

Office of Inspector General

Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

Semiannual Report To Congress

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About the Corporation for National and Community Service

Established in 1993, the Corporation for National and Community Service (CNCS or the Corporation) engages more than five million Americans in service through its core programs -- Senior Corps, AmeriCorps, and the Social Innovation Fund. As the nation's largest grant maker for service and volunteering, CNCS plays a critical role in strengthening America's nonprofit sector and addressing our nation's challenges through service.

and the Office of Inspector General

Established along with the Corporation, Office of Inspector General (OIG or the Office) promotes economy, efficiency and effectiveness in CNCS's programs and activities. OIG prevents and detects waste, fraud, and abuse within the Corporation or at the entities that receive and distribute Corporation grant funds. OIG is an independent organization, led by a Presidential appointee, which operates independently of the Corporation and submits its reports and recommendations to the Corporation's Chief Executive Officer and to the Congress.

Pursuant to the Inspector General Act of 1978, as amended, this Semiannual Report summarizes OIG's work for the first six months of FY 2015. It is being furnished to the Corporation's Chief Executive Officer.

Inspector General Message

On behalf of the Office of Inspector General of the Corporation for National and Community Service, I am pleased to submit this Semiannual Report detailing the contributions of this office for the six months ended March 31, 2015. This period has been marked by notable accomplishments and promising developments on longstanding matters of disagreement with the Corporation, but also by confirmation of fundamental weaknesses in the Corporation's internal controls. I begin with the good news.

In December 2014, OIG's Investigations Section obtained for the taxpayers the largest false claims recovery from a grantee ever in the history of CNCS. Maricopa County Community College District agreed to pay \$4.08 million to settle litigation under the False Claims Act.

Following a hotline tip, investigators determined that a community college in Phoenix, AZ, was defrauding the AmeriCorps Program; the college allowed approximately 1000 pre-professional students to receive AmeriCorps credit for performing clinical services that were independently required by their academic programs. The community thus received no additional benefit from the expenditure of AmeriCorps funds. Faced with the irrefutable evidence assembled by our investigators, the community college district settled the case for an unprecedented sum in damages and penalties. The Civil Division of the Department of Justice was instrumental in bringing the case to this favorable conclusion, and we appreciate their support.

In prior Semiannual Reports and briefings, OIG noted that the Corporation has not consistently enforced the requirement that grantees conduct timely and complete background checks to ensure that their staff and volunteers do not have a history of sex offenses and murders. In its most recent Agency Financial Report, the Corporation estimated that inadequate or untimely criminal history checks in three of its programs accounted for more than \$26 million in questionable/potentially improper payments in FY 2014 alone. Even during this period, the Corporation treated certain noncompliance permissively.

The Corporation has committed to more rigorous enforcement, to ensure that CNCS programs do not expose the public to individuals with unknown criminal histories. Following a self-assessment of compliance across all programs, CNCS has recently adopted a policy promising to hold grantees accountable, including financially, for noncompliance: "Absent extraordinary circumstances, enforcement actions in cases of noncompliance shall include, at a minimum, cost disallowance."

Chief Executive Officer Wendy Spencer has told grantees in person and in writing that she expects them to conduct and document the required background checks "on time, every time," and that

grantees that fail to do so should expect to lose out on money for the affected staff and participants. We applaud these measures as a necessary ingredient, along with regular training and other compliance assistance offered by the Corporation, to make safety a priority.

Of course, the effectiveness of this policy depends on how it is implemented, and specifically what “extraordinary circumstances” will justify waiving disallowance of costs. That all-important exception has yet to be defined. If construed broadly, it could swallow the rule, breed complacency and actually weaken compliance. Corporation management has engaged OIG in discussions about this critical topic. We believe that the extraordinary circumstances should be narrowly defined, focusing on matters outside the grantee’s control or which the grantee could not have prevented or detected with a high level of diligence and strong management oversight. That approach would reinforce the message that criminal history checking is a matter of the highest priority, for which grantees will be held to a high standard of accountability. OIG shares Congressional concern about this issue and will monitor it closely.

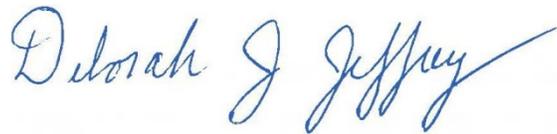
We describe in the attached report several other areas in which OIG and Corporation management are working together constructively to strengthen accountability. Agency leadership has been receptive and helpful in working through a number of issues, including a new policy on reporting fraud and other misconduct to the OIG and describing employees’ obligations to cooperate with OIG inquiries. We are about to undertake joint outreach to CNCS staff, which we hope will encourage active cooperation and assistance.

On a more sobering note, the independent financial statement audit confirmed OIG’s warnings about the weakness of the Corporation’s internal controls, which deteriorated in FY 2014. Although the Corporation received an unmodified (clean) opinion on the fair presentation of its financial statements, the independent auditors found two “significant deficiencies,” one relating to the overall design, assessment and effectiveness of the internal controls over program operations and financial reporting, and the other in the area of information security. Both represent worsening of conditions noted by the auditors in prior years, and which they, and OIG, urged the Corporation to improve. We reiterate our concern that the Corporation does not have a comprehensive, timely and effective internal control assessment and monitoring program that includes effective governance, personnel with the necessary training and skills, and management supervision and follow-up. The lack of effective internal controls leaves the Corporation’s programs and activities unnecessarily vulnerable to fraud and exposed to excessive risk, including across-the-board weaknesses in information security.

The Corporation has committed to strengthen the Oversight and Accountability function and has introduced new leadership. Management has also declared its intention to move towards an enterprise risk management approach and has taken preliminary steps in that direction. This is a major challenge for the Corporation and will require a sustained, well-resourced effort, with continuing involvement of the Corporation’s leadership.

Much remains to be done to improve accountability at the Corporation and its programs. My staff and I are committed to that vital objective. We appreciate the continuing support of the Congress and look forward to further constructive engagement with CNCS management.

Sincerely,

A handwritten signature in blue ink that reads "Deborah J. Jeffrey". The signature is written in a cursive style with a long, sweeping tail on the final letter.



Audits and Reviews

The Office of Inspector General Audit Section reviews the financial, administrative, and programmatic operations of the Corporation for National and Community Service. The Audit Section's responsibilities include supervising the audit of the Corporation's annual financial statements, assessing the Corporation's management controls, reviewing the Corporation's operations, and auditing individual grants, contracts, and cooperative agreements funded by the Corporation. OIG audit reports and reviews are issued to Corporation management for its action or information and are publicly available on the OIG website.

