Office of Inspector General
Corporation for National and Community Service

INADEQUATE INTERNAL CONTROLS PREVENT THE CORPORATION FROM MITIGATING SIGNIFICANT RISKS INHERENT IN THE FIXED AMOUNT GRANTS PROGRAM

OIG REPORT 13-07

Office of Inspector General
Corporation for NATIONAL & COMMUNITY SERVICE

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This report was issued to Corporation management on September 30, 2013. Under the laws and regulations governing audit follow-up, the Corporation is to make final management decisions on the report's findings and recommendations no later than March 31, 2013 and complete its corrective actions by September 30, 2014. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of Inspector General
Corporation for NATIONAL & COMMUNITY SERVICE

September 30, 2013

TO: Robert Velasco,
Chief Operating Officer

FROM: Stuart Axenfeld /s/
Assistant Inspector General for Audit

SUBJECT: Office of Inspector General (OIG) Report 13-07: *Inadequate Internal Controls Prevent the Corporation from Mitigating Significant Risks Inherent in the Fixed Amount Grants Program*

Attached is the final report on the OIG's *Inadequate Internal Controls Prevent the Corporation from Mitigating Significant Risks Inherent in the Fixed Amount Grants Program*. This evaluation was performed by OIG staff, with contractor assistance, in accordance with the Quality Standards for Inspection and Evaluation.

Under the Corporation's audit resolution policy, a final management decision on the findings in this report is due by March 31, 2014. Notice of final action is due by September 30, 2014.

If you have questions pertaining to this report, please contact me at (202) 606-9360 or s.axenfeld@cncsoig.gov.

Attachment

cc: Margaret Rosenberry, Director, Office of Grants Management
Rocco Gaudio, Deputy CFO for Grant and Field Financial Management Center
Bill Basl, Director of AmeriCorps
Doug Hilton, Director of Office of Accountability and Oversight

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EXECUTIVE SUMMARY

In 2009, Edward M. Kennedy Serve America Act for the first time authorized the Corporation to award grants in fixed amounts, based on the hours worked by members to be enrolled in national service positions. 42 U.S.C. § 12581(l). Unlike the Corporation's traditional grants, which reimburse a grantee for program costs, a fixed grant awards the grantee a specified amount (not to exceed $13,000 for AmeriCorps, $4,600 for Senior Corps) for each full-time national service member. The structure was intended to minimize the administrative burdens on grantees and thus encourage smaller organizations to participate in national service.

The fixed amount grant program has placed $240 million at financial risk, due to a lack of meaningful safeguards against waste, fraud or mismanagement. Over the past four years, the Corporation expanded this program without evaluating the risks inherent in its structure or mitigating those risks with measures to prevent or promptly detect excessive drawdowns of grant funds. A grantee is able to access the funds at will, and to expend its entire award even if it falls far short of the volunteer enrollment levels on which the award is based. The Corporation continues these grants from one year to the next, essentially advancing funds, without reassessing the grantee's creditworthiness or compliance with financial requirements. Taxpayers have been fortunate to escape losses, despite this vulnerability.

This luck ran out, however, in the case of Digital Opportunities Trust (DOT), one of AmeriCorps' largest fixed amount grantees. DOT never maintained the contemplated level of enrollment, but the Corporation continued to fund the grant for three years, while the organization's financial condition deteriorated. Each year, DOT spent all of the funds, far more than it was entitled to spend based on its enrollment.

At the end of the grant's second year, DOT was $687,427 in debt to the Corporation. Instead of taking immediate collection steps, the Corporation deferred the problem and optimistically extended funding. It hoped to recover the difference by continuing the grant for a third year, while expecting DOT to: (1) reach a retention level of 280 members, which DOT had failed to achieve in years one and two; and (2) shoulder a greater share of the program costs, sufficient to offset the prior excessive drawdowns. Both of these expectations proved unrealistic.

Before the end of the third year, DOT expended the entire grant amount, owed the Corporation more than $1 million, shut down the program and declared bankruptcy. This left the community underserved and the taxpayers holding the bag. To avoid further losses from other fixed amount grants, the Corporation should adopt effective, risk-based monitoring, internal controls and other measures. The Office of Inspector General recommends that the Corporation:

1. Reduce vulnerabilities in the Corporation's fixed amount grant program by identifying the risk drivers (to include member enrollment/retention, drawdowns and non-CNCS resources contributed by grantees) and developing indicators by which to assess the associated risks. With the resulting information, the Corporation should:

    - Establish criteria for the use of fixed amount grants in the AmeriCorps and Senior Corps programs, considering, among other factors, the amount of the grant, financial resources, stability and capabilities of the grantee, grantee's fundraising history, Corporation's past experience with the grantee, level of uncertainty regarding grantee's ability to meet programmatic and financial objectives and Congressional intent to enable small grantees to participate in national service programs;
    - Determine what information should be sought and considered in the application and selection process to support prudent award decisions, including thorough vetting of an applicant's ability to retain members, independent verification of a grantee's ability to devote additional resources to the program and submission of a program budget.
    - Develop terms and conditions to address these risks;
    - Target monitoring on key risk drivers/indicators (such as benchmarking an expected rate of member attrition for a successful grant, so that oversight can focus on programs with excessive attrition);
    - Modify or impose special conditions on underperforming or at-risk grants;
    - Ensure that continuation decisions include rigorous analysis of financial, as well as programmatic, performance and prospects.

2. Control and monitor drawdowns through policies, procedures and processes that incorporate:

    - Caps on the portion of a grant that can be withdrawn quarterly from the Health and Human Services Payment Management System
    - Periodic, risk-based drawdown analyses, testing more frequently those grantees with excessive attrition and/or who are rated as moderate- or high-risk. Fresh results should be available for consideration when deciding whether to continue an existing grant or award a new grant to an existing grantee, as well as in developing monitoring priorities and annual and final grant closeouts;

- An array of corrective actions and interim safeguards for excessive drawdowns (including, for example, third-party confirmation of program funding commitments) that are based on risk, with resolution deadlines;
- Timely recoupment of excessive drawdowns, with interest; Elevation of seriously troubled grants for management attention to ensure that corrective action plans are reasonable, realistic and sufficient, with follow-up reports.

3. Establish monitoring priorities, plans and procedures based on grantee risk assessments developed in accordance with the specific requirements of fixed amount grants, distinguishing between financial risk and programmatic risk.

4. Expand grant continuation decision-making with:

    - Information concerning available non-CNCS funding and changes to grantee's financial stability or capabilities, as well as enrollment/retention, drawdowns and programmatic performance;
    - Stronger scrutiny for continuation awards that involve repayments of excessive drawdowns for prior periods, including: requiring approval by senior management where the debt is substantial in amount; written agreement with the grantee on a schedule for repayment; and more intense financial and programmatic monitoring to protect against further overpayments, ensure return of funds and promote achievement of program objectives.

5. Ensure effective communication between Program Officers and Grant Officers concerning enrollment and retention shortfalls, to permit grant adjustments, modifications or special conditions to mitigate developing risks and promote successful outcomes.

6. Formalize policies and procedures for the administration of fixed amount grants, communicate them to the affected parties, reassess them periodically and enforce them. With these safeguards, fixed amount grants may be a useful funding vehicle for the Corporation and its grantees.

THE EVENTS THAT GAVE RISE TO THIS EVALUATION

The Corporation Initiates Fixed Amount Grants

In 2009, Edward M. Kennedy Serve America Act for the first time authorized the Corporation to award grants in fixed amounts, based on the hours worked by members to be enrolled in national service positions. 42 U.S.C. § 12581(l). This fixed amount program allows an AmeriCorps grantee to receive a specified amount, not to exceed $13,000, for each full-time member.[1] Within Senior Corps, a grantee in the Senior Companion Program receives up to $4,550 per volunteer, while a Foster Grandparents grantee receives up to $4,600 per volunteer. The fixed amount grant structure was intended to minimize the administrative burdens on grantees, thereby enabling smaller organizations to receive AmeriCorps support.[2] Because these grants are not based on reimbursement of costs, grantees need not submit budgets or maintain expense records and are not bound by Office of Management and Budget (OMB) cost principles. Fixed amount grants are also exempt from matching (and related documentation) requirements. The grantee is, however, required to pay a "significant" portion of the total program costs with non-CNCS funds. Neither the statute nor any guidance from the Corporation establishes how much outside funding is considered "significant."

