



## **Response to the OIG Semiannual Report and Report on Final Action**

In this SAR, the OIG highlights its views on CNCS's overall risk management. The OIG report states that CNCS has "no comprehensive risk management strategy." Since Fiscal Year 2005, the OIG's auditors have not identified CNCS's grantee monitoring as a concern.<sup>1</sup> In addition, in 2011, the OIG noted that CNCS had substantially improved its grants monitoring.<sup>2</sup> These results reflect CNCS's commitment to continuous improvement in its risk-based approaches to grants management and sound grant monitoring practices. For example, in 2012, CNCS consolidated its grantee monitoring and internal controls process under the Office of Accountability and Oversight. This office now coordinates and oversees risk management practices throughout the agency.

It is through CNCS's monitoring (as well as the monitoring conducted by intermediary grantees) that staff identifies high-risk programs that are referred to the OIG for audits. In fact, CNCS identified three of the grantees highlighted in this SAR.<sup>3</sup> The fact that high-risk grantees are being identified through its routine business practices—and that the underlying conditions at these grantees are being confirmed in OIG audits—demonstrates that CNCS has assessed and is managing the risks associated with its programs appropriately.

Several statements in the SAR suggest that individual instances of significant noncompliance by a CNCS grantee are evidence that CNCS lacks any sort of effective risk management. This is inconsistent with OMB's acknowledgement that Federal agencies would be wasting valuable resources if they attempted to prevent every possible error within their programs and operations. Effective risk management minimizes—not eliminates-- risk by using a cost-benefit approach to employ limited resources and time to ensure compliance on the broad range of grantee requirements.

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<sup>1</sup> For Fiscal Years 2001 through 2005, the financial statement auditors stated that CNCS's grantee monitoring was a significant and ongoing issue. However, the OIG's financial statement audits in Fiscal Year 2006 considered the issues closed and OIG's auditors have not raised grantee monitoring as an issue in the last 7 years.

<sup>2</sup> OIG Report 11-04, Evaluation of Grant Monitoring by the Corporation for National and Community Service.

<sup>3</sup> These grantees are Atlantic Human Resources, Family Services of Central Massachusetts, and the Penquis Community Action Program.

CNCS's actions reflect the principal framework for achieving effective risk management that Congress established.<sup>4</sup> Office of Management and Budget (OMB) Circular A-123 implements the FMFIA and points out that management has the best understanding of the agency, its associated risks, and the controls in place to mitigate risk. The Circular specifically states:

Federal managers must carefully consider the appropriate balance between controls and risk in their programs and operations. Too many controls can result in inefficient and ineffective government.....The benefits of controls should outweigh the cost.

The FMFIA and Circular A-123 are clear that risk management in the Federal government cannot--and should not attempt to--guarantee the absence of waste, fraud, and mismanagement.

The information below responds to certain overstatements or out of context comments in this SAR to ensure the record is complete.

- **CNCS Risk Management and Fixed Amount Grants, page 5.** The OIG suggests that CNCS did not recognize the risks of fixed amount grants before we expanded our use of them. CNCS's existing risk management assessment criteria apply to both fixed amount grants and cost-reimbursement grants with one exception; under fixed amount grants grantees might access more funds than they are eligible for based on members on board. CNCS conducted extensive training and developed written materials for fixed amount grantees to mitigate that risk in advance of expanding fixed amount grants and implementing an automated system to monitor grantee access of grant funds. As explained to OIG staff, budget constraints delayed planned upgrades to systems to automate the monitoring procedures. Despite that delay, CNCS's other risk-mitigation strategies resulted in only one out of 199 current grantees being out of compliance.
- **Improper Payment Act, page 5.** In the section regarding the Improper Payment Elimination and Recovery Act (IPERA), the OIG assumes that the AmeriCorps program "likely makes improper payments of more than \$10 million per year" and "cannot reliably project and quantify" improper payments. CNCS is in full compliance with Federal requirements that Federal agencies conduct risk assessments of their programs at least every three years. For CNCS, that three-year cycle of risk assessments must be completed in fiscal year 2014. CNCS already completed a risk assessment for cost-reimbursement grants within the AmeriCorps program for fiscal year 2013 -- one year early. As a result of that risk analysis, CNCS is currently conducting the statistical analysis which will determine whether improper payments in AmeriCorps approach \$10 million. CNCS's IPERA program is timely and meets all applicable requirements.
- **Recovery of Improper Payments, page 5 and 12.** The OIG's statement that delays in collecting debts from grantees jeopardize recovery does not recognize CNCS's responsibility to resolve questioned costs in audits before making final determinations of