Pending Audits and Evaluations

At the end of the reporting period, an evaluation of the Corporation's National Civilian Community Corps (NCCC) program, an audit of improper payments under the Improper Payments Elimination and Recovery Act (IPERA), and eight grantee audits or agreed-upon procedures engagements were in process. Below are highlights of particular evaluations and audits for this reporting period.

Financial Statement Audit Finds Significant Deficiencies in Corporation's Internal Controls

Independent auditors concluded that the financial statements of the Corporation and the National Service Trust were fairly presented in all material respects, in conformity with generally accepted accounting principles. This is the 15th consecutive year in which the Corporation has received an unmodified ("clean") opinion.

However, the Corporation's internal controls over operations and financial reporting, already identified as weak in prior audits, continued to deteriorate during FY 2014. For the last four years, the independent auditors, like the OIG, expressed serious concerns regarding the inadequacy of the internal control framework and annual assessment process. Despite promises, the Corporation's efforts to strengthen internal controls and risk management, especially its capacity to properly identify and assess risks, identify controls, and evaluate control effectiveness, not only stalled, but in some areas regressed, in FY 2014. For example, the management committee charged with oversight of this critical function simply did not function. As a result, the financial auditors concluded that this weakness had become so severe that they were required to disclose it to the public as a "significant deficiency" in the FY 2014 audit report.

Federal agencies are required to monitor the effectiveness of their internal controls because strong controls play a critical role in protecting the integrity of Federal programs and assets. Effective internal control helps to ensure that financial, operational, programmatic and compliance objectives are met and that risks are appropriately mitigated. Developing and maintaining effective internal control is essential to stewardship of public assets and should therefore be a core concern of agency leaders. Professional standards require that severe internal control weaknesses be noted in an audit of an agency's financial statements.

Here, the audit report contains serious adverse findings regarding the design, assessment and effectiveness of the Corporation's critical internal controls in the areas of program operations and financial reporting and information security, as well as noting the deficiencies previously discovered by the OIG in contract management. Put simply, the lack of an effective internal control assessment and improvement program leaves virtually all of the Corporation's programs and activities unnecessarily vulnerable to fraud and exposed to excessive risk.

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The auditors determined that the Corporation does not have a comprehensive and timely internal control monitoring and assessment process that includes effective governance and management follow-up. Further, the Corporation had not committed sufficient resources and lacked personnel with the necessary training and skills to perform this function. Lack of management involvement, governance and oversight, coupled with inadequate planning and protracted delays in performing assessment activities undermined the effectiveness of the internal control assessment and precluded meaningful improvement. The auditors expressed doubt that the existing monitoring program was sufficient to allow Corporation management to certify, pursuant to the Federal Managers' Financial Integrity Act of 1982 (FMFIA), that the agency's internal controls would ensure effective and efficient operations, compliance with applicable laws and regulations and reliable financial reporting. Notwithstanding this cautionary language, the Corporation's Agency Financial Report for FY 2014 contained an assurance statement that the internal controls over financial reporting were operating effectively.

Moreover, OIG audits identified serious deficiencies in the design and operation of critical internal controls that the Corporation's internal assessment failed to detect. Audit testing exposed pervasive weaknesses in information security that went undetected by CNCS's Office of Accountability and Oversight and Office of Information Technology. Some of these undetected items were urgent enough to require immediate correction. Similarly, in the area of procurement, our audit of the Corporation's Blanket Purchase Agreements (Report 14-09: <http://www.cncsoig.gov/news-entry/14-09-0>) found numerous weaknesses in the Corporation's contract management process and controls, leading to unauthorized payments to contractors and substantial waste of CNCS assets. The Corporation has acknowledged that these weaknesses existed throughout the procurement function.

Both information security and contract management are widely recognized throughout the Federal government to carry high risk. They therefore require particularly close scrutiny of the effectiveness of internal controls. The failure of the internal control assessment program in these high-risk areas suggests broader questions regarding the Corporation's risk management practices.

We have briefed the CEO and her leadership team about these findings and our reservations about the pace of improvement. OIG communicates frequently and openly with the Chief Operating Officer (COO) and the new Director of Accountability and Oversight regarding recommendations for protecting the taxpayers' interests. Through our regular participation in the Corporation's new top-level internal control governance body and periodic meetings with Corporation management and staff, OIG continues to advocate for increased attention to resolve these longstanding issues.

A copy of the FY 2014 financial statement audit report is available at (Report: 15-01 <http://www.cncsoig.gov/news-entry/15-01>).

Independent Evaluation Finds Information Security Weaknesses - Federal Information Security Management Act (FISMA) Evaluation for FY 2014

As cybersecurity becomes an increasing concern, the Federal Information Security Management Act (FISMA) requires every Federal agency to undergo an annual evaluation of its information security practices. The information security and privacy measures at the Corporation did not meet minimum standards and require substantial improvement across the board. Evaluators found control deficiencies in 49 of the 115 government-wide information security metrics, reflecting noncompliance with Office of Management and Budget guidance and the standards established by the National Institute of Standards and Technology (NIST).

Similarly, the evaluators uncovered weaknesses in 11 of the 12 areas that they tested. Controls were found to be ineffective in seven of these areas, and in four of them—Continuous Monitoring, Risk Management, Plans of Action and Milestones and Privacy—the defects were severe enough to constitute a “significant deficiency,” requiring immediate correction and attention at the highest levels of agency leadership. The Corporation was required to identify these information security defects as a “material weakness” at pages 27-28 in its AFR. The FISMA evaluation report is available on the OIG public website at (Report 15-03: http://www.cncsoig.gov/sites/default/files/15-03_0.pdf).

Overall, the independent evaluators concluded that the Corporation’s information security and privacy program does not meet the standards established by FISMA, which are intended to protect the interests of the Federal Government and of individuals in information security and privacy. These weakened security controls jeopardize the confidentiality, integrity, and availability of information and information systems.

Many of these problems are longstanding and were previously brought to the Corporation’s attention. Five of the findings were recurring from the prior year. Among the new findings, the independent evaluators discovered that the Corporation did not exercise adequate oversight of the security measures by the contractors to which it outsources critical IT functions.

