15 days of that conference. CNCS intends to comply with these requirements of the Act.⁴

⁴ CNCS will also rely on the guidance issued by the Office of Government Ethics on this topic. (See LA-13-07, May 15, 2013).

**TABLE I
ACTION TAKEN ON AUDIT REPORTS**

(For the Period October 1, 2012 through March 31, 2013)

	<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	18	\$127
B. Audit reports issued by the OIG during the reporting period	3	
C. Audit reports for which final action was taken during the reporting period	7	\$36

1. Recoveries⁵

(a) Collections and offsets	3	\$55
(b) Property in lieu of cash		
(c) Other (reduction of questioned costs)		

2. Write-offs

D. Audit reports for which final action was not taken by the end of the reporting period ⁶	14	\$91
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	1	\$91

⁵ Recoveries include audits for which final action was taken in prior reporting periods and reported in management decisions during the reporting period.

⁶ Under OMB Circular A-50, final action is due on audits within one year of the date the report is issued. With the exception of one audit, these audits were issued within the one year period or the OIG has agreed to extend the time for CNCS to complete final action.

TABLE II

**REPORTS WITH RECOMMENDATIONS THAT
FUNDS BE PUT TO BETTER USE
ACTION TAKEN ON AUDIT REPORTS**

(For the Period October 1, 2012 through March 31, 2013)

	<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	6	\$51
B. Reports for which management decisions were made during the reporting period	3	\$74
C. Reports for which final action was taken during the reporting period	4	
i. Dollar value of recommendations completed		\$53
ii. Dollar value of recommendations that management has concluded should not or could not be implemented		\$77
D. Reports for which no final action had been taken by the end of the reporting period. ⁷	8	\$20

⁷ Final action is overdue on one of these audits.

Table III
Reports Described in Prior Semiannual Reports Without Final Action

(For the Period October 1, 2012 through March 31, 2013)

Audit Number	Title	Date Issued	Date Due	Disallowed Costs	Status of Action/Reason No Final Action was Taken
12-04	Compelling Personal Circumstances Education Award Audit	11/9/11	11/9/12	TBD	Requires, extensive subgrantee follow-up

CNCS CORRECTED LIST OF A-133 AUDITS THAT REQUIRE FOLLOW-UP

	<u>Number of Reports</u>
Reports identified by CNCS OIG to warrant CNCS corrective action	182
Reports erroneously included by OIG (Reports where CNCS is not Oversight Agency.)	11
Corrected total for CNCS Oversight	171
Reports with no material audit findings and no deficiencies identified as financial integrity weakness that would impact CNCS or other Federal agencies' funding.	149
Reports identified by CNCS with audit findings which CNCS must resolve,	22
i. Reports with cross-cutting findings that affect all Federal grants, but with no questioned costs	11
ii. Reports with questioned costs in CNCS grants and with cross-cutting findings that impact all grants	5
iii. Reports with questioned costs in other Federal agency grants and cross-cutting findings that impact all grants	6