During the period 2010-2012, the Corporation awarded 118 such grants, totaling $179,306,744. AmeriCorps' 64 fixed amount grants totaled $158,735,133, ranging from $107,727 to $30,672.094 in amount. The remaining 54 grants were awarded by Senior Corps, beginning in 2011. They are split between the Foster Grandparents and Senior Companion Programs (FGP and SCP, respectively) and range in amount from $45,500 to $1,138,500. In June 2013, during the pendency of this evaluation, AmeriCorps awarded another 68 fixed amount grants totaling $65,417,327.

Fixed amount grants are awarded for a term of one year, with the potential for two one-year "continuations," resulting in a three-year grant cycle. Each continuation application must describe any changes in the program scope (*e.g.*, expansion to new sites), plans to improve enrollment, retention or other compliance areas, increases in the cost per full-time member, as well as any performance measure changes.

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[1] Full-time service in AmeriCorps requires 1700 hours of service, known as a Member Service Year (MSY).

[2] *See* H.R. Rep. No. 111-37, at 96 (2009) ("Fixed amount grants allow smaller organizations to participate in national service programs by easing the administrative burden and allowing for more efficient, cost-effective program operation.") (Majority report); *see also id*. at 301 ("This reauthorization will also help smaller entities participate in national service programs by removing needless bureaucracy and red tape. By allowing fixed grant awards, participants will still meet rigorous program requirements but the administrative burden of detailed recordkeeping that has prevented smaller organizations from participating in the past will be eliminated.") (Minority report).

The application does not, however, require updated information about the grantee's financial resources or the non-CNCS funds that it intends to devote to the program. The Corporation has the authority to maintain, increase or decrease the level of funding, depending on the availability of funds and the grantee's performance and demonstrated capacity to manage the grant.

The Corporation has not exercised its authority under the Serve America Act to adopt risk-specific terms and conditions for fixed amount grants. 42 U.S.C. § 12581(l)(3)(B). As a result, the Corporation has awarded more than $240 million in grants without:

- Analyzing the risks specific to fixed amount awards,
- Developing measures (internal controls) to mitigate those risks and/or limit the Corporation's exposure,
- Establishing eligibility criteria for fixed amount awards, or
- Issuing policies, rules or regulations to address any of the above.

In the four years since the Serve America Act, the Corporation did not evaluate the vulnerabilities of fixed amount grants, nor did it tailor its monitoring protocols or develop meaningful internal controls. Corporation documents from 2010 and 2011 refer to two "pilot programs," but we found no evidence that the Corporation performed any evaluation before expanding the use of this vehicle. Concurrent with this OIG review, the Corporation's research division conducted an evaluation that recommended continuing fixed amount grants, with additional risk control measures.[3]

Until this OIG evaluation, the only written guidance for these grants consisted of brief references in grant competition announcements (Notices of Funding Opportunity (NOFOs), Application instructions and AmeriCorps Grant Provisions), elaborated in an AmeriCorps document entitled "Frequently Asked Questions: Fixed-Amount Grants" (FAQs), (with versions from October 6, 2010, October 1, 2012, and April 25, 2013), directed at potential grant applicants.[4] According to these FAQs, a fixed amount grantee may draw all of the grant funds only if all of the expected members enroll and complete their terms of service. Grantees may draw 20 percent of the funds immediately to cover the initial costs of recruiting, selecting and training members, with the balance to be drawn thereafter. The FAQs admonished that grantees "should make sure that they do not draw funds in excess of member hours served."

[3] *AmeriCorps State and National Fixed Amount Grants Reduce Reporting Burden with Limited Negative Consequences*, August 8, 2013 (cited as "Corporation's Research Report").
[4] Senior Corps issued similar, though not identical, FAQs for its fixed grant program, with versions dated September 1, 2010 and September 27, 2010).

In April 2013, after discovering that a grantee had in fact drawn funds far in excess of member service hours, the Corporation revised the FAQs to lend this point greater emphasis. After drawing funds for the initial costs, grantees:

> must make sure that they do not draw funds in excess of member hours served for members who do not complete a term of service and only the full fixed amount authorized for those that complete a term of service. Grantees must ensure that they do not draw down more funds from the Payment Management System than they are entitled to based on member enrollments and the completion of terms of service. (AmeriCorps' Frequently Asked Questions: Fixed-amount Grants As of 4/25/2013).

At the same time, the Corporation's Offices of Grants Management (OGM) and Accountability and Oversight (OAO) established a manual procedure to compare drawdowns to enrollment for each fixed amount grant, annually and at grant close-out. Grant Officers calculate how much of its award a grantee was entitled to access, based on the number of members who have completed terms of service, plus the hours served by current members and those who left without serving their full terms. Comparing this total to the amounts actually disbursed from the grant, OGM can determine whether the grantee has overdrawn its enrollment-based entitlement. A grantee that has overdrawn its entitlement by less than ten percent will be instructed by OGM to limit its drawdowns consistent with enrollment. If the excessive drawdown represents 10-20 percent of the grantee's entitlement, a grant officer inquires as to the reasons and obtains information about revenue flows, to determine whether the grantee has sufficient non-CNCS resources to support the program. A "red flag" is placed on the electronic file, and the program officer is notified. If the excessive drawdown is more than 20 percent of the grantee's entitlement and the grantee cannot provide adequate assurances about its resources, a "manual hold" is placed on the grant; this means that further drawdowns require advance authorization by the Corporation.

No other safeguards prevent a dishonest or underperforming grantee from withdrawing the full amount of the grant, at any time. Like many Federal agencies, the Corporation disburses grant funds through the Health and Human Services Payment Management System, which allows a grantee to withdraw (draw down) grant funds by online request. The funds are electronically deposited into the grantee's bank account on the next business day. While certain other Federal grant-making agencies limit the amounts that can be drawn during a particular period, the Corporation does not do so, nor does it routinely approve drawdowns in advance or review them contemporaneously.

$1 Million Loss Illustrates Flaws in Program Design

In March 2013, the Corporation advised OIG that it was suspending an AmeriCorps fixed amount grant to Digital Opportunities Trust (DOT), with the grantee's consent. DOT had received $10,402,707 for Program Years[5] 2010-2012, before notifying the Corporation that it could not raise the necessary non-CNCS funds to continue the program's operation. Moreover, DOT had fallen short of its anticipated member enrollment and retention and had drawn more from the grant than its total member service hours warranted. The Corporation subsequently terminated the grant, and its May 22, 2013 collection letter sought repayment of excessive drawdowns totaling $1,040,003.[6] In response, DOT in June 2013 filed for liquidation in bankruptcy. As a result, it is doubtful that the Corporation will recover any substantial portion of the $1 million overpayment.

The grant was then in its third year and was one of the Corporation's five largest fixed amount grants. It was also one of the earliest. It began in FY 2010, when the Corporation awarded DOT the sum of $3,640,000, $13,000 for each full-time member working to expand its TeachUp program, a technology empowerment program for teachers in two regions burdened by extreme poverty and exceptionally low education levels; DOT planned to enroll 280 members.[7]

From the beginning, DOT was unable to retain members, many of whom quickly left to accept full-time employment as teachers. DOT ended its first year with an attrition rate of 35 percent, most of which occurred early in the year. Similar shortfalls occurred in subsequent years, with slight improvements to 75 percent retention in the second year and 80 percent in the third year, when the grant was terminated.

Through its My AmeriCorps Portal[8], the Corporation received timely information concerning this member attrition but did not act on it. Although the Program Officer spoke monthly with DOT, she reports that she did not learn of the retention problems for more than a year, until AmeriCorps began its annual program-wide risk assessment in

[5] DOT's Program Year ran from July 1 to June 30th.
[6] At the same time, the Corporation revised the FAQs and developed the drawdown review procedure.
[7] DOT was not well known to the Corporation when it made this sizeable grant. As the subrecipient of a State Commission, the organization had only one year of past performance managing a grant of $248,528. The Corporation essentially awarded 14.6 times the value of its previous grants without a detailed assessment of its financial viability and without DOT's completion of its first Corporation grant.
[8] The My AmeriCorps Portal communicates data for the National Service Trust and grantees/sub-grantees through grantees' financial status reports. It also allows AmeriCorps members and Corporation personnel to record and view AmeriCorps members' personal information and education award status, as well as program information.

July 2011. Throughout the second and third years of the grant, DOT's written progress reports repeatedly acknowledged difficulty meeting its retention goals. The Program Officer recognized the seriousness of the problem and required specific corrective actions, with limited success. She did not, however, inquire into whether DOT was drawing more from the grant than its enrollment permitted. Nor did she discuss the retention shortfalls directly with the assigned Grant Officer, who did not read electronic copies of the related correspondence because of the volume of her work. OGM stated that Grant Officers do not typically review such correspondence unless specifically requested to do so by a Program Officer. As a result, the Grant Officer remained unaware of the nature and magnitude of DOT's underperformance and the related risks.