Collectively, these control deficiencies in the Corporation’s information security and privacy program increase the risk of fraud, waste, and abuse, as well as the likelihood that an information security breach may occur and result in the loss of sensitive information. The loss of sensitive information, such as personally identifiable information, could result in significant financial liabilities for the Corporation to investigate and remediate the security breach and to purchase credit monitoring and fraud protection services for the affected individuals.

As in past years, the leadership of the Office of Information Technology (OIT) insisted throughout the evaluation fieldwork that its information security program met all applicable standards, disagreed with evaluators’ assessment of the severity of noted weaknesses and questioned the value of adopting and documenting comprehensive policies and procedures for

information security. Ultimately, however, Corporation management acknowledged the problems and concurred in the evaluation findings. The Corporation has taken steps to correct certain of the deficiencies and has promised a plan for addressing others. We are in regular contact with the new leadership of OIT and the COO concerning the Corporation's progress on these issues.

Grant Management and Oversight

OIG Submits Recommendations for Better Risk-Based Grant Monitoring

With grant making as CNCS's core activity, proper oversight of grantees and sub grantees is an essential ingredient of stewardship. In part because of the limited capabilities of its legacy information technology (IT) systems, the Corporation's grant monitoring is highly labor-intensive. It is not feasible or cost-effective for the Corporation to apply the same level of scrutiny to all grants. Indeed, in many cases, a grantee may undergo an on-site monitoring visit only once every six years.

Currently, the Corporation establishes its monitoring priorities by indiscriminately assessing each grant according to a uniform set of risk indicators. The risk indicators have never been validated against outcomes, so that the Corporation has no data on whether they are effective predictors of risk. Moreover, the uniform approach overlooks great variation in the types of grantees, which range from well-established national nonprofits, such as the Red Cross, to major research universities, to small community-based organizations for which a CNCS grant provides the majority of funding. With vastly different resources, skills, experience and infrastructures, these grantees likely carry different types and levels of risk.

Both internally and in external reporting, OIG has repeatedly identified weaknesses in the Corporation's monitoring of its grantees, as designed and as implemented, and has urged the Corporation to undertake a comprehensive review of its grant monitoring processes. Recently, the Corporation advised OIG that it has begun the preliminary steps of such a review, in connection with modernization of its IT structure. The Corporation's leadership sought OIG's input into risk factors that should be considered in improving its grant oversight.

Drawing on our experience from audits and investigations, OIG offered a series of recommendations to focus the Corporation's risk assessments and thereby target monitoring resources in a more cost-effective manner. These suggestions include tweaks to the existing processes and also long-term solutions to overhaul the Corporation's grantee monitoring and risk assessment process.

Our primary recommendation was to jettison the indiscriminate one-size-fits-all approach in favor of risk criteria specific to each program which recognizes that different kinds of grantees and different programmatic activities present vastly different risks. Further, we recommended assessing programmatic and financial risks separately, developing a monitoring approach that

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targets the identified risks and assigning responsibility to staff members whose skills and training are aligned with those risks. Other suggestions included:

- Enhancing the use of Single Audit Reports
- Customizing the risk indicators for each program, grant type and grantee profile
- Adopting risk indicators to address unique features of the Corporation's operating environment, including member enrollment and turnover, partial education awards to early-exited member for compelling personal circumstances, indirect rates, grantee relationships with for-profit entities and/or significant related party transactions, evaluation of whether a particular grantee or grant type poses an enhanced risk of any of the specific categories of statutorily prohibited activities.
- Validating the risk indicators. The predictive value/accuracy of the risk indicators has never been established empirically. To the contrary, OIG looked at 40 catastrophic outcomes and found that half of the grantees were rated as low or medium risk when they ceased operations, went bankrupt owing the Corporation money, had funding placed on manual hold or were terminated for performance reasons. Since the Corporation relies heavily on its risk indicators to direct its monitoring resources, it should confirm that those indicators are good predictors.

We also suggested the Corporation assess risks by grantee rather than by grant. While some risks may be unique to a particular grant, others, including many financial issues, likely affect every grant made to the same grantee. An outdated financial management system or inadequately trained accounting staff, for example, may affect every program administered by that grantee.

Finally, we suggested that the Corporation perform independent verification of risk assessments. Currently, program and grant officers perform the risk assessments of the grants in their individual portfolios. This leverages their familiarity with the grantees, but it also introduces the potential for bias. Among other concerns, a staff member who has invested time and effort may be reluctant to acknowledge that a grantee remains risky, objective risk assessments may be clouded by personal relationships, and a high risk rating increases the workload of the responsible program or grants officer. We urge that, after completion of the risk assessments, the Corporation select a sample to be re-performed independently by the Office of Accountability and Oversight staff or others not responsible for those grantees.

We look forward to working with Corporation management to attain a more accurate risk assessment and strengthen grant oversight and stewardship.

Corporation Develops Promising New Criminal History Check Policy; Further Refinements Needed to Ensure Strong Accountability

To protect the public from harm, grantee program staff and national service participants have long been required to undergo screening for sex offenses and murder convictions before beginning work. Those with access to vulnerable populations—children, the elderly and persons with disabilities—must undergo three distinct background checks: name-based searches of the National Sex Offender Public Website and one or more state criminal history registries, plus a fingerprint check against an FBI database. These requirements were updated and codified in the Edward M. Kennedy Serve America Act of 2009, following which the Corporation adopted National Service Criminal History Check (NSCHC) rules and regulations. To promote compliance, the Corporation has regularly offered training for grantee staff and maintains a dedicated phone line to connect grantees to a Corporation specialist to answer any questions. Until mid-2014, the Corporation’s stated policy was to enforce the requirement to check criminal histories by disallowing any salary, living allowance or stipend paid from a grant during any period of noncompliance with these public safety measures.

Nevertheless, OIG audits and investigations and the Corporation’s own monitoring efforts continued to show that many grantees were not complying with criminal history checking requirements. Violations include failure to perform background checks; incomplete record searches; allowing staff and/or participants to begin service without supervision prior to completing the checks; and failure to maintain proper documentation. In some case, grantees outsourced the background checks to contractors who did not perform them properly. Indeed, OIG auditors discovered one case in which a sub recipient of CNCS funds had allowed two employees with disqualifying criminal histories, one of them a sex offender, to work on a Corporation-funded program, placing other participants and the public at risk.

