

CORPORATION
FOR NATIONAL
 SERVICE

May 28, 1999

The Honorable Albert Gore, Jr.
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,

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

These reports cover the six-month period from October 1, 1998 to March 31, 1999. During this period, the Corporation made management decisions on 16 audits and completed final action on or closed 16 audits. At the end of the reporting period, the Inspector General reported that only one audit remained with an overdue management decision. Subsequent to March 31, 1999, the Corporation's decision on that audit was submitted to the Inspector General. Tables I, II, and III contain the information required by the Act regarding these audits and the status of final actions by management on audits.

The Corporation also continues to make progress to improve financial management and correct previously reported conditions. Our progress and plans are described below.

Audit of the Corporation's Fiscal Year 1998 Financial Statements, Report 99-12. For Fiscal Year 1998, the Corporation prepared, and the Inspector General audited, a full set of financial statements. The Inspector General issued an unqualified opinion on the Corporation's Statement of Financial Position and a disclaimer on the Statements of Operations and Changes in Net Position and Cash Flows. Over the past few years, the Corporation has progressed from receiving an opinion that its financial position was unauditible, to a qualified opinion, and now an unqualified opinion on the Statement of Financial Position. This was a major improvement, but we recognize that we still have work to do in order to receive an unqualified opinion on a full set of financial statements. The Corporation is implementing a comprehensive plan to correct the material weaknesses identified in the audit report. We shared that plan with Congress and are providing bi-monthly reports on our progress.



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Chief Financial Officer. On May 20, the President announced his intention to nominate Anthony Musick to be the Corporation's new Chief Financial Officer. Mr. Musick is currently serving as Deputy Chief Financial Officer at the Department of Commerce. From 1991-1998, he served at the Internal Revenue Service, and was promoted to Chief Financial Officer from his position as Director of Systems and Accounting Standards. From 1989-1991, Mr. Musick was Director of Financial Management in the Office of the Comptroller of the Currency. Mr. Musick received a B.S. degree from the University of Maryland, an M.B.A. from George Washington University, and is a Certified Public Accountant.

New Financial Management System. The Corporation is implementing a new core financial management system, "Momentum," which will modernize accounting operations, improve funds control, and provide real-time, on-line access to data. Momentum is a software package developed by a leading software manufacturer, American Management Systems (AMS). It is Year 2000 compliant, and fully compliant with the Federal Government's financial system requirements.

Management Controls. Also, in 1998, the Corporation conducted its own review of management controls. In a pilot program for FY 1998, managers of eight Corporation units completed a questionnaire to evaluate controls in the areas for which they have oversight responsibility, and made written assertions about the status of these controls and any weaknesses that needed to be addressed. Almost all of the commonly identified issues are addressed in the Action Plan, and we followed up with managers on other issues. We evaluated and revised the questionnaire, and issued the FY 1999 Management Control Plan on March 31, 1999.

The Action Plan. The Corporation's Action Plan provides information on the wide range of activities that the Corporation is undertaking to correct financial management weaknesses, strengthen Corporation management, increase the use of technology, and improve stewardship over Federal funds. The Action Plan includes 9 goals and a number of objectives within each goal: General Control Environment, National Service Trust, Financial Operations, Grants Management, Financial Systems, Financial Reporting, Information Technology – Year 2000, Information Technology, and Procurement Management.

On a bi-monthly basis, the Corporation reports to Congress on its progress in meeting the milestones identified in the Action Plan. As of the last progress report, April 21, the Corporation had completed 103 of 203 planned tasks.

An additional matter was raised by the Inspector General regarding the Federal Vacancies Reform Act and its implications for Corporation personnel serving in an acting capacity in a Presidentially-appointed position. The Corporation's Office of General Counsel (OGC)

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reviewed the Federal Vacancies Reform Act to determine its effect on currently vacant positions and concluded that there are no issues requiring action by the Corporation at this time

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 Inspector General.

Sincerely,

A handwritten signature in black ink, appearing to read "Harris Wofford". The signature is written in a cursive style with a large initial "H".

Harris Wofford

Enclosures

TABLE I

ACTION TAKEN ON AUDIT REPORTS
(for the Period October 1, 1998 through March 31, 1999)

	<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.	34	
B. Audit reports issued by the OIG during the period	8	
C. Audit reports for which final action was taken during the reporting period ¹	16	
1. Recoveries		
(a) Collections and offsets	5	\$123
(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.	26	
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E. Additional audit reports upon which management decisions were made during the six-month reporting period and for which final action is underway. ²	16	\$285

¹ This includes two audits issued in fiscal year 1999, which do not contain specific recommendations that require management decisions.

² Management decisions on nine of the remaining ten audits were made in previous reporting periods.

TABLE II
AUDITS WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE
(for the period October 1, 1998 through March 31, 1999)

	<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.	1	\$1,609
B. Audits which were issued during the period	0	0
C. Total audit reports on which management decisions were made during the period.	0	0
D. Audit reports pending action during the period	1	\$1,609
E. Audit reports for which final action was taken during the period	0	0
1. Value of recommendations that were completed	0	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	0
F. Audit reports for which no management decisions were made during the reporting period	1	\$1,609

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 March 31, 1999)**

<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>
96-01	03/05/96	Review of the New Orleans Youth Action Corps (Louisiana Commission)	\$31,300	In collection, will be referred to Department of the Treasury under our revised debt collection agreement if the grantee does not remit the disallowed costs by July 27, 1999.
96-21	03/29/96	Audit of ACORN Housing Corporation	\$16,176	Final action has subsequently been completed. Grantee has paid disallowed costs
97-02	12/23/96	Oregon Youth Conservation Corps	\$139,445	In appeal
97-27	03/10/97	Audit of the National Service Trust Fund and FY 95 & 94 Financial Statements	\$0	All remaining open recommendations in this audit report are included in the comprehensive Action Plan the Corporation is implementing to address items related to auditability. The Corporation submitted the plan to Congress on December 21, 1998 and provides bi-monthly updates on progress.
97-31	4/30/97	Recommended Improvements to the National Service Trust Fund Operations	\$0	All remaining open recommendations in this audit report are included in the comprehensive Action Plan the Corporation is implementing to address items related to auditability. The Corporation submitted the plan to Congress on December 21, 1998 and provides bi-monthly updates on progress.
98-06	1/27/98	Audit of the West Virginia Conservation and Service Corps	\$71,362	Grantee has paid disallowed costs, but confirmation that management controls are in place is still needed.
98-22	3/20/98	Summary of Results of Audits & Reviews of Grants Fiscal Years, 1995-1997	0	The Corporation reached a management decision on this audit on January 11, 1999.
98-23	7/8/98	Auditability Assessment of the Corporation's FY97 Statement of Financial Position	0	All remaining open recommendations in this audit report are included in the comprehensive Action Plan the Corporation is implementing to address items related to auditability. The Corporation submitted the plan to Congress on December 21, 1998 and provides bi-monthly updates on progress.