The Corporation did not consider DOT's retention problems when, in February 2011, it decided to continue the grant for a second year at the original level of funding. By that time, DOT's attrition had reached 27 percent, as the Corporation's records then showed. Only towards the end of the second year did the Corporation take steps to determine whether DOT's drawdowns exceeded its enrollment-based entitlement, and, even then, it asked DOT for an estimate, rather than performing its own analysis. In April 2012, DOT, which had expended all of the grant funds for its second year, estimated that it would overdraw the first two years of the grant by a total of $517,293. In fact, DOT had overdrawn its first year's entitlement by $422,825, and would ultimately overdraw the second year by $264,602. By the beginning of year three, DOT was $687,427 in debt to the Corporation.

The debt grew further because, instead of taking immediate collection steps, the Corporation deferred the problem and hoped for the best. Specifically, it intended to recover the difference by continuing the grant for a third year, while expecting DOT to: (1) enroll and retain 280 members, which DOT had failed to achieve in years one and two; and (2) shoulder a greater share of the program costs, sufficient to offset the prior excessive drawdowns. Both of these expectations proved unrealistic. DOT's attrition remained high. Without adjusting the enrollment expectations, the Corporation had reduced the third year grant from $3.6 million to $3.1 million; DOT expended the entire amount, but its enrollment justified less than $2.8 million. Moreover, DOT failed to secure the necessary outside funding, and it advised the Corporation in March 2013 that it was forced to shut down the program before the end of the grant year. Not until then did the Corporation realize that DOT had, once again, withdrawn excessive funds. By that time, the debt had grown to $1,040,003.

Program Year	Entitlement Based on DOT's Member Retention	Amount Drawn Down (per the HHS Payment Management System)	Overdrawn Amount Owed by DOT to CNCS
Year 1	$3,217,175	$3,640,000	$422,825
Year 2	$3,375,398	$3,640,000	$264,602
Year 3	$2,770,131	$3,122,707	$352,576
Total	**$9,362,704**	**$10,402,707**	**$1,040,003**

Throughout the grant period, the Corporation's monitoring planning underrated the seriousness of DOT's retention problems and did not consider whether it had sufficient non-CNCS funds to continue the program. When the Corporation suspended the grant and DOT's indebtedness to the agency bankrupted the company, the grantee was rated as having only "medium" risk.

Excessive Drawdowns in Other Fixed Amount Grants

In light of the Corporation's experience with DOT, OIG reviewed an additional nine grants, focusing on those with higher drawdown rates. We found no losses, but two grantees made excessive drawdowns during at least one year of their respective grants. Habitat for Humanity International, Inc. withdrew $92,947 more than it was entitled to in the second year of its $3,900,000 grant. Fortunately, the grantee had underdrawn its entitlement in the first year and had sufficient non-CNCS funds to cover an increased share of the program costs in the final year, offsetting the overpayments. The Corporation did not seek interest for what was effectively an advance.

University of North Carolina at Chapel Hill overdrew its $336,000 grant by $9,657 in its first year, offsetting $3,447 of that amount in the second year. The third year is now in progress.

FINDINGS

THE CORPORATION LACKS A COHERENT STRATEGY FOR MANAGING THE RISKS INHERENT IN FIXED AMOUNT AWARDS AT EACH STAGE OF THE GRANT CYCLE, HAS SUSTAINED A SIGNIFICANT LOSS AS A RESULT AND REMAINS VULNERABLE TO FUTURE LOSSES.

The Corporation has extended more than $240 million of fixed amount grants without appropriate internal controls to protect those funds against waste, fraud and mismanagement. Only with the recent discovery of a $1 million loss did the Corporation begin to develop procedures directed at monitoring the risks specific to fixed amount grants. The new procedures are a step in the right direction, but more can and should be done to prevent abuse.

To achieve its mission and safeguard the integrity of Federal programs, operations and assets, an agency must understand its financial and programmatic risks and align its business processes to mitigate them. According to Office of Management and Budget Circular A-123 (OMB A-123), an agency head must take systematic and proactive measures to: (1) identify and assess the most significant risks that could prevent a particular program from meeting its objectives; (2) incorporate into its key processes measures designed to limit those risks; (3) communicate those requirements to affected staff and other stakeholders; (4) monitor and evaluate the effectiveness of those control activities; and (5) correct deficiencies. Management must maintain an efficient balance between the magnitude of the risk and the burdens associated with mitigating it.

In haste to simplify grant administration and minimize the burdens on grantees, the Corporation bypassed these critical risk management steps in 2010 when it rolled out this new funding vehicle. As result, the Corporation simply relies on its grantees to act responsibly, and it therefore remains vulnerable to fraud and mismanagement. Even under its new monitoring procedures, the Corporation might not learn of excessive drawdowns until long after the fact.

OIG supports the Corporation's effort to reduce the administrative burdens on grantees and the Corporation itself. Further, we are mindful of the Corporation's conclusion that AmeriCorps' fixed amount grants cost on average $1,798 less per member than cost reimbursement grants.[9] Fixed amount grants thus present an opportunity to advance the twin goals of economy and efficient administration, provided that they are used purposefully, with due regard for the risks that they pose.

We believe that the necessary protection can be achieved with modest, albeit critical, safeguards, with minimal impact on grantees. **Until appropriate safeguards are in**

[9] Corporation's Research Report at 14.

place, we do not believe that the Corporation should initiate new fixed amount grants or expand the program.

I. Without a comprehensive risk assessment of the fixed amount grant program structure, the Corporation cannot design and implement effective internal controls.

The Corporation never conducted a formal assessment of the risks inherent in fixed amount grants. Development of effective internal controls depends on a clear and comprehensive understanding of the specific risks that threaten the programmatic and fiscal performance of these grants. The lack of a formal risk assessment increases the likelihood that the Corporation will overlook significant risks. In particular, risk assessment should influence determinations about:

- The kinds of grants and grantees that should be eligible for fixed amount funding;
- The information to be sought in the application process in order to make prudent award decisions;
- Differences between the terms and conditions for fixed amount awards and those applicable to cost reimbursement grants;
- Targeted monitoring;
- Continuation of grants, modification of terms and renewal or termination.

See GAO Internal Control Standards (GAO/AIMD-00-21.3.1 (11/99) (management should comprehensively identify risks, including those posed by significant interactions between the agency and other parties, as well as internal factors at both the agency and activity level).

Internal documents from 2010-2011 suggest that the Corporation may have intended to defer its formal assessment pending completion of a limited pilot project. In the interim, however, the fixed amount grant portfolio grew without a disciplined assessment of risk. A recent evaluation by the Corporation's research department conducted concurrent with our evaluation concluded that fixed amount grants are cost-effective but recommended better risk management with respect to grantees' fundraising ability. This evaluation is informative, but it is not, and does not purport to be, a disciplined risk assessment and mitigation plan.

As DOT illustrates, three interrelated risks are clearly significant: (1) member shortfalls, either by under-enrollment or under-retention; (2) excessive drawdowns, *i.e.*, drawdowns of grant funds disproportionate to member enrollment; and (3) lack of additional funds sufficient to sustain program costs.

These factors threaten programmatic success, as well as financial management. Although other factors may emerge from formal analysis, these three should be important components in any risk management strategy for fixed amount grants.[10]

While these same risk factors may also apply to the more prevalent cost reimbursement grants, they assume greater weight for fixed amount grants. Eliminating the burdens that constrain cost reimbursement grants—cost principles, documentation requirements and submission of budgets and Federal Financial Reports—has also eliminated internal controls and monitoring scrutiny intended to protect the Corporation and the taxpayers.[11]

II. The Corporation's preventive and detection controls for grant administration must be improved to reasonably safeguard fixed grant funds against loss.

The Corporation does not have a process in place to prevent grantees from drawing excessive grant funds during the course of the grant. The lack of preventive controls in the drawdown process invites mischief, and the newly instituted detection controls, though helpful, should be strengthened.