To address this recurring issue, the Corporation undertook an assessment across all programs, requiring grantees and sub grantees to (1) complete mandatory NSCHC training, (2) review the background checks conducted for their current Corporation-funded program staff and national service participants, (3) correct any instances of noncompliance, and (4) report the results to the Corporation. As an incentive, the Corporation announced an amnesty for the costs associated with self-reported findings of noncompliance, as well as violations identified in CNCS monitoring and certain findings by our office¹. OIG’s last Semiannual Report noted OIG’s concerns about the over breadth of the amnesty. We also noted that the improper payments assessment conducted in FY 2014 projected that NSCHC noncompliance accounted for \$6.8 million of putatively improper payments by the AmeriCorps Program and determined that RSVP

¹ The amnesty did not apply to certain egregious forms of noncompliance—complete failure to check criminal history or discovery of an employee or national service member with a disqualifying criminal background.

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and the Foster Grandparents Program were each susceptible to more than \$10 million of potentially improper payments arising from NSCHC noncompliance.²

In the wake of the assessment, the Corporation set about developing a new policy on enforcing the NSCHC requirements. Management engaged OIG in constructive discussions about enforcement approaches.

As articulated and announced, the new enforcement policy suggests that the Corporation intends to hold grantees strictly accountable for meeting the NSCHC requirements. It provides, in pertinent part: “Absent extraordinary circumstances (as determined by the Enforcement Team), enforcement actions in cases of noncompliance [with NSCHC requirements] shall include, at a minimum, cost disallowance.” Other remedies and sanctions are also available.

CEO Wendy Spencer announced the new policy to the grantee community, emphasizing the importance of careful criminal history checking:

As a community, we are committed to protecting those who participate in our programs and the individuals they serve.

*That is why I am writing to reinforce the need for all grantees to conduct criminal history background checks **on time, every time** for any individual that receives CNCS funds or matching funds as stated in our regulations.*

* * * *

Going forward, I expect every grantee to conduct and document the required criminal history checks on time, every time in compliance with the regulations.

If CNCS cannot verify that you complied, the consequences are clear: grantees should expect to lose out on money for those staff and participants. Getting the criminal history checks done right and on time 100% of the time is a top priority for me and it should be for you too.

OIG welcomes this commitment to ensure that all grantees treat the criminal history checking requirements with the care commensurate with protecting the public from predators. We are keenly interested in the implementation of this policy and its outcome.

² The Corporation reported these figures in its FY 2014 Agency Financial Report, while expressing doubt that these payments should be considered improper within the meaning of the Improper Payments Elimination and Recovery Act.

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Whether the policy will be as robust as it sounds depends, to a large degree, on how the Corporation defines the “extraordinary circumstances” that will justify allowing the costs even if the grantee did not properly and timely conduct the criminal history checks. If “extraordinary circumstances” is defined too broadly, the rule, for all its apparent rigor, becomes weak, and would allow CNCS to backslide into tolerating lax practices by grantees, as OIG has reported. Management is currently grappling with this issue and has sought OIG input.

In OIG’s view, “extraordinary circumstances” should be limited to noncompliance arising from matters outside the grantee’s control and/or which the grantee could not have avoided or detected with the use of thorough diligence and close oversight by the grantee’s management. This limitation would keep grantees accountable for the matters and actions that they can control, which is consistent with the criminal history checking requirements of the statute and the CEO’s statements. We intend to press for enforcement criteria that strengthen compliance and thereby safeguard the public that we all serve. Enforcement must support the overall message that NSCHC is a matter of the highest priority and that grantees will be held to a high standard and should expect to be accountable if they do not meet it. OIG will be monitoring this closely.

Management Decisions

Disagreements with Management Decisions

OIG did not entirely concur with the Corporation’s Management Decisions for the following reports:

- Report No. 12-13, *Agreed-Upon Procedures for Corporation for National and Community Service Grants Awarded to Oregon Volunteers*
- Report No. 14-04, *Agreed-Upon Procedures for Corporation for National and Community Service Grants Awarded to the Arkansas Service Commission*

We address each of these disagreements below:

Corporation Reaffirms Decisions to Allow Costs Related to Untimely and Improperly Performed Background Checks

OIG Report 12-13, Agreed-Upon Procedures for Corporation Grants Awarded to Oregon Volunteers

As reported in our most recent Semiannual Report, the Corporation did not sustain costs questioned by OIG auditors related to criminal history checks. Corporation rules require criminal history checks be performed on specifically recognized and trustworthy databases; a grantee that wishes to use an alternative database must obtain prior approval from the Corporation of an “Alternative Search Protocol.” Oregon Volunteer’s sub grantees ran state

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criminal history check searches on databases not recognized by the Corporation, leading OIG auditors to question costs of \$220,655 in Federal support, \$95,915 in member education awards, and \$6,470 in accrued interest related to Federal funding for those insufficient checks.

Over OIG's objections, the Corporation's final decision was to retroactively approve the previously unrecognized database searches, as a means of allowing the costs, even though the Corporation did not find the databases sufficiently reliable to authorize the grantee to use them in the future. Given the critical public safety purpose of these criminal history checks, this retroactive approval sets a dangerous precedent that is hard to reconcile with the Corporation's stated commitment to rigorous enforcement. This decision tacitly endorses a "no harm no foul" approach, encourages other grantees to depart from the Corporation's carefully designed procedures and undermines the strict and scrupulous compliance that the Corporation should be seeking to promote. In view of the training and other resources that the Corporation offers to assist grantees in compliance, we see no reason to excuse these sub grantees from the consequences of their noncompliance. Selective enforcement of these rules is unfair to other grantees that have been held accountable in the past.

Oregon Volunteers grantees also failed to perform required criminal history checks for members who began their second term of service thirty days after their first terms had ended. Corporation rules are clear that when an AmeriCorps member is accepted for a second term of service after a hiatus of more than thirty days, they must have an additional criminal history check. The OIG auditors therefore questioned federal support costs of \$37,697, member education awards of \$14,800, and \$2,232 in accrued interest. The Corporation overruled these questioned costs as well, despite the clear and unequivocal requirements of the criminal history check rule.

OIG Report 14-04, Agreed-Upon Procedures for Corporation Grants Awarded to the Arkansas Service Commission.