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<sup>4</sup> See the Federal Managers' Financial Integrity Act (FMFIA)

amounts owed to the government. In addition, grantees have a legal right to address the audit findings. When the audits themselves are conducted following appropriate audit procedures, the resolution process can be straightforward and both the agency and the grantee can track the findings and determine any debt owed relatively quickly. CNCS completed action on the Atlantic Human Resources audit within the 12 months prescribed for audit follow-up. In the case of Operation Reach, the auditors did not provide CNCS with the full scope of audit documentation needed to resolve the costs in a timely manner, nor did the auditors provide a plan for conducting the audit.

- **Information Technology, page 6.** The OIG states that CNCS’s “outdated information technology systems do not support the kind of data analytics that other agencies use effectively for early detection of fraud and mismanagement.” However, the OIG has not conducted any recent review or evaluation of how CNCS uses information technology in grants management to support that statement. Absent such a review, CNCS has no fact-based OIG recommendations to consider for enhancements. As the OIG points out, CNCS has undertaken an aggressive effort to modernize its information technology support of its business practices and proactively engaged the MITRE Corporation for guidance in this effort.
- **Federal Information Security Management Act (FISMA), page 8.** The OIG overstates concerns about information systems security at CNCS. CNCS is ahead of most Federal agencies in implementing a cost-effective information assurance program. CNCS was one of the first agencies, large or small, to implement the latest revision of guidance on compliance with FISMA.<sup>5</sup> That guidance allows agencies to tailor aspects of their information assurance programs to meet individual agency risk profiles and resource limitations. The OIG has evaluated CNCS against an earlier version of the guidance and asserts that CNCS should implement all of the most stringent information security practices, without analysis of whether the marginal increases in security would outweigh the very high costs of implementation.
- **Statutory Audits and Evaluations, page 8.** The OIG discusses issues raised in the Management Letter following the OIG’s audit of CNCS’s Fiscal Year 2013 financial statements in a manner which inflates the level of concern raised by the auditors themselves. OIG presents the auditor’s discussions on weaknesses or opportunities for CNCS to improve its risk management and internal controls as though the auditor had formed an opinion that CNCS’s current policies and practices are “inadequate” to meet applicable requirements. CNCS values the perspective of the auditors as it seeks to continually improve its management. However, the SAR creates the erroneous impression that there are wide-spread inadequacies in CNCS’s current management; a position not supported by the OIG’s own reports.
- **Citizenship Verification, page 17.** The OIG recommended that the CNCS National Service Trust (the Trust) conduct outside verifications of each instance where there is an initial mismatch between information submitted to CNCS and the Social Security

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<sup>5</sup>FISMA guidance is issued by the National Institute for Standards and Technology, NIST SP 800-53, revision 4.

Administration database. However, the OIG based that recommendation on a single instance and has not conducted a review of the overall program through which CNCS matches enrollments against Social Security Administration records. Such a review would have shown that the mismatch rate is 7%, and these occurrences are almost universally due to an administrative error or some other harmless reason (like name changes upon marriage). Mismatches are resolved by having the program that enrolled the national service participant in the Trust obtain and review the necessary government authorized documentation.

