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

October 1, 2015 – March 31, 2016

Fiscal Year 2016 Semiannual Report No. 1
Corporation for National and Community Service

Response to the OIG Semiannual Report and Report on Final Action

As the Corporation for National and Community Service (CNCS or the Agency) has noted in recent past responses to the Office of Inspector General’s (OIG) Semi-Annual Reports (SAR), the agency is actively improving its grants monitoring, internal controls and financial management functions, and cybersecurity. This response includes multiple examples of actions CNCS is taking to address these issues, and therefore CNCS categorically disagrees with the OIG’s suggestion that the agency has taken no action.

Any discussion of improvements must begin from the premise that this agency is well-managed and taxpayer funds are used effectively and with accountability to advance its important mission. CNCS supports national service and social innovation to engage citizens in solving community problems. From preventing substance abuse in Eastern Kentucky and addressing the water emergency in Flint, Michigan; to ending veterans’ homelessness in Virginia and raising childhood literacy rates in Minnesota, national service is a smart, proven, and cost-effective strategy to get things done.

We have taken multiple steps to enhance internal controls, cybersecurity, and grantee training, monitoring, and oversight as part of our larger strategic focus on using federal funds more effectively to strengthen compliance, measure and improve performance, and fund evidence-based programs to maximize our impact in the more than 50,000 locations where national service participants serve.

CNCS will continue making improvements, including many of the reforms suggested by the OIG, and the agency has a strategy to do so.

- An important step was CNCS’s recent hiring of the agency’s first Chief Risk Officer, one of the few such positions within the federal government. This executive will lead an office that oversees all of CNCS’s risk assessment programs and internal controls to better manage its resources, drive informed decision-making, and improve the agency’s overall performance. This new executive position is an essential building block needed to guide additional improvements, particularly in regards to internal controls improvements around financial statements and grants monitoring.

- Another important step has been CNCS’s continued development of a new grants management system. CNCS’s ability to oversee its grants is limited by its current information technology. The agency is investing all available funds – and more are needed – to design a new grants management system to reflect our current and future needs to more effectively and efficiently oversee the agency’s grant portfolio and manage its members.
• CNCS has already implemented improvements to its grants monitoring practices, including improved training and communication with staff, grantees, and participants; better use of financial data to assess grantee risk; quarterly reviews of Single Audit results; reviews of grantee drawdowns; increased controls on fixed-amount grants; and continued refinements to monitoring tools.

• The future state of grants monitoring reform will involve reviewing and validating our grantee risk model, benchmarking our model and processes against other similar grant making agencies, as well as evaluating innovative ways to identify issues more efficiently. This work, combined with maturing our internal control risk assessment process and planned testing activities, will support CNCS’s efforts to meet existing and anticipated federal requirements. In fact, preliminary work in these areas has already begun.

CNCS recognizes that improving monitoring is an evolutionary process for which the agency must continue to assess current resources, align and train existing staff, survey best practices inside and outside the government, design and build useful technological solutions to reflect our long-term needs – all within a constrained budget environment. While faster action would be preferable, quickly arriving at the wrong result would only serve to waste time and scarce funding.

Further, while CNCS is strongly committed to making improvements, including some of those identified by the OIG, CNCS must again note that its grant programs are well-managed overall and its grantees are generally high-performing. Grantees deliver services to communities in need as expected by CNCS and Congress, with very few incidents of loss, fraud, waste, or mismanagement, as exemplified by both audits cited in this SAR.

• CNCS awarded Reading Partners approximately $9 million between 2012 and 2015 in 13 grants across nearly every stream of national service and the Social Innovation Fund to help communities in need. The OIG’s audit of Reading Partners found the grantee to be essentially flawless, with questioned costs of less than two-tenths of one percent. This grantee managed award funds invested by CNCS as expected, and to great effect.