The Arkansas Service Commission sub grantees permitted four employees of the University of Arkansas at Little Rock-Children International to work for years on an AmeriCorps grant before the grantee had checked the National Sex Offender Public Website (NSOPW) to ensure that they were not sexual predators, electing to rely solely on the untimely results of an FBI fingerprint check. An FBI fingerprint check typically will not yield results until months after its initiation and sometimes longer. Corporation rules are clear that for safety's sake, the NSOPW search must take place "before" any applicant or employee may work on Corporation grant funded programs. The OIG auditors therefore questioned Federal costs \$186,716 and match costs of \$165,751 representing costs associated with the federally funded work performed by four individuals while the required checks were outstanding. The Corporation again overruled the recommendation and permitted the costs.



Investigations

The Investigations Section is responsible for the detection and investigation of fraud, waste, and abuse in the Corporation's programs and operations. The Section probes allegations of serious—sometimes criminal—misconduct involving the Corporation's employees, contractors and grant recipients that threatens the integrity of the Corporation's service initiatives. Evidence of serious criminal or fraudulent conduct is referred to the appropriate United States Attorney or, in some instances, to a local district attorney for criminal or civil prosecution and monetary recovery. Other investigative results are referred to Corporation management for information or administrative action.

Investigations Overview

The Investigations Section opened and completed 16 investigative actions between October 1, 2014 and March 31, 2015.

During the past six months, the Investigations Section recovered an unprecedented \$4,284,325.20 and identified more than \$139,800 in cost avoidance. Investigators processed 68 Hotline actions, leading to nine investigations and 30 referrals to CNCS management or State Commissions for action. Our investigators also conducted on-site outreach to educate grantees, State Commission personnel and Corporation staff about prevention and detection of fraud, waste and abuse, internal controls, and available reporting channels. OIG continues its social media messaging and actively pursues other outreach opportunities.

Highlights of investigations closed during this period are reported below.

Significant Cases and Activity

Maricopa County Community College District Pays More than \$ 4 Million to Settle False Claims Act Suit – Case ID: 2013-001 (Closed 12/10/2014)

To resolve claims under the False Claims Act investigated by OIG, Maricopa County Community College District (MCCCD) agreed to pay \$ 4.08 million. This is the largest recovery ever obtained by CNCS from a grantee for fraud.

Based on a Hotline tip, OIG investigated allegations that Project Ayuda, an AmeriCorps program based at Paradise Valley Community College (PVCC), Phoenix, AZ, submitted false claims to CNCS. Although the Corporation strongly discouraged OIG from pursuing this inquiry, our investigation disclosed that, between 2007 and 2010, the Executive Director allowed pre-professional students to receive AmeriCorps credit for performing clinical services independently required by their academic programs. As a result, the expenditure of AmeriCorps funds produced no additional benefit for the community. By approving false timesheets and falsely certifying education awards, the Executive Director induced AmeriCorps to disburse \$2,960,684.05 in Federal funds: \$2,036,084.05 in education awards to individuals who should not have received them and \$924,600 awarded to the community college to administer the program.

Concurrent with OIG's investigation, a former employee of the college filed a qui tam (whistleblower) action for the same conduct. The Department of Justice declined to prosecute criminally, in favor of pursuing a recovery through that civil action, *United States ex rel. Hunt v. Maricopa County Community College District; Paula and Richard Vaughn*, No. 11-cv-2241 (D. Ariz.).

Through dogged investigation, OIG produced irrefutable evidence that only a handful of the more than one thousand students enrolled in Project Ayuda provided cognizable service to the community. Rather than risk a determination of liability, MCCCCD settled the lawsuit for \$4,083,304 in damages and penalties, an unprecedented recovery for CNCS. As the Inspector General noted at the time of the settlement, “Taxpayers are justifiably outraged when a community fails to receive promised services because national service funds were misused. We hope that this settlement will deter other grantees from similar misconduct.”

The Commercial Litigation Branch of the Department of Justice’s Civil Division handled the case on behalf of CNCS. We wish to acknowledge the determination and skill of attorney Patrick Klein, who shepherded the litigation and its settlement.

Improper Use of AmeriCorps Members Results in Disallowed Costs – Case ID: 2014-023 (Closed 10/8/2014)

During a monitoring visit to sub grantee Green City Force, Inc. (Green City) Brooklyn, NY, representatives of the State Commission learned of allegations regarding alteration of AmeriCorps members’ timesheets and unallowable service activities beyond the scope of the grant. With the guidance and assistance of OIG investigators, the Commission concluded that 36 percent of the service hours claimed for grant year 2013-2014 were unallowable, because they represented service outside the scope of the grant, activities performed outside the United States or displacement of staff from which the grantee benefited directly, all of which are impermissible. As a result, the New York State Commission disallowed \$23,788.54 in education award costs.

Unauthorized Service Results in Disallowed Service Hours – Case ID: 2014-019 (Closed 10/9/2014)

A Hotline complaint alleged that an individual enrolled as an AmeriCorps member serving at Northern Ohio Medical University (NEOMED), Rootstown, OH, was in fact managing the AmeriCorps program as a member of NEOMED’s staff. Investigators discovered that NEOMED’s personnel directory listed the individual as the “AmeriCorps Manager, Family & Community Medicine.” The incident was referred to CNCS management for further action, who in turn directed the Serve Ohio Commission on Service & Volunteerism (Commission), Columbus, OH, to look into the matter.

The Commission found no irregularities, except for a minor discrepancy of three hours in time reporting. Although the most serious allegations were unsubstantiated, the Commission advised that it had taken steps to improve grantees’ documentation of member service hours and establish a well-defined separation between individuals serving as AmeriCorps members and those who transition to AmeriCorps program staff. CNCS management concurred with the Commission’s findings.

Allegation of Displacement/Improper Use of AmeriCorps Members – Case ID: 2014-027 (Closed 10/27/2014)

A Hotline complaint from a former AmeriCorps member alleged that members of Our House, Little Rock, AR, a service site for the Community Initiative of Arkansas (CIA) grant, were assigned to perform staff activities, in violation of program requirements. Investigation found insufficient evidence to substantiate the bulk of the allegations, but determined that the complainant appeared to have been permitted to claim unallowable activities as part of her service hours. This investigation was referred to the Arkansas Commission for resolution.

Unallowable AmeriCorps Service Results in Disallowed Hours and Corrective Actions – Case ID: 2014-016 (Closed 10/29/2014)

A Hotline complaint alleged that program officials of the Austin Independent School District (AISD), Austin, TX, were requiring AmeriCorps members to fill in as substitute teachers. Investigators referred this matter to the OneStar Foundation (Texas State Commission), Austin, TX, for review and resolution. The Commission determined that 13 out of the 14 members assigned to the school district had been required to serve as substitute teachers, grade assignments and perform other unallowable activities. The Commission disallowed the claimed service hours. Further, it required the school district to update its procedures and policies and provide training to staff to ensure that members were not required to perform unallowable activities.