- **FBI Fingerprint Checks, page 25.** The OIG mischaracterizes the proposed refinement to Section 189D of the National and Community Service Act. The amendment requested in the CNCS Fiscal Year 2014 budget request did not eliminate the FBI fingerprint check for individuals with access to persons over 60 or with disabilities.
- **Health Care Coverage, page 25.** CNCS has carefully evaluated the legality of the type of health coverage provided to participants in AmeriCorps State and National, VISTA and NCCC and is confident that it has complied with the Serve America Act. CNCS delayed implementation of a requirement that its AmeriCorps grantees provide ACA-compliant coverage to allow grantees sufficient time to obtain information and secure the budgetary resources necessary to do so responsibly and without negatively impacting their ability to support members or provide the critical national service they provide in their communities. Prior to making the decision to delay implementation, CNCS assessed the availability of compliant plans in the various insurance marketplaces and was confident that the vast majority of members would have access not just to the high quality plan offered by our programs, but also to an exchange alternative. In an effort to further minimize any possible negative consequence to the program participants, CNCS worked with the Department of Health and Human Services to ensure that participants in the AmeriCorps, VISTA and NCCC programs would not be penalized for having the type of health coverage provided by its programs. CNCS continues to work toward providing or requiring ACA-compliant health care for those programs and participants for which this makes programmatic sense.

CNCS follows the principal framework for effective risk management established by Congress and implemented through OMB. CNCS balance controls to manage and mitigate, not eliminate risk entirely. As noted in the SAR, “[t]he management of risk is an essential ingredient of public stewardship...”

The tables on the following pages provide the required CNCS reporting data for this six-month reporting period.

**TABLE I**

**ACTION TAKEN ON AUDIT REPORTS**

(For the Period October 1, 2013 through March 31, 2014)

	<b><u>Number of Reports</u></b>	<b><u>Disallowed Costs (\$000)</u></b>
A. Audit reports for which final action had not been taken by the commencement of the reporting period	18	\$186
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	4	\$410
1. Recoveries <sup>1</sup>		
(a) Collections and offsets		\$279
(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	17	\$148
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	\$1,357

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<sup>1</sup> Recoveries include audits for which final action was taken in prior reporting periods and reported in management decisions during the reporting period and for which an accounts receivable was established.

**TABLE II**

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

(For the Period October 1, 2013 to March 31, 2014)

	<b><u>Number of Audit Reports</u></b>	<b><u>Dollar Value (\$000s)</u></b>
A. Reports for which final action had not been taken by the commencement of the reporting period	6	\$12
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	3	
i. Dollar value of recommendations completed		\$20
ii. Dollar value of recommendations that management has concluded should not or could not be implemented		\$59
D. Reports for which no final action had been taken by the end of the reporting period.	4	\$736

**Table III****REPORTS DESCRIBED IN PRIOR SEMIANNUAL REPORTS WITHOUT FINAL ACTION**

(For the Period October 1, 2013 through March 31, 2014)

<b>Audit Number</b>	<b>Title</b>	<b>Date Issued</b>	<b>Final Action Due Date</b>	<b>Status of Action/Reason No Final Action was Taken</b>
12-04	Audit of Earned Education Awards Resulting from Compelling Personal Circumstances	11/9/11	11/9/12	Requires extensive subgrantee follow-up
12-08	Audit of National Service Trust Payments to Financial and Educational Institutions	04/03/12	04/03/13	Completed on 04/28/14
12-10	Evaluation of the Corporation's Compliance With Improper Payments Elimination and Recovery Act (IPERA)	3/7/12	11/15/13	Final action will be implemented through new processes adopted in the 2013 annual IPERA review
12-13	Agreed-Upon Procedures for Corporation for National and Community Service Grants Awarded to Oregon Volunteers	8/5/12	12/15/13	Management Decision is in the final stages of review
12-15	Audit of Corporation for National & Community Service Grants Awarded to Operation Reach, Inc.	08/15/12	11/28/13	CNCS submitted its draft Management Decision to OIG for review on 05/01/14
12-16	Agreed-Upon Procedures for Grants Awarded to the New Jersey Commission on National and Community Service	10/02/12	1/15/14	Requires extensive follow-up with grantee