CORPORATION
FOR NATIONAL
SERVICE

May 26, 2000

The Honorable Albert Gore, Jr.
President of the Senate
Washington, DC 20510

The Honorable Dennis Hastert
Speaker of the House of Representatives
The Capitol
Washington, DC 20515

Dear Mr. Vice President and Mr. Speaker,

Enclosed is the Inspector General's Semi-Annual Report to the Congress along with the Corporation's Report of Final Action, as required under Section 5 of the Inspector General Act.

These reports cover the six-month period from October 1, 1999 to March 31, 2000. During this period, the Corporation made management decisions on nine audits and completed final action on or closed five audits. Subsequent to this period, the Corporation made management decisions on one additional audit.

During this period, the Corporation also made substantial progress in financial management and other critical management areas. We successfully transitioned to the Year 2000, implemented a new financial management system and continued building and implementing automated interfaces to the new finance system from other systems such as payroll and the National Service Trust. We are monitoring the new system closely, and are assessing it on a regular basis to identify and resolve issues as they arise. Additional information on matters raised by the Inspector General is discussed below.

Financial Management and Reporting. This semi-annual report describes the audit of the Corporation's financial statements, completed in March 2000. As noted in the report, the Corporation received an unqualified opinion on its FY 1999 Statement of Financial Position, and disclaimers on the Statement of Operations and Changes in Net Position and the Statement of Cash Flows. The reason cited for disclaiming on the Statement of Operations and Changes in Net Position and the Statement of Cash Flows was that the auditors could not satisfy themselves as to the propriety of a $10 million unidentified balance on the cash flow statement and change in net position. Subsequent to issuance of the audit, the Corporation believes it has identified and resolved the difference. The Corporation has asked the Inspector General to review the documentation and report back to the Corporation.

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The audit report stated that the Corporation had reduced material weaknesses from eight, reported in fiscal year 1998, to five in fiscal year 1999. The Corporation also assessed its management controls and financial management improvements in fiscal 1999, and responded to the financial statement audit with its own evaluation. The Corporation considers five material weaknesses to be corrected, with three remaining: grants management, net position, and fund balance with Treasury. These three weaknesses are priorities in the Corporation's Action Plan. The Corporation provided extensive comments on the audit describing management's actions to resolve the problems identified by the auditors before the completion of the 1999 audit. The Corporation is working on the items identified in the audit.

Review of the Corporation's Action Plan. The semi-annual report described the Inspector General's review of the Corporation's Action Plan and discussed some of the recommendations included in that review. The review noted that several significant tasks had been achieved, such as implementation of the new financial management system, the imagining system in the National Service Trust, and the VISTA management cost share billing system; development of a tracking mechanism to monitor corrective actions addressing audit findings; and the confirmation of the Chief Financial Officer. The review also noted areas where the Corporation should reemphasize its goals. The management decision on the review is due May 30, 2000, and the Corporation will report that most of the recommendations are closed.

The Corporation's Action Plan continues to be shared with the Congress, in FY 2000 on a monthly basis. The Plan includes FY 2000 goals and objectives, and is updated regularly to include new tasks. The May 22, 2000, progress report to the Congress notes that the Corporation has completed action on 293 of 335 tasks, or eighty-seven per cent.

State Commission Pre-Audit Surveys. The semi-annual report asserts that the "Corporation has not carried out a comprehensive, risk-based program of programmatic oversight and monitoring of state commissions or their sub-grantees." The Corporation respectfully disagrees. Each year, program staff evaluate grantees and develop a monitoring plan that identifies and sets priorities for site visits based on the risk identified through the grantee review process and other sources. These plans are submitted to and approved by the Chief Operating Officer.

Status of Recommendations on Corporation Management Issues. The Corporation has made substantial progress in addressing recommendations made on Corporation management issues through audits of its internal operations. Table V in the semi-annual report does not reflect status reports provided to the Office of the Inspector General during the reporting period on corrective action completed related to the recommendations. Therefore, we are providing additional information that describes progress (See Table IV in the Corporation's response). For example, Office of the Inspector General Table V shows four of five recommendations open related to the Corporation's audit resolution system, noting that "The Corporation has not implemented an audit resolution system as required by OMB Circular A-50, *Audit Resolution*." On January 3, 2000, the Corporation notified the Office of the Inspector General that it had completed corrective action and closed all five recommendations. We issued revised audit resolution policies and procedures in December 1999 that meet the requirements of OMB Circular A-50. We have revised our tracking system and developed a database to track

resolution and corrective action. The database system can be used by the Office of the Inspector General for entering audit report information and by Corporation management for describing and tracking corrective action. In December 1999, the Corporation began using the system and presented it to the Office of the Inspector General for joint