Allegations of Fraudulent Timesheets and Displacement (Unfounded) – Case ID: 2014-024 (Closed 10/29/2014)

An anonymous complaint alleged that unnamed AmeriCorps members at Cantera Capital, Cantera, PR, submitted fraudulent timesheets and that program officials assigned members to serve in staff position(s). The investigation found insufficient evidence to substantiate the allegations regarding displacement of staff. Although multiple members alleged that others had submitted false timesheets, each of them refused to name the offenders for fear of physical retaliation. The remaining evidence was inconclusive, leaving insufficient evidence that false timesheets had been submitted. The results of this investigation were provided to the Puerto Rico Commission.

Allegations of Prohibited Use of Social Innovation Fund Grants to Support Lobbying Efforts (Unfounded) – Case ID: 2014-022 (Closed 12/11/2014)

A Hotline complaint alleged that a Social Innovation Fund (SIF) grantee used Federal funds for lobbying in support of legislation to ban smoking in public places in St. Joseph, MO. The complainant claimed to have witnessed grantee volunteers distributing flyers that urged citizens to vote for a proposed anti- tobacco ordinance in St. Joseph.

OIG investigators determined that the grantee had a robust program of compliance to avoid lobbying and was in fact using the grant funds to promote healthy lifestyles, including education regarding obesity, nutrition and smoking cessation. The lobbying activities were conducted by an independent organization with a similar name. Investigators found no evidence that the grant-funded organization engaged in lobbying activities.

Corporation Declines to Disallow Costs for Incomplete Criminal History Checks – Case ID: 2014-014 (Closed 12/11/2014)

OIG received a Hotline complaint from a former AmeriCorps member who alleged that an employee of East Bay Community Action Program, Providence, RI, (East Bay), an AmeriCorps grantee, instructed him to alter non-AmeriCorps program documents and students' test scores. While those allegations were not substantiated, investigators discovered that East Bay allowed two AmeriCorps members to begin service without conducting a nationwide check of the National Sex Offender Public Website (NSOPW). Those members served a combined 491 hours in the community, with no assurance that they were not registered sex offenders, thereby posing a potential risk to the program participants and the persons that they served. The Edward M. Kennedy Serve America Act of 2009 expressly requires grantees to conduct a name-based search of the NSOPW.

Even though the checks were demonstrably incomplete when the members began service, the Corporation refused to disallow the associated costs. CNCS later amended its policy to require expressly that a search of the NSOPW must include results from all United States jurisdictions before a member begins AmeriCorps service.

Fraudulent Timesheets Result in Denial of Education Award for AmeriCorps Member – Case ID: 2015-002 (Closed 12/17/2014)

OIG received a Hotline complaint that a former AmeriCorps member at the Change a Heart Franciscan Volunteer Program (Change a Heart), Pittsburgh, PA, (a sub-grantee of Catholic Volunteer Network, Takoma Park, MD), deliberately overstated the hours to be credited to his AmeriCorps service in order to receive an education award for which he did not qualify. According to the complaint, the former member was a part-time employee for a related organization and improperly counted his employment hours towards his AmeriCorps service.

Investigators discovered that the former member submitted inflated timesheets, and that his actual service hours were insufficient to earn an education award. By happenstance, however, the grantee had neglected to certify the education award. Thus, the taxpayers suffered no financial loss, although the misconduct was not discovered until later.

Allegation of Misuse of Federal Grant Funds/ Unallowable Service (Unfounded) – Case ID: 2015-004 (Closed 12/29/2014)

A Hotline complaint alleged that an AmeriCorps Site Director at Notre Dame Mission Volunteers (NDMV) San Francisco, CA, used AmeriCorps funds to pay for lavish dining for himself, his spouse and AmeriCorps members. The complainant also reported that the Director authorized members to claim service hours for unallowable activities and for activities outside their AmeriCorps service.

Because NDMV's grant was for a fixed amount per member, rather than for reimbursement of particular grantee costs, no Federal funds were associated specifically with the meals and other program expenses. NDMV confirmed that the expenses recorded by the Site Director were consistent with its organizational policies and the program's budget.

Further, investigation found that the allegations regarding unallowable activities were inaccurate and based on incomplete information. OIG concluded that the grantee operated within the purview of the AmeriCorps guidelines and found no evidence to substantiate the allegations. The results of the OIG investigation were provided to CNCS management.

Improper Use of Federal Contracting Funds (Unfounded) – Case ID: 2015-006 (Closed 03/11/2015)

A Hotline complaint alleged that CNCS National Civilian Community Corps (NCCC) officials violated Federal procurement regulations when they spent \$675,000 to renovate a campus cafeteria at a for-profit university. Our investigation disclosed that the information provided by the complainant was incomplete. The renovations added new kitchen units to be used by groups of NCCC members. The Corporation had determined that installing kitchens and requiring members to prepare their own group meals would promote team work and reduce the overall food costs of the program.

Agency Employee's Lack of Oversight of VISTA Project Resulted in Waste of \$700,000 - Case ID: 2014-021 (Closed 3/12/2015)

Due to the carelessness of a CNCS State Program Specialist, the Corporation disbursed more than \$700,000 in Federal funds for unallowable and/or otherwise impermissible service activities. OIG found evidence that the employee provided inaccurate guidance that allowed VISTA members to serve in staff position(s). Additionally, the employee approved 13 VISTA Assignment Descriptions (VADs) that impermissibly allowed the sponsor to assign VISTA members to perform direct service. When members complained about these assignments, she made no meaningful effort to resolve their concerns and instead withheld information about the complaints from her supervisors and from the VISTA project site. The employee was allowed to retire prior to imposition of disciplinary action.

Education Award Treasury Checks Stolen, Forged and Negotiated – Case ID 2015-016 (Closed 03/12/2015)

A CNCS manager notified OIG that unknown person(s) had stolen and negotiated 12 U.S. Government Treasury checks, totaling \$6,692.47, representing education awards paid by the U.S. Treasury and mailed to a Miami Florida College to pay the education expenses of former AmeriCorps members. An additional 55 checks from the same batch had apparently also been stolen; some of them have since been negotiated. This matter was referred to the United States Secret Service, Miami, FL, for investigation.