Effectively, a grantee may draw from a fixed amount grant at will. The only limitation is a requirement that the drawdowns be used for current expenses, something the Corporation neither monitors nor enforces. Only the honor system prevents a grantee from withdrawing the entire amount immediately and misappropriating it or using it for an unauthorized purpose. Even with the new drawdown review, many months may elapse before the Corporation discovers a defalcation, and recoupment may then be impossible. The current state of affairs also permits mismanagement by a well-intentioned grantee, which can quickly exhaust its Corporation funding on bona fide expenses and then find itself with insufficient resources to pay for the rest of its program. Or, as in the case of DOT, nothing prevents a grantee from drawing substantially more grant funds than its enrollment warrants, leaving the burdens and uncertainties of recovery to the Corporation and the taxpayers. In any of these scenarios, in addition to the financial loss, the community is denied the services that the Corporation intended to fund. We do not believe that this state of affairs meets management's responsibility to ensure that resources are used prudently and with limited potential for waste.

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[10] As with DOT, a grantee short on members may overdraw the grant in order to pay immediate expenses, leaving the Corporation no way to recoup the overpayments in the absence of non-CNCS funds. Even if the grantee has met its membership goals and is therefore entitled to the full grant amount, a shortfall in non-CNCS funding could require the program to shrink or even cease operations.

[11] *See* Corporation's Research Report, at page 1 (performance and operational risks increase because, in absence of budget oversight, grant officers do not know whether fixed amount grantees are raising sufficient non-CNCS funds to support program operations).

The Corporation should minimize its exposure by implementing preventive controls that cap the percentage of the grant that can be drawn quarterly. The HHS Payment Management System (PMS) currently used by the Corporation for grant disbursements can be programmed to automatically refuse drawdown requests that exceed a predetermined threshold and notify the Corporation by email. The Corporation could then inquire into the circumstances (including member retention and the prospects for non-CNCS funding) and determine whether to approve the additional drawdown. If the caps are set prudently, few requests for special approvals should be necessary. This measure would limit the amount at risk while retaining considerable flexibility for grantees. Automating the process would minimize the administrative burden and help the Corporation to identify underperforming grants that probably warrant greater attention. The Department of Labor and the Department of the State apply similar preventive drawdown controls to their PMS-disbursed grants.[12]

An alternative approach to preventive controls is to require fixed amount grantees to obtain a bond for some portion of the grant, as a guarantee of repayment in the event of drawdowns to which the grantee is not ultimately entitled. OIG has previously encouraged the Corporation to explore whether such bonds are available and/or cost-effective.

Moreover, the Corporation should act promptly upon receiving information indicating that a grantee will ultimately be entitled to keep substantially less than the entire grant amount. It should, for example, adjust grants that recruit substantially fewer than the expected number of members, particularly where enrollment is time-limited. Those grantees cannot possibly qualify for 100% of the original grant amount, and allowing them access to all of it is essentially a loan to an underperforming borrower. The same principle applies where there has been substantial attrition and little prospect of replacing the exited members. With its first-year retention rate at only 65 percent, DOT's membership shortfall was worth $707,124. That could have funded another grant. Allowing grantees to enroll full-time members partway through the year may offer a partial solution, but it also poses risks. High member turnover is itself a significant risk indicator of serious deficiencies in an AmeriCorps program. Replacement of these members with new individuals, while it may fulfill enrollment goals, should not be allowed to mask these concerns.

In the case of DOT, the Corporation could have avoided the majority of the losses by acting promptly on available information. By February 2011, when the Corporation decided to fund the grant for a second year, Corporation records showed that DOT had already experienced attrition of more than 27 percent. This inordinate loss of members midway through the grant's first year should have triggered serious doubts about

[12] These agencies use drawdown caps for their cost reimbursement grants.

continuing the grant at the original funding level. Overlooking this information cost the Corporation an opportunity to manage its risks by reducing or modifying the grant in the second year.

Even later, as the Program Officer took some steps to address programmatic risks stemming from the retention shortfalls, the related financial risks received little or no attention. The Corporation's plan to recoup two years of excessive drawdowns in the third year rested on overly optimistic assumptions inconsistent with the grantee's history. Even then, the Corporation failed to monitor the drawdowns and did not notice as DOT expended yet more Federal funds to which is was not entitled, and its financial condition worsened. Instead of mitigating its losses, the Corporation's actions postponed the day of reckoning and increased the taxpayers' exposure. From the end of the second program year to April 2013, when the program was suspended, DOT's debt to the Corporation rose from $687,427 to more than $1 million.

Prudent decisions about whether and on what terms to continue an underperforming fixed grant demand better use of available information and more thoughtful, disciplined analysis. More rigorous decision-making at the continuation stage would have minimized the DOT losses and put the funds to better use by other grantees. Institutionalizing risk-based controls and decision criteria will help to avoid such losses in the future. The new drawdown analysis procedure adopted by the Corporation in the wake of the DOT mismanagement is a commendable step. Together with preventive controls, this detection control can be refined to provide better protection at little additional cost.

First, the drawdown analysis should be performed more frequently, based on risk, *e.g.*, quarterly for grants that show a substantial member shortfall or for large grants in which even a modest percentage shortfall could have significant financial impact. This would permit the Corporation to intervene before losses mount, rather than to chase after stale debts that have been allowed to grow. Fresh results should be available to inform key decisions—whether to continue an existing grant, make new awards to existing grantees, establish priorities for monitoring and close out each grant year—which take place at various times during the year. Information regarding enrollment/retention and drawdowns is already available to the Corporation, so no additional reporting by grantees is required. The calculation is a simple one and should be automatic, with anomalies easily flagged.

Second, the Corporation must act decisively to prevent further exposure whenever it learns of excessive drawdowns that are significant in amount. The new procedure does not require prior authorization for further drawdowns unless the grantee has overdrawn its entitlement by more than 20 percent.

The threshold remains the same whether the grant is for $80,000 or $3 million, a one-size-fits-all approach that leaves the Corporation exposed to undue risk in the case of large grants. With a grant in excess of $3.6 million, DOT could have overdrawn as much as $720,000 before incurring mandatory draw restrictions. Moreover, a manual hold offers no protection if the grantee has already exhausted the grant, as DOT did each year. Further, the new drawdown procedure offers no alternative actions to be considered and imposes neither deadlines nor interim limitations on draws pending the grantee's satisfactory response to inquiries. The undrawn portion of any grant thus remains at risk while the Corporation engages the grantee in discussions. There is also no requirement that risks above a certain level be brought to the attention of senior management. Finally, the new procedure does not require the Corporation to take prompt action to recover substantial excessive drawdowns.[13]

Grantees should be required to report quarterly on their total expenditures for the program supported by the grant. Comparison of that figure to the drawdowns to date will show whether the grantee is in fact devoting significant non-CNCS funds to the program, as required by the Serve America Act. This requirement should not prove burdensome, inasmuch as OMB requirements oblige grantees to maintain records of expenditures in programs supported by Federal grants. *See* OMB Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*, Subpart C- *Post Award Requirements, .21 Standards for Financial Management Systems*.

Finally, the Corporation should seek to recover interest on the overpaid amounts. By definition, excessive drawdowns represent advances of Federal funds, on which interest should be charged in accordance with OMB Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*, Subpart C - *Post Award Requirements, .22 Payment (k), and* 45 CFR § 2543.21 *Standards for financial management system.*

III. Risk-based eligibility criteria would reduce vulnerability.

The Corporation should determine whether only certain grants or grantees should be eligible to receive fixed amount grants. We believe that fixed grants of substantial amount should generally be reserved for grantees whom the Corporation can confidently assess as posing little financial risk, given the limited financial monitoring to which such grants are subject. The specific criteria, however, may differ from program to program. Fixed amount grants may also be well suited for small awards even if they bear moderate risks, because more intense financial monitoring is not cost-effective.

[13] Additionally, OGM's first drawdown analysis reports were not dated or signed by the preparer or supervisor. Since enrollment and drawdowns change over time, it is necessary to know the date of the calculation in order to determine the accuracy of the result.

Senior Corps limits its risks by extending fixed amount grants on an invitation-only basis to experienced FGP and SCP grantees. To be offered admission, a grantee must first complete a three-year grant cycle in which it meets targets for enrollment, programmatic success and compliance. This positive track record suggests that renewal of the grant is a low-risk proposition that can be managed with limited Corporation oversight. That Senior Corps grants tend to be relatively modest in amount—averaging $380,956—further minimizes the Corporation's exposure.

AmeriCorps, by contrast, has not imposed strict entry requirements. Instead, it makes case-by-case determinations about eligibility for a fixed award, considering a variety of factors. Successful completion of a prior grant would contribute strongly to a low risk rating, but is not essential. Thus, the Corporation awarded DOT more than $3.6 million per year, more than 14 times the value of the $248,528 it had received the previous year as a subrecipient of the Mississippi Commission for Volunteer Service, without significant performance data. OIG believes that AmeriCorps would be well served to adopt eligibility criteria aligned with the particular risks of fixed amount grants, such as success in member enrollment and retention and demonstrated ability to attract significant funding from other sources. These criteria might also be weighted depending on the size of the grant. Large fixed amount grants should be reserved for grantees with a long track record of success in the AmeriCorps program.

Whatever the entry criteria, prudent grant decisions depend upon obtaining the information necessary to make accurate risk assessments. Application documents must be tailored to the risks and require complete and responsive information. Three of the ten grantees in our sample did not identify in their applications the source of the non-CNCS funding they intended to use for the program. The Corporation nevertheless extended grants totaling $948,043, taking on faith that these grantees would in fact develop the necessary resources. Inability or unwillingness to specify in a grant application the source from which the grantee will fund the balance of program costs should provoke questions about the grantee's ability to generate the necessary funds.

Best practices for grant management encourage Federal agencies to obtain independent verification of a grantee's financial capacity before awarding Federal funds; forthcoming Federal grant management standards are likely to make this mandatory. In the most recent AmeriCorps competition, the Corporation for the first time considered an applicant's financial capacity as an award criterion, and OIG commends this progress. The information comes in large part from a report produced by GuideStar and the Non-Profit Finance Fund, which includes, among other information, five years of data regarding sources of revenue, available liquidity and assets. Prudent use of this information may enable the Corporation to avoid making grants to applicants that have historically lacked sufficient financial support.

Updating financial risk information at the continuation stage would also protect against unknowingly doubling down on increasingly risky grants. According to the Corporation's Office of Accountability and Oversight, a financial review of DOT for the second year of the grant would have identified the organization as high financial risk. The Corporation should identify the precise information needed for an accurate risk assessment in the context of a fixed amount grant and revise its application, pre-award and continuation procedures accordingly.

The Corporation should also consider requiring applicants for fixed amount grants to submit a budget for the program. Doing so would require the grantee to think realistically about the total costs of administering the program and quantify the non-CNCS resources needed.[14] Any responsible grantee should prepare such a budget for internal purposes when it applies for a grant, so requiring its submission in the application should not prove burdensome.[15] Currently, however, the Corporation touts the lack of a required budget submission as an "advantage" of fixed amount grants. *See* Question and Answer 2, Frequently Asked Questions/Fixed Amount Grants As of 4/25/13. This deprives the Corporation of a tool that could help to assess the grantee's grasp of the financial ingredients of a successful program.

The Corporation's recent internal evaluation notes that AmeriCorps fixed amount grants tend to be significantly larger and the grantees more experienced than their cost reimbursement counterparts.[16] While these characteristics may reduce risk and cost per full-time member, Congress authorized fixed amount grants for the specific purpose of enabling small organizations to participate in national service programs. Consistent with Congressional intent, the Corporation should define the class of small and less experienced organizations for whom modest fixed amount grants would be appropriate. The Corporation can tolerate a greater degree of uncertainty in connection with a new, small grantee, provided that the grant amount is limited. The challenge is to provide adequate safeguards without discouraging smaller grantees. We believe that reasonable drawdown limitations, coupled with regular reviews of enrollment/retention to identify grantees that may be lagging, strike an appropriate balance of financial protections, with no additional administrative requirements. The Corporation can then focus its financial monitoring and assistance on the basis of overall risk.

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[14] The budget would complement information about funding sources contained in the grant application.

[15] We do not contemplate the Corporation monitoring the grantee's performance against this budget or approving significant changes, as it does for cost reimbursement grants.

[16] Fixed amount grants average $755,584, with 125 volunteer slots vs. $332,690 and 49 slots for cost reimbursement grants. Half of the fixed amount grantees have ten or more years' experience with the Corporation vs. 30 percent for cost reimbursement grantees. Corporation's Research Report at 7-8.

IV. The Corporation's grant monitoring assessments understate the risks of fixed amount grants.

The Corporation develops its annual monitoring priorities by assessing each grant based on 17 generic risk indicators, which are rated according to the level of risk. According to its recent analysis, fixed amount grants are slightly more risky than cost reimbursement grants, scoring an average 12 points higher.[17] Because the Corporation's assessment methodology is ill-adapted to fixed amount grants, this internal evaluation likely understates their risk. Three of the risk indicators are not relevant to fixed amount grants and are always scored at zero, artificially depressing the risk ratings of fixed amount grants relative to cost reimbursement grants.

The risk rating also does not consider the grantee's ability to devote significant non-CNCS resources to the program, which is critical to successful performance of a fixed amount grant. For cost reimbursement grants, the Corporation treats a grantee's ability to meet the requirement for matching contributions as an important risk factor, but there is no corresponding risk factor applicable to the non-CNCS funding required for fixed amount grants. If a project's success (as well as statutory compliance) may depend on raising non-CNCS funds, a risk assessment that disregards that factor is seriously flawed.

Finally, the Corporation does not weight the enrollment/retention indicator differently for fixed amount grants than it does for cost reimbursement grants. We understand that the Corporation's existing technology may limit its flexibility to do so. However, these risks may be more significant for fixed amount grants than for others, and weighting them the same across the board may disguise the magnitude of the risks.

As a result, the Corporation may unknowingly assume high risks, fail to monitor them closely and miss opportunities to minimize losses by early intervention. Customizing and weighting the risk analysis specifically for fixed amount grants would provide a more accurate calibration of risks and more efficient deployment of monitoring resources.[18]

V. The Corporation should operationalize its risk control measures through integrated policies and procedures.

Written policies express the priorities, directives and program objectives established by senior management, including those for accountability and risk control. Those policies may be embodied in regulations and are implemented by means of procedures.

[17] Corporation's Research Report at 15.

[18] After developing appropriate risk criteria for fixed amount grants, the Corporation will have to ensure comparability to the risk ratings for cost reimbursement grants, in order to establish a single set of priorities for monitoring.

The Corporation has adopted no policies specific to fixed amount grants, and its procedures are limited to the recently drafted Fixed Amount Grant Drawdown Analysis Process that calls for reconciliation of drawdowns and enrollment. Apart from this, the limited guidance provided by the Corporation appears in FAQs, NOFOs, application instructions and email documentation. Much of this is general in nature, and none of it contains the safeguards necessary to protect fixed amount grant funds against mismanagement and loss. The FAQs, which currently provide the most detailed discussion of fixed amount grants for grantees, are merely guidance and are not enforceable.

Upon completion of a comprehensive risk assessment, the Corporation should adopt policies reflecting management's priorities for fixed amount grants, including cost-effective internal controls to mitigate risks. Those policies should then be operationalized through procedures to ensure compliance.

RECOMMENDATIONS

To address the findings identified in this report and reduce operational and financial risk, OIG recommends that the Corporation:

1. Reduce vulnerabilities in the Corporation's fixed amount grant program by identifying the risk drivers (to include member enrollment/retention, drawdowns and non-CNCS resources) and developing indicators by which to assess the associated risks. With the resulting information, the Corporation should:

    a. Establish criteria for the use of fixed amount grants in the AmeriCorps and Senior Corps programs, considering, among other factors, the amount of the grant, financial resources, stability and capabilities of the grantee, grantee's fundraising history, Corporation's past experience with the grantee, level of uncertainty regarding grantee's ability to meet programmatic and financial objectives and Congressional intent to enable small grantees to participate in national service programs;
    b. Determine what information should be sought and considered in the application and selection process to support prudent award decisions, including thorough vetting of applicant's ability to retain members, independent verification of grantee's ability to devote additional resources to program and submission of program budget.
    c. Develop terms and conditions to address these risks;
    d. Target monitoring on key risk drivers/indicators (such as benchmarking an expected rate of member attrition for a successful grant, so that oversight can focus on programs with excessive attrition);
    e. Modify or impose special conditions on underperforming or at-risk grants;

f. Ensure that continuation decisions include rigorous analysis of financial, as well as programmatic, performance and prospects.

2. Control and monitor drawdowns through policies, procedures and processes that incorporate:

   a. Caps on the portion of a grant that can be withdrawn quarterly from the HHS PMS;
   b. Periodic, risk-based drawdown analyses, testing more frequently those grantees with excessive attrition and/or who are rated as moderate- or high-risk, with fresh results considered in deciding whether to continue an existing grant or award a new grant to an existing grantee, as well as in developing monitoring priorities and annual and final grant closeouts;
   c. Requirements that each drawdown analysis report be dated, initialed by the preparer, and signed by a supervisor for verification purposes and as evidence that the review was conducted timely by the appropriate personnel, and approved by authorized personnel;
   d. An array of corrective actions and interim safeguards for excessive drawdowns (including, for example, third-party confirmation of program funding commitments) that are based on risk, with resolution deadlines; Timely recoupment of excessive drawdowns, with collection of applicable interest payments;
   e. Elevation of seriously troubled grants for management attention to ensure that corrective action plans are reasonable, realistic and sufficient, with follow-up reports.

3. Obtain quarterly information from grantees on total program expenditures and/or development of non-CNCS funding for program support.

4. Establish monitoring priorities, plans and procedures based on grantee risk assessments that address specific fixed amount grant requirements, distinguishing between financial risk and programmatic risk.

5. Expand grant continuation decision-making with:

   a. Information concerning available non-CNCS funding and changes to grantee's financial stability or capabilities, as well as enrollment/retention, drawdowns and programmatic performance;
   b. Stronger scrutiny for continuation awards that involve repayments of excessive drawdowns for prior periods, including: requiring approval by

senior management where the debt is substantial in amount; written agreement with the grantee of a schedule for repayment; and more intense financial and programmatic monitoring to protect against further overpayments, ensure return of funds and promote achievement of program objectives.

6. Ensure effective communication between Program Officers and Grant Officers concerning enrollment and retention shortfalls, to permit grant adjustments, modifications or special conditions to mitigate developing risks and promote successful outcomes.

7. Formalize policies and procedures for the administration of fixed amount grants, communicate them to the affected parties, reassess them periodically and enforce them.

OBJECTIVES, SCOPE AND METHODOLOGY

We conducted this evaluation in accordance with the Quality Standards for Inspection and Evaluation issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

The objectives were to: (1) determine if the Corporation has identified and implemented adequate internal controls to prevent, detect, and mitigate fixed amount grant funds; (2) evaluate the existence and availability of fixed amount grant policies and procedures to protect Federal funds against waste, fraud, and inefficiency; and (3) assess the accountability process in place to evaluate and measure the performance of fixed amount grant programs.

We conducted our evaluation between May 21, 2013 and August 27, 2013. The evaluation focused on non-Education Award Program (EAP) fixed amount grants issued by the Corporation from Fiscal Year (FY) 2010 to May 2013. We reviewed fixed amount grants in the AmeriCorps and Senior Corps programs.

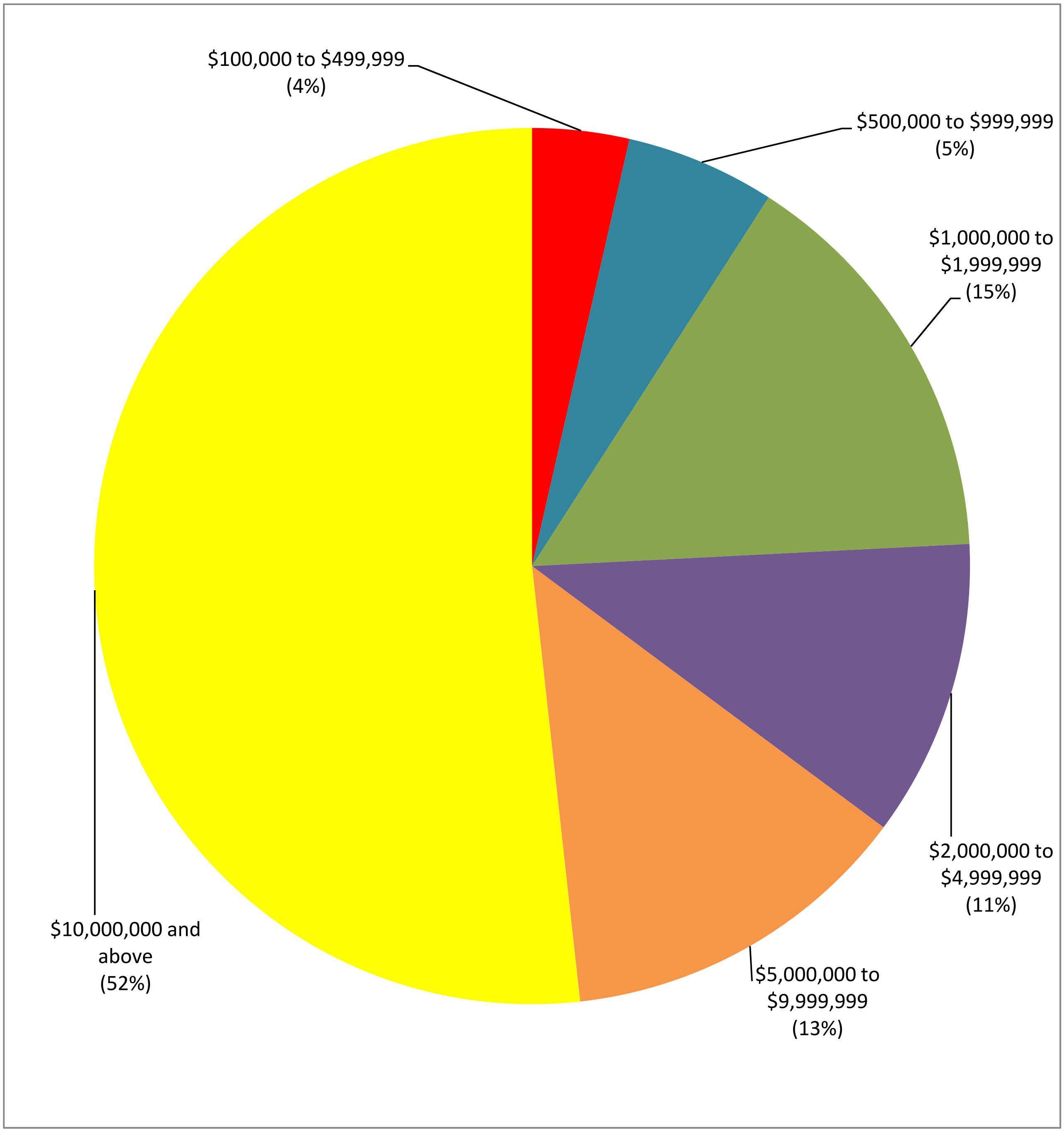
We judgmentally selected a total of ten fixed amount grants (eight AmeriCorps and two Senior Corps grants) for review. Fifty percent of the sampled AmeriCorps grantees were State Commissions. We intentionally selected grantees with higher drawdown rates.

The table and charts on the following pages show the dollar breakdown of the total population and our sample.

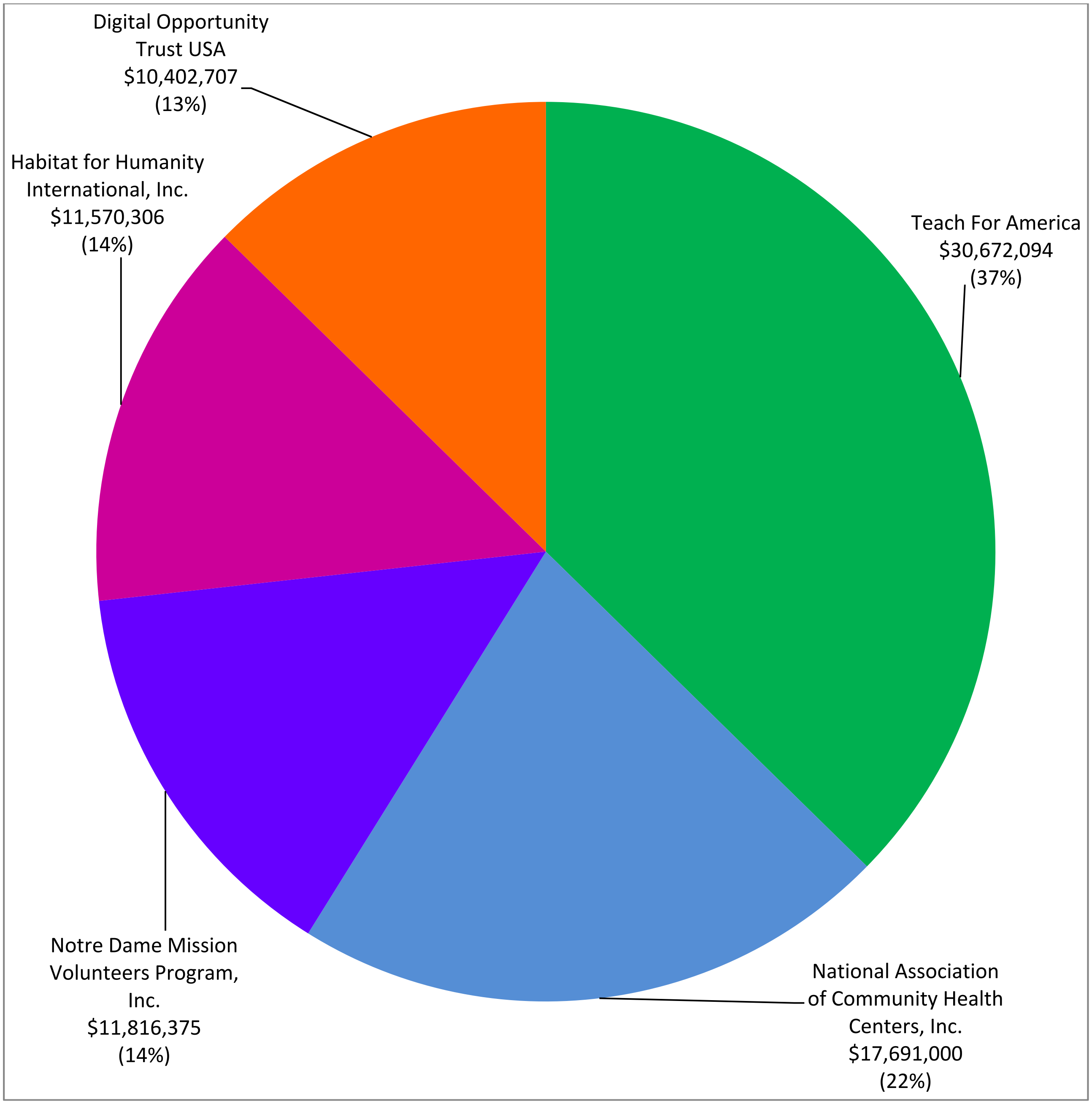
	Total Population of Non-EAP Fixed Amount Grants			
Program	Funds Obligated	Funds Disbursed	% of Funds Obligated	% of Funds Disbursed
AmeriCorps (64 grantees)	$ 158,735,133	$ 110,941,590	89%	88%
Senior Corps (54grantees)	$ 20,571,611	$ 14,883,005	11%	12%
Fixed-Amount Grants (118 grantees)	$ 179,306,744	$ 125,824,595		

	OIG Sample versus Program Population			
Program	Funds Obligated	Funds Disbursed	% of Funds Obligated	% of Funds Disbursed
AmeriCorps (8 grantees)	$ 32,475,227	$ 25,760,568	20%	23%
Senior Corps (2 grantees)	$ 688,043	$ 536,717	3%	4%
Total Sample (10 grantees)	$ 33,163,270	$ 26,297,285	18%	21%

Distribution of AmeriCorps Fixed Amount Grant Awards from FY 2010 to May 2013



AmeriCorps Grants Exceeding $10 Million



We utilized the My AmeriCorps Portal and eGrants system[19] to locate documentation and data relevant to this evaluation, such as application packages, monitoring reports, progress reports, grant history reports, member rosters, and grantee risk assessments.

[19] eGrants is an interactive web-based tool that allows grantees to apply online and track the status of their grant from application to close-out.

Our inquiry procedures included meetings with senior AmeriCorps and Senior Corps leadership responsible for the administration of fixed amount grants. Additionally, we interviewed program officers and grant officers to gain an understanding of their process for establishing and monitoring performance measures.

We reviewed the Corporation's publications, including email guidance, FAQs, NOFAs, presentations policies and procedures, laws and regulations relating to the operation of fixed amount grant programs, and a report prepared by the Corporation's research department, entitled *AmeriCorps State and National Fixed Amount Grants Reduce Reporting Burden with Limited Negative Consequences*, August 8, 2013. We also researched certain best practices relating to grant management across the Federal government.

Finally, we conducted entrance (June 6, 2013) and exit (July 25, 2013) conference meetings with the Corporation's senior management to keep them fully informed to the objectives and results of our evaluation. The Corporation's response to this report is included as Appendix A, and our response appears as Appendix B.

Appendix A

Corporation for NATIONAL & COMMUNITY SERVICE

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To: Deborah Jeffrey, Inspector General

From: BB William Basl, Director of AmeriCorps State and National
ET Erwin Tan, Director of Senior Corps
cmufa RG Rocco Gaudio, Deputy CFO for Grants and Field Financial Management
~~Peg~~ Rosenberry, Director of Grants Management

Cc: Valerie Green, General Counsel
Doug Hilton, Director of Accountability and Oversight
Kim Mansaray, Deputy Chief Operating Officer
Robert Velasco II, Chief Operating Officer

Date: September 23, 2013

Subject: Response to OIG Draft Report on the Evaluation of the Corporation's Fixed Amount Grant Processes

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Thank you for the opportunity to comment on the OIG draft report of CNCS's fixed amount grant processes. In response, we are providing background to correct factual errors in the report and errors in describing CNCS risk mitigation strategies for fixed amount grants.

The OIG report states that "In 2009, the Edward M. Kennedy Serve America Act (SAA) for the first time authorized the Corporation to award grants in fixed amounts…" Federal agencies do not need specific statutory authority to fund grants under fixed price scenarios. CNCS has awarded Promise Fellows and AmeriCorps Education Award fixed amount grants since the 1990s. The SAA expanded CNCS authority to fund fixed amount grants with appropriations CNCS receives for the AmeriCorps State and National grant program without regard to matching requirements. Under the SAA, CNCS can award fixed amount grants with AmeriCorps funds without specifying a specific level of required matching funds as long as CNCS sets the fixed amount in the grant at an amount "that is significantly less than the reasonable and necessary costs of administering the program supported by the grant." The law also stipulates that CNCS must require the grantee to "return a pro-rata amount of the grant funds based upon the difference between the number of hours served by a participant and the minimum number of hours for completion of a term of service."

The OIG report is not correct in stating that CNCS did not evaluate the risks inherent in fixed amount grants or mitigate those risks. On page 17 of the report, OIG acknowledges risk-based eligibility criteria for the Senior Corps FGP and SCP program. The OIG was also aware that CNCS was already funding fixed amount grants prior to passage of the

SAA, but chose to limit its review to the AmeriCorps programs funded after the passage of the SAA. That limited review did not acknowledge that CNCS had identified the specific risks of fixed amount grants when it first funded the Education Award and later the Promise Fellows grants -- the same risk factors CNCS confirmed, and the OIG recommended, during the OIG review. The OIG report also does not adequately acknowledge that CNCS had established procedures to address the risks and revised them based on the new authority provided in the SAA. CNCS existing and revised procedures include:

- Procedures to compare member retention records to funds accessed during the life of the grant to determine if grantees have accessed more CNCS funds than they should have based on member/participant records. The procedures require staff to suspend grantee access to drawdowns until they can confirm the grantee is deducting excess amounts already drawn from future draws. The OIG reviewed those procedures during its review. (Developed in 2010, implemented partially in March 2012, completed in April 2013)
- Instructions to applicants to identify their sources of funding for the program beyond the amount provided by CNCS. Staff assesses the viability of the program based on identified revenue sources as part of the budget and cost effectiveness criteria in the application review process. (In place since 1996, revised in 2010, and again in 2013)
- Procedures to compare member retention records to funds accessed during the closeout process to identify any final amounts that may have been drawn down in excess of overall member retention records. (Implemented in 1999, automated in 2007, and revised in August 2013 in preparation for upcoming reviews in October 2013 and closeouts beginning in December 2013)
- Guidance to full-time fixed amount grantees through Frequently Asked Questions to ensure they understand how fixed amount grants work and help them design procedures to access pro-rata portions of the fixed amount as needed based on member retention (Posted online and sent to fixed amount grantees)

Only one out of 118 of the new grantees drew down more CNCS funds than it should have and failed to establish adequate controls to ensure it had the additional revenue to operate the program. That one grantee is not representative of fixed amount grantees. The OIG review also incorrectly says that only "after the DOT issue arose did CNCS begin to develop procedures directed at monitoring the risks specific to fixed amount grants." As explained to the OIG auditor during the review, CNCS began development of a process to compare member retention to drawdowns in 2010 in fixed amount grants, as described above. The specifications for that 2010 process, which require electronic system upgrades, are with the Office of Information Technology for implementation when funds are available. In the interim, as noted in the review, the periodic manual drawdown analysis procedures are now in place and reduce risks associated with future excess drawdowns.

CNCS continually reviews problems with grantees and grant issues to identify areas in which CNCS could enhance its policies and procedures. We did so, again, when the

DOT issue came to our attention, to further strengthen controls. As noted in the OIG review, CNCS established stronger financial review procedures for the 2013 grant cycle to help ensure applicants will have financial stability as well as the resources needed to operate a successful AmeriCorps program. In addition, in the next grant cycle, CNCS plans to place limits on the size of a grant we will consider to ensure we do not provide an organization with funds that far exceed its existing total annual revenue. We also added new requirements to the 2014 NOFO for fixed amount grant applicants. Beginning in 2014, no organization can apply for a fixed amount grant unless it has operated a successful AmeriCorps program for at least one grant cycle. Program staff also will alert their grants officer counterparts when they find enrollment and retention problems in their fixed amount grant programs as soon as they discover them and grants officers will compare member records with drawdowns more frequently than annually.

The OIG review also draws conclusions and assumes CNCS intentions that are not based in fact. On page 8, the draft report states, "DOT was unable to retain members, many of whom quickly left to accept full-time employment as teachers." While DOT had retention problems, there is no data supporting the assumption that members left for teaching positions. In addition, the report states that CNCS intended to recover funds by continuing DOT for a third year. There was never any discussion with OIG staff that this was CNCS's intention, and this assumption is incorrect. In fact, CNCS deducted funds from the third year of the award based on under performance. Other factual errors in the report include:

- Page 2 alleges that "the fixed amount grant program has placed $240 million at financial risk..." In the appendix on page 23, the total amount awarded is $179,306,744. The amount of $240 million is overstated if the total awarded is only $179,306,744. In addition, indicating that all funds are at risk is a gross overstatement when only one out of 118 grantees reviewed failed to fully meet its grant obligations.

- Page 2 of the report notes that the Senior Corps fixed amount is $4,600. The fixed amount for the Foster Grandparent program is $4,600. The Senior Companion amount is $4,550.

- Page 10 of the report states one grantee, Habitat for Humanity, made excessive drawdowns during at least one year of its grant in the amount of $92,947. The drawdown analysis CNCS conducted does not support this finding. In fact, our analysis indicated that at the time of CNCS's staff review, the grantee could have drawn up to $150,000 more than it had. However, we do not know what procedures OIG staff used to conduct their drawdown analysis. CNCS will need the working papers to review OIG's methodology to resolve this discrepancy.

Finally, the draft report recommends that CNCS seek to recover interest on advanced amounts, citing OMB Circular 110 and 45 C.F.R. §2543.21, *Standards for financial management systems.* There is nothing in 45 C.F.R. §2543.21 about recovering interest on overpaid amounts and the section cited in OMB Circular 110 requires recipients to maintain advances of Federal funds in interest bearing accounts in specific instances. We are unaware of any authority for CNCS to charge grantees interest on funds drawn down for costs incurred in fixed amount grants.

In summary, CNCS has controls in place that are not acknowledged in this report, yet nonetheless agrees that it is appropriate to consider additional controls. CNCS is carefully evaluating what additional preventive or detective controls, or other risk mitigation techniques, would be most effective and cost-efficient.

Appendix B

Auditor's Comments on the Corporation's Response

Successful management of fixed amount grants requires a sound risk-based framework, implemented through standards, rules and procedures. The measures adopted by the Corporation begin to address some of these risks. However, the necessary safeguards are far from complete, and funds remain vulnerable.

The Corporation's response does not acknowledge the unacceptable risk that arises from a grantee's ability to access the full amount of a fixed grant at will, without regard to whether it retains the expected number of volunteers. The response likewise does not address our recommendation to do what other grant-making agencies have done—establish drawdowns caps administered through the HHS Payment Management System, a low-cost and automated preventive control. Even with the recently implemented procedures, the Corporation continues to rely on voluntary compliance by grantees, leaving the taxpayers with the risks and burdens of chasing overpayments that result from non-compliance. The $1 million overdrawn by the now-bankrupt DOT, which the Corporation is unlikely to recover, sharply illustrates the vulnerability of the system to mismanagement and abuse, and the Corporation has not done enough to close the gaps that allowed it. We do not share the inordinate comfort that the Corporation draws from its otherwise good fortune to date and hope that it does not indicate complacency.

Instead of grappling directly with the lack of a risk-based coherent framework for fixed amount grants or squarely addressing our specific recommendations, the Corporation's response challenges the scope of our audit based on irrelevant information and dwells on minutiae. Our response to these points individually should not detract from the basic findings in our evaluation—given the size and vulnerability of the fixed grant portfolio, better risk-based controls are essential.

Contrary to the Corporation's suggestion, the Education Award Program (EAP) is irrelevant, because those grants differ in material respects from the fixed amount grants newly authorized by the Serve America Act. An EAP grant provides no more than $800 per full-time member, with all remaining program operating costs paid by the grantee. Unlike the fixed amount grants on which our work focused, EAP grants defray only the initial costs of recruiting and training volunteers. The funds are thus earned in full upon member enrollment and are unaffected by subsequent attrition. The limited risks associated with EAP grants differ in magnitude, duration and kind from the ones addressed in our evaluation. Moreover, the Corporation has known the scope of our work since May 2013 yet never suggested that EAP grants be considered in any way relevant, and the Corporation's own research report on fixed amount grants, *AmeriCorps State and National Fixed Amount Grants Reduce Reporting Burden with Limited Negative Consequences*, August 8, 2013, likewise excluded EAP grants from consideration.

The response also asserts that the Corporation years ago developed procedures to address the risks associated with fixed amount grants. It cites as one example the comparison of drawdowns vs. member retention, which it states was developed in 2010. As the Corporation admits, however, that analysis was not *performed* until April 2013, after DOT acknowledged its financial difficulties. Unimplemented processes and procedures, no matter how well designed, are ineffective. And while OIG agrees that such analyses should be automated, the failure to act for three years while awaiting additional funding for the Office of Information Technology left the Corporation and the taxpayers at risk unnecessarily. The manual drawdown analysis performed in 2013 demonstrates that IT support, however desirable, was not essential.

The Corporation cites among its established procedures the instruction that applicants for fixed amount grants identify the non-CNCS funding to be devoted to the program. Our report noted this procedure, but questioned its effectiveness. Thirty percent of the fixed amount grant applications that we reviewed omitted this information and were nevertheless funded.

No speculation was involved in OIG's observation that the Corporation intended to recover the excessive drawdowns from DOT by funding the grant for a third year. The facts speak for themselves. The Corporation continued the grant at a reduced level ($3.1 million instead of $3.6 million, a 14 percent reduction), without reducing the number of member slots, and expected DOT to absorb the difference in costs. Under this unreasonably optimistic scenario, DOT would fund in year 3 the majority of the unfilled slots for which it was paid in years 1 and 2. The Corporation at that time took no other actions to recover the past excessive drawdowns, and it now offers no other explanation for doubling down on DOT.

The Corporation also quibbles with certain statements in the report that are in fact accurate:

- The response asserts that "the OIG report is not correct in stating that CNCS did not evaluate the risks inherent in fixed amount grants or mitigate those risks." OIG expressly requested any assessments of the risks associated with the fixed amount grant program. The Corporation was unable to provide any evidence of a risk assessment at the program level. The Director of Accountability and Oversight attributed the failure to urgency about using the new authority created by the Serve America Act. Had a formal risk assessment taken place, we believe that the Corporation would have instituted better safeguards.

- The Corporation questioned the basis for our statement that many of DOT's members left to accept teaching positions in the schools in which they were volunteering. The information comes from the Corporation's own records, specifically the "DOT Grantee Progress Report for Period 10/1/2011-9/30/2012 Response to Compliance Issues," which offered the following explanation for its retention problems: “[M]any times it is the school districts where the members are placed that offer the member full time employment.”

- The Corporation contends that OIG overstated the total of fixed amount awards as $240 million, when the appendix shows a total of $179,306,744. The report states explicitly that the second figure represents the fixed amount grants awarded from FY 2010 through May 2013, while the first figure also includes the new fixed amount grants of $65,417,088 awarded in June 2013. Report at 5. We stand by our conclusion that the lack of safeguards places these funds in jeopardy.

OIG correctly determined that Habitat for Humanity International overdrew its enrollment-based entitlement in the second year of its grant. Fortunately, much of the excess was offset by having underdrawn the grant in the previous year. The OIG analysis was based on the annual data available at the time of our evaluation. We shared our methodology and results with the Director of the Office of Grants Management (OGM), who expressed no objection. We were advised that OGM’s earlier analysis was based on the (then-available) cumulative data, rather than year-by-year.

OIG hopes that the Corporation will recognize the risks presented by the lack of controls for fixed amount grants, carefully review our specific recommendations and develop appropriate mitigation measures. We hope that future programs will receive more disciplined and rigorous risk analysis and more comprehensive risk management.