• CNCS awarded the Hoopa Valley Tribe nearly $3 million between 2012 and 2014. The OIG’s audit of Hoopa Valley Tribe likewise found no fraud or mismanagement of CNCS’s investment. Rather, the audit revealed four noncompliant criminal history background checks where the checks were conducted, but not precisely in accordance with CNCS’s regulations. Even though all of the individuals were proven to be eligible (once the grantee perfected the required checks), CNCS still applied cost disallowance to the grantee for its imprecise check to enforce CNCS’s zero tolerance policy for noncompliant criminal history checks.
These examples demonstrate that CNCS has high performing grantees, and CNCS holds its grantees accountable when issues arise.

CNCS appreciates the investigative work performed by the OIG in several matters disclosed in this SAR that have become public in recent weeks. In response to issues referred to the OIG by CNCS and others, the OIG’s investigations enabled CNCS to hold individuals and grantees accountable for noncompliance or misconduct and recover federal funds. CNCS is committed to using federal funds to maximize the agency’s impact in communities, and investigating and recovering misused funds is paramount in the rare cases where it occurs.

Additionally, CNCS notes that the agency devotes substantial time and attention to grants monitoring efforts, and those efforts produce results. During the SAR reporting period, the agency conducted more than 200 monitoring activities. In many cases, CNCS’s monitoring resulted in corrective actions and disallowed costs.

An additional area where CNCS has made substantial improvements during the reporting period is to improve grantee compliance with the important criminal history check requirements. Criminal history check noncompliance continues to present challenges for some grantees, which is why the agency has devoted extraordinary focus, personnel, and substantial resources to support grantees’ ability to conduct proper criminal history checks on time, every time. As part of CNCS’s strategy on this topic, the agency has:

- Focused grantees on this priority with extensive tone-from-the-top messaging by the CEO at every grantee training event held since 2015
- Developed an alternative path for grantees to obtain fingerprint-based FBI background checks
- Enhanced and clarified training resources (e.g., courses, videos, and improved guidance)
- Implemented a new enforcement policy that routinely involves financial consequences for noncompliance.

Because CNCS recognizes that background checks are only one important piece of the safety puzzle, the agency has begun focusing more on prevention training, beginning the past few months at our regional training conferences. Accountability involves not only compliance with what is required, but also continuous improvement to deploy the best, most effective services possible.

**Oversight of Social Innovation Fund (SIF) Grants**

As noted in CNCS’s response to the SIF Management Alert, CNCS will respond to the OIG’s concerns in its future management decision on the yet-to-be-completed granteec
audit described in the Management Alert. CNCS must, however, address two inaccuracies in this section of the SAR.

- The OIG inaccurately describes the SIF as having unique risks. While SIF is programmatically unique, it is no different from AmeriCorps from a grants financial management perspective. The SIF grant program requirements for pass-through funding and the use of non-federal matching funds are among the most common features of federal grants. CNCS also does not consider the scale of matching and pass-through funding required under the SIF statute to warrant crafting separate and unique grant monitoring protocols, as suggested by the OIG.

- SIF uses a programmatic monitoring tool that is different from the AmeriCorps tool. In the OIG Management Alert and in the SAR, the OIG conflates programmatic and financial monitoring when they are, in fact, separate functions for which CNCS has distinct protocols.

- The Office of Grants Management (OGM) is currently assessing not only the SIF workload, but other grant management workloads to determine the appropriate level of staffing, given our current resource constraints.

CNCS awaits receipt of the OIG’s ongoing audit on this SIF grantee, and will provide a more detailed response to the specific findings raised in that report.

**Federal Information Security Management Act (FISMA)**

CNCS has made significant progress over the last several years to improve its IT security. In its fiscal year (FY) 2015 FISMA report, the OIG acknowledged CNCS’s progress when it stated that CNCS “has taken a number of meaningful steps to address information security and privacy weaknesses from the fiscal year (FY) 2014 Federal Information Security Management Act of 2002 (FISMA) evaluation…” Specifically, the report notes that CNCS has improved in nine areas and has completed remediation in the remaining two areas.