Executive Director Embezzles Federal Program Funds / Improper Criminal History Checks Result in Disallowed Costs / Former Commission Employee Debarred for Collusion, Conflict of Interest - (Case ID: 2012-012) (Closed 3/20/2015)

A Hotline complaint alleged that the Executive Director of Luz Community Development Coalition (Luz), Las Vegas, NV, used AmeriCorps program funds to pay for a family vacation trip to Europe. The investigation determined that the executive director used a credit card charged to the AmeriCorps grant to pay \$8,451.08 of these personal expenses.

In the course of investigating these expenditures, investigators also discovered that Luz personnel improperly disbursed \$169,500 in living allowances and certified education awards totaling \$95,804 for individuals who were allowed to serve without the required checks of the National Sex Offender Public Website (NSOPW). Moreover, grantee staff presented investigators with altered NSOPW results to conceal their untimely completion. Luz also paid \$13,500 in living allowances to 10 members after they had left the program.

Further, due to a conflict of interest, an employee of the Nevada Volunteer Commission had falsely declared the program to be “in full compliance,” even though he learned during a site visit that the NSOPW checks had not been completed. At the time of the site visit, the Commission employee was in employment discussions with Luz, and he subsequently joined its staff.

CNCS management disallowed \$177,232 in grant costs, representing living allowances and education awards for those members who did not undergo NSOPW checks or where Luz personnel altered the date of the results. Notwithstanding its written policy to disallow costs incurred prior to completion of NSOPW checks, the Corporation did not disallow the costs related to the late-performed checks and did not address the \$13,500 in living allowance overpayment. CNCS debarred the former Executive Director for a period of three years and debarred the former Commission employee for one year. In the interim, Luz had ceased operations.

Summary Of Investigative Cases					
Fiscal Year	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Investigative actions opened	42	22	43	28	16
Investigative actions resolved and closed	35	42	36	34	16
Average monthly caseload	34	26	23	17	13
Investigative matters resolved without opening a separate investigative action	39	51	67	64	31
Referrals for prosecution	8	4	7	0	1
Investigative recoveries ²	\$447,854	\$2,846,203	\$590,943	\$429,554	\$4,297,825
Cost avoidance ³	\$1,666,294	\$2,321,521	\$1,078,316	\$371,048	\$139,800
Administrative or management action taken	14	17	23	18	5
<p>² Includes money received by the Corporation or other government agencies as a result of OIG investigations, including joint investigations with another OIG, Federal, or State investigative element.</p> <p>³ When OIG investigative action identifies a systemic practice that has subsequently been stopped or modified due to some type of OIG investigative interdiction, any clear and unmistakable savings to the Corporation are reported as cost avoidance.</p>					

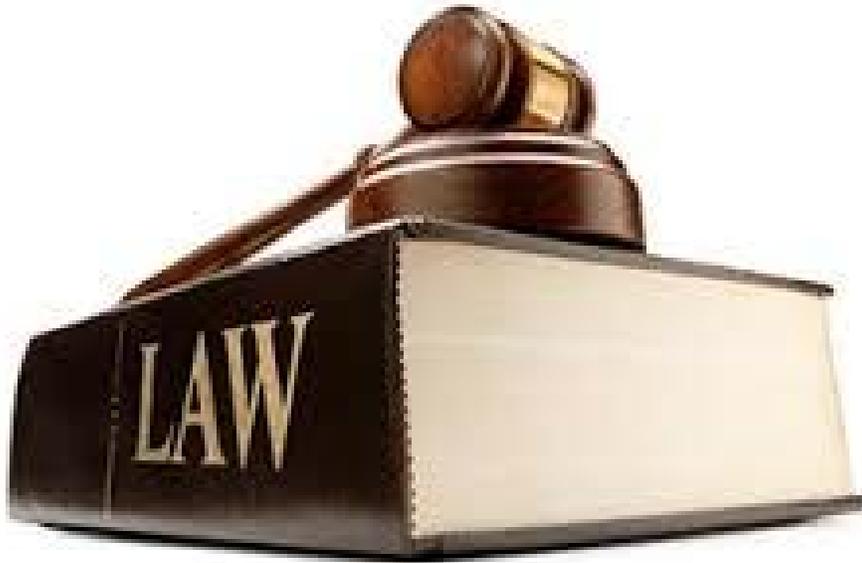


Peer Reviews

Offices of Inspector General undergo periodic peer reviews to ensure that their operations meet the professional standards of the IG community. The results of a peer review must be included in the Semiannual Report of the reviewed office, which must also identify any recommendations that have not been fully implemented. The OIG that conducts a peer review must likewise identify the outstanding and unimplemented recommendations pertaining to the office that it reviewed. The specific statutory requirements for this reporting are contained in Section 989C of Public Law 111-203, which amended Section 5 of the Inspector General Act of 1978.

Investigations Peer Review Results

During this reporting period, the Investigations Section underwent a Quality Assessment Review conducted by the Peace Corps Office of Inspector General. That peer review determined that the system of internal safeguards and management procedures for the investigative functions of the Corporation for National and Community Service OIG are in compliance with the quality standards established by Council of Inspectors General for Integrity and Efficiency and the applicable Attorney General guidelines. These safeguards and procedures provide reasonable assurance that the Corporation for National and Community Service OIG conforms to professional standards in the planning, execution and reporting of its investigations.



Review of Legislation and Regulations

Section 4(a) of the Inspector General Act directs each agency's Office of Inspector General to review and make recommendations about existing and proposed legislation and regulations relating to the agency's programs and operations. The Office of Inspector General reviews legislation and regulations to determine their impact on the economy and efficiency of the Corporation's administration of its programs and operations. It also reviews and makes recommendations on the impact that legislation and regulations may have on efforts to prevent and detect fraud and abuse in Corporation programs and operations. The Office of Inspector General draws on its experience in audits and investigations as the basis for its recommendations.

Corporation Policy Council

OIG continued its active participation in the Corporation's Policy Council, which is charged with developing and amending internal policies covering all operations. Based on our audit and investigations experience and familiarity with the Corporation's operations and internal controls, OIG suggested revisions to proposed Corporation policies to strengthen the internal controls and to ensure that Federal funding is appropriately spent.

