



April 11, 2014

The Honorable Sylvia M. Burwell
Director, Office of Management and Budget
725 17th Street, NW
Washington, DC 20503

Dear Ms. Burwell:

Pursuant to the President's July 2010 mandate on implementing the Improper Payments Elimination and Recovery Act (IPERA) (Public Law 111-204), the Office of Inspector General (OIG), Corporation for National and Community Service (Corporation or CNCS) has reviewed the improper payments information as reported in the Corporation's Agency Financial Report (AFR). We conclude that the Corporation has not complied with IPERA, applicable Executive Orders, and the Office of Management and Budget (OMB) guidance.

Background

This is the third consecutive year in which OIG has questioned the validity of the Corporation's IPERA analysis. In Fiscal Year (FY) 2011, the Corporation's AFR reported that none of its programs was susceptible to significant improper payments and reported improper payments in the AmeriCorps Volunteers in Service to America (VISTA) program of only \$2.14 and projected improper payments of \$3,947, results that were on their face unreasonable. The Corporation reached these results because it failed to examine whether the Corporation's expenditures were used for their intended purpose, a key IPERA criterion.

In its FY 2012 AFR, the Corporation ranked five programs in order of risk and said that in FY 2013 it would complete a final detailed statistical analysis of the payments within each of them, use the results to make a new determination of susceptibility and determine whether recapture audits would be cost-effective in programs or activities that were not susceptible to significant improper payments. It would report all of the results in the FY 2013 AFR. Reviewing this work, OIG noted that the Corporation was continuing to understate the prevalence of improper payments and had not accurately assessed the susceptibility of at least some of its programs. The testing methodology ignored whether grantees made proper use of approximately \$750,000,000 disbursed annually by the Corporation in the form of grants. In response, the Corporation promised that a new review of the susceptibility of its programs in FY 2013, beginning with the AmeriCorps State and National program, which the Corporation identified as the most likely of its programs to have improper payments of more than \$10 million or 2.5 percent of program outlays.¹ The Corporation declared its intention to conduct "a comprehensive, statistically-projectable review of costs incurred by [AmeriCorps State and National] grants to develop a basis on which to assess the level of costs that are improper on the basis of not conforming to the terms and conditions of CNCS' awards," including applicable cost principles.

¹ This represented a departure from the risk rankings reported in the FY 2012 AFR, which ranked VISTA and the National Service Trust as riskier than AmeriCorps.

Corporation's Incomplete IPERA Analysis and Reporting for FY 2013

The Corporation has never conducted an analysis of the costs incurred by AmeriCorps grantees across the entire grant portfolio. As reported in the FY 2013 AFR, the Corporation completed only the preliminary stage of the promised AmeriCorps review. Thus, it has confirmed that the AmeriCorps program is susceptible to more than \$10 million of improper payments per year, but it cannot reliably estimate how much more. Although the Corporation stated in its FY 2013 AFR that it used a "statistically-based approach" to reach this conclusion, that approach was not sufficient to project either the rate or the amount of improper payments made annually by the AmeriCorps program.

Certain obstacles impeded the efforts of the audit firm contracted by the Corporation to conduct the improper payment assessments. These impediments included the lack of standardized general ledger data and document formats from grantees, untimely submission of information and the level of non-responses or inadequate responses. As result, both the Corporation and audit firm were unable to reach conclusions or opinions regarding the amount and rate of improper payments.

The AFR reported that the Corporation was not certain when it would be able to quantify its improper payments or to develop, implement and evaluate corrective actions. The Corporation stated in the FY 2013 AFR that it intends to complete its work in FY 2014 and report the results in its FY 2014 AFR.

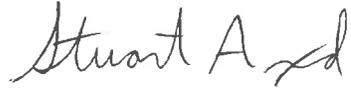
The Corporation is thus non-compliant with IPERA, applicable Executive Orders and OMB guidance. It did not, for example:

- Obtain a statistically valid estimate of the annual amount of improper payments in AmeriCorps and publish it in the AFR;
- Develop and implement a plan for reducing those improper payments and report the results in the AFR, including annual reduction targets;
- State whether the Corporation has the necessary internal controls, human capital, information systems and other infrastructure to reduce improper payments, and, if not, identify the additional resources that it requires to do so;
- Describe its accountability measures for meeting improper payments reduction targets and establishing and maintaining sufficient internal controls to prevent, detect and promptly recover improper payments.

The Corporation provided its FY 2013 improper payment testing and assessment to OIG in February 2014, two months after the issuance of the FY 2013 AFR. At that time, the Corporation advised OIG that it had not yet decided how to proceed. In light of this uncertainty and the Corporation's clear non-compliance with IPERA in FY 2013, OIG has deferred further evaluation of the methodology used in the Corporation's FY 2013 assessment. We will continue to monitor the status of the Corporation's improper payment assessments and determine whether additional evaluation of the FY 2013 efforts would be productive. OIG looks forward to working with the Corporation to facilitate a complete and reliable assessment of improper payments, together with effective plans to reduce and recapture the amounts wasted.

Should you have questions about this letter, please contact Thomas Chin, Audit Manager, at (202) 606-9362 or t.chin@cncsoig.gov; or me at (202) 606-9360 or s.axenfeld@cncsoig.gov.

Sincerely,

A handwritten signature in cursive script that reads "Stuart Axenfeld".

Stuart Axenfeld
Assistant Inspector General for Audit

cc: Wendy Spencer, Chief Executive Officer, CNCS
Douglas Hilton, Director, Office of Accountability and Oversight, CNCS
David Rebich, Chief Financial Officer, CNCS