Since the issuance of the FY 2015 FISMA report on November 13, 2015, CNCS has addressed more than 40 FISMA recommendations. Some of these improvements include:

- Establishing a new managed information technology services contract that will resolve issues related to CNCS’s older technology

- Implementing a new IT inventory control system

- Working with the Department of Homeland Security on their implementation of Continuous Data Monitoring for small agencies, scheduled for delivery to CNCS later this year.
In January, the OIG conducted an exercise where they attempted to gain access to the My AmeriCorps Portal (the online AmeriCorps member management system) from the position of both an outside and inside threat. This exercise determined that the security in place prohibited unauthorized user access to the system. As part of the same exercise, the OIG also sent a phishing email test. The results of that test revealed vulnerabilities at levels significantly below those of similar agencies, validating the success of CNCS’s recently updated Cybersecurity Awareness training.

CNCS acknowledges that it still has work to do to improve its IT security. The OIG remains aware of the plan to improve in this regard. In 2015, the OIG was briefed on and concurred with CNCS’s multi-year IT security plan to address all cybersecurity issues and the agency continues to execute on schedule.

**Financial Statements Audit**

Since last year CNCS has been executing a detailed strategy to address the issues found in the agency’s recent financial statement audits, and takes those deficiencies extraordinarily seriously. But again, context is important. CNCS has received 16 consecutive years of unmodified (clean) opinions of the agency’s financial statements from independent auditors. This reflects a strong track record by any measure.

Yet the agency recognizes that improvements are needed to strengthen its internal controls and accounting/financial management functions, and management has invested heavily to do so. CNCS has hired a new director of its accounting and financial management unit, improved training, management, and support to existing staff, and increased short-term and permanent staffing to address identified gaps and deficiencies. CNCS has also invested in contractors to support the agency’s internal control testing, appointed an OIG coordinator to oversee the agency’s response to OIG findings, and reformed its corporate governance structure in response to the auditor’s critiques. Overall, CNCS is executing its strategy to address the deficiencies found in recent financial statements audits.

**Investigations**

CNCS is pleased to note that three of the investigations listed in the SAR were brought to the OIG’s attention by CNCS management – as a result of CNCS monitoring. In addition to CNCS’s ongoing discussions with the OIG on the subject of risk, CNCS regularly alerts the OIG to issues as they arise in routine oversight. For example, CNCS alerted the OIG of the Foster Grandparent Program volunteer issue as soon as it surfaced, even though the alleged misconduct had no connection whatsoever to CNCS’s programs. Even though the alleged misconduct took place outside of the context of the FGP program and had no connection to CNCS, the agency notes that the grantee conducted criminal history checks in full compliance with the law and had no reported criminal history.

* * * * *
CNCS remains committed to continuous improvement in managing its grantees, protecting taxpayer dollars, creating new service opportunities, and improving the delivery of services to communities across the country. To that end, CNCS will continue its efforts to implement enterprise risk management and risk integration, grants monitoring reforms, and information technology systems improvements.
<table>
<thead>
<tr>
<th></th>
<th>Number of Reports</th>
<th>Disallowed Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td>B.</td>
<td>1</td>
<td>60,105</td>
</tr>
<tr>
<td>C.</td>
<td>1</td>
<td>60,105</td>
</tr>
</tbody>
</table>

1. Recoveries\(^1\)
   - (a) Collections and offsets | 6 | $223,970.18 |
   - (b) Property in lieu of cash | 0 | -          |
   - (c) Other (reduction of questioned costs) | 0 | -          |

2. Write-offs
   - | 0 | - |

D. Audit reports for which final action was not taken by the end of the reporting period
   - | 9 | - |

\(^1\) Recoveries can include audits for which final action was taken in prior reporting periods.
## TABLE II

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

(For the Period October 1, 2015 to March 31, 2016)

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of Audit Reports</th>
<th>Dollar Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Reports for which final action had not been taken by the commencement of the reporting period</td>
<td>1</td>
<td>$328,574</td>
</tr>
<tr>
<td>B. Reports for which management decisions were made during the reporting period</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>C. Reports for which final action was taken during the reporting period</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>C. i. Dollar value of recommendations completed</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>C. ii. Dollar value of recommendations that management has concluded should not or could not be implemented or completed</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>D. Reports for which no final action had been taken by the end of the reporting period</td>
<td>2</td>
<td>$341,289</td>
</tr>
</tbody>
</table>

### Table III

With regard to CNCS’s requirement to report on audit reports on which management decisions have been made but final action has not been taken, other than audit reports on which a management decision was made within the preceding year, CNCS reports that it has completed final action on all applicable issued final management decisions to date.
Table IV
REPORTS DESCRIBED IN PRIOR SEMIANNUAL REPORTS WITHOUT FINAL ACTION
(For the Period October 1, 2015 through March 31, 2016)

<table>
<thead>
<tr>
<th>Audit Number</th>
<th>Title</th>
<th>Date Issued</th>
<th>Final Action Due Date</th>
<th>Status of Action/Reason No Final Action was Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>12-04</td>
<td>Audit of Earned Education Awards Resulting from Compelling Personal Circumstances</td>
<td>11/9/2011</td>
<td>11/9/2012</td>
<td>CNCS Draft Management Decision was sent to OIG on 3/31/2015. OIG response sent to CNCS on 9/30/2015. OIG is currently reviewing additional information CNCS provided on 11/27/2015.</td>
</tr>
<tr>
<td>12-16</td>
<td>Agreed-Upon Procedures for Grants Awarded to the New Jersey Commission on National and Community Service</td>
<td>9/27/2012</td>
<td>12/15/2013</td>
<td>CNCS Draft Management Decision was sent to OIG on 3/13/2015. This audit contained multiple accounting errors which required in depth review and reconciliation.</td>
</tr>
<tr>
<td>14-09</td>
<td>Audit of Blanket Purchase Agreements for Professional Services</td>
<td>6/20/2014</td>
<td>6/20/2015</td>
<td>CNCS Draft Management Decision was sent to the OIG on 10/1/2014. OIG response sent to CNCS on 1/20/2016. CNCS is in the process of finalizing the management decision.</td>
</tr>
<tr>
<td>15-05</td>
<td>Audit of CNCS Grants Awarded to Tufts University/ Massachusetts Campus Compact</td>
<td>5/15/2015</td>
<td>5/14/2016</td>
<td>Delayed due to additional research of VISTA program issues questioned in the report.</td>
</tr>
<tr>
<td>15-06</td>
<td>Audit of CNCS Cooperative Agreements Awarded to AFYA Inc. &amp; Education Northwest</td>
<td>6/25/2015</td>
<td>6/24/2016</td>
<td>CNCS Draft Management Decision was sent to the OIG on 3/17/2016.</td>
</tr>
<tr>
<td>16-05</td>
<td>Audit of CNCS Grants Awarded to Hoopa Valley Tribe</td>
<td>11/13/2015</td>
<td>11/14/2016</td>
<td>CNCS Proposed Management Decision was sent to the OIG on 3/10/2016.</td>
</tr>
<tr>
<td></td>
<td>Audit of CNCS Grants Awarded to</td>
<td></td>
<td></td>
<td>CNCS Proposed Management Decision was sent to the OIG on 3/30/2016.</td>
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<td>---------------------------------------------------------------</td>
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<tr>
<td>16-06</td>
<td>Student Conservation Association</td>
<td>12/17/2015</td>
<td>12/16/2016</td>
<td></td>
</tr>
<tr>
<td>16-07</td>
<td>Audit of CNCS Grants Awarded to Reading Partners</td>
<td>01/14/2016</td>
<td>1/13/2017</td>
<td>CNCS Proposed Management Decision was sent to the OIG on 3/30/2016.</td>
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</tbody>
</table>