Criminal History Checks

The Edward M. Kennedy Serve America Act of 2009 requires Corporation grantees to check the criminal histories of prospective employees and national service members to ensure that they are not registered sex offenders or murderers. Following recurring findings of noncompliance, the Corporation undertook a comprehensive effort to assess and report the extent of the problem and to bring all grantees into compliance with this important public safety requirement. Over the past six months, the Corporation has developed a new policy to enforce these requirements, which it considers to be robust. The content of the policy and the substantial remaining issues are discussed in detail in the Audit Section of this Semiannual Report, under the heading [Corporation Develops New Criminal History Check Policy](#).

Reporting Fraud and Other Misconduct

The Corporation's policy on notifying OIG of fraud and other serious misconduct has been under review for over a year. As of March 31, 2015, the OIG and the Corporation were working closely together to finalize the new policy, including appropriate guidance for employees regarding their obligation to cooperate with OIG inquiries. The policy was finalized, adopted and circulated shortly after the close of this reporting period.

To facilitate cooperation, demystify the investigation process and inform staff about their rights and obligations, the AmeriCorps State and National Program and OIG are jointly conducting an educational session for program staff. We have invited a representative of the union to participate. If the session is helpful, we will repeat it for the staff of other Corporation programs.

Other Policies

OIG participated in the review of the following policies, which were finalized during this reporting period:

Legislation and Regulations

- Structured Systems Development Life-Cycle Methodology
- Debt Collection
- Records Management



Statistical and Summary Tables

The statistical and summary tables in this section are submitted in compliance with the requirements enumerated in the Inspector General Act.

I. Reports with Questioned Costs

Report Category	Number	Federal Costs	
		Questioned	Unsupported
		(Dollars in thousands)	
A. Reports for which no management decision had been made by the commencement of the reporting period	9	\$5,757	\$3,025
B. Reports issued during the reporting period	<u>0</u>	<u>0</u>	<u>0</u>
C. Total Reports (A + B)	9	\$5,757	\$3,025
D. Reports for which a management decision was made during the reporting period	3	\$1,114	\$501
I. Value of disallowed costs		\$540	\$450
II. Value of costs not disallowed		<u>\$574</u>	<u>\$51</u>
E. Reports for which no management decision had been made by the end of the reporting period (C minus D)	<u>6</u>	<u>\$4,643</u>	<u>\$2,523</u>
F. Reports with questioned costs for which no management decision was made within six months of issuance	6	\$4,643	\$2,523

II. Reports with Recommendations That Funds Be Put To Better Use

Report Category	Number	Dollar Value (In thousands)
A. Reports for which no management decision had been made by the commencement of the reporting period	5	\$3,460
B. Reports issued during the reporting period	0	\$0
C. Total Reports (A + B)	5	3,460
D. Reports for which a management decision was made during the reporting period	2	\$2,942
i. Value of recommendations agreed to by management		\$2,783
ii. Value of recommendations not agreed to by management		\$159
E. Reports for which no management decision had been made by the end of the reporting period (C minus D)	3	\$518
F. Reports for which no management decision was made within six months of issuance	3	\$518

III. Summary of Audits with Overdue Management Decisions

Report Number	Title	Federal Dollars Questio	Mgmt. Decision Due	Status at End of Reporting Period
		(Dollars in thousands)		
12-04	Audit of Earned Education Awards Resulting from Compelling Personal Circumstances	\$0	5/9/2012	The Corporation issued a Draft Management Decision for this report on March 31, 2015.
12-13	Agreed-Upon Procedures for Corporation for National and Community Service Grants Awarded to the Oregon Volunteers	\$392	2/15/2013	The OIG responded to the Draft Management Decision for this report on February 9, 2015.
12-16	Agreed-Upon Procedures for Corporation for National and Community Service Grants Awarded to the New Jersey Commission	\$1,895	3/27/2013	The Corporation issued a Draft Management Decision for this report on March 27, 2015.
14-05	Audit of Corporation for National and Community Service Grants Awarded to Family Services of Central Massachusetts	\$1,738	12/11/14	The Corporation issued a Draft Management Decision for this report on March 13, 2015.
14-06	Audit of Corporation for National and Community Service Grants Awarded to Penquis Community Action Program	\$394	8/4/2014	The Corporation has not issued a Draft Management Decision for this report.
14-08	Agreed-Upon Procedures for Corporation for National and Community Service Grants Awarded to the Nevada Volunteers	\$142	11/24/2014	The Corporation issued a Draft Management Decision for this report on March 13, 2015.
14-09	Audit of Blanket Purchase Agreements for Professional Services	\$81	12/22/2014	The Corporation issued a Draft Management Decision for this report on October 1, 2014.
	Total	\$4,642		

IV. Reports Described in Prior Semiannual Reports without Final Action

Report Number	Title	Date Issued	Final Action Due*
12-04	Audit of Earned Education Awards Resulting from Compelling Personal Circumstances	11/9/2011	11/9/2012
12-13	Agreed-Upon Procedures for Corporation for National and Community Service Grants Awarded to Oregon Volunteers	8/15/2012	12/15/2013
12-16	Agreed-Upon Procedures for Corporation Grants Awarded to New Jersey Commission on National and Community Service	9/27/2012	1/15/2014
14-04	Agreed-Upon Procedures for Corporation Grants Awarded to Arkansas Service Commission	11/14/2013	11/14/2014
14-05	Audit of Corporation for National and Community Service Grants Awarded to Family Services of Central Massachusetts	12/11/2013	12/11/2014
14-06	Audit of Corporation for National and Community Service Grants Awarded to Penquis Community Action Program	2/4/2014	2/4/2015

*Under section 6009 of the Federal Acquisition Streamlining Act of 1994, as amended, a final management decision must be made within six months of the issuance of the final report and corrective actions must be completed within one year.

V. Audit Reports Issued

October 1, 2013-March 31, 2014				
Report Number	Report Name	Dollars Questioned	Dollars Unsupported	Funds Put To Better Use
(Dollars in thousands)				
15-01	Audit of the Corporation for National and Community Service's Fiscal Year 2014 Financial Statements	\$0	\$0	\$0
15-02	Audit of the Corporation for National and Community Service's Fiscal Year 2014 National Service Trust Fund Financial Statements	\$0	\$0	\$0
15-03	Federal Information Security Management Act (FISMA) Independent Evaluation for FY 2014	\$0	\$0	\$0
TOTAL		<u>\$0</u>	<u>\$0</u>	<u>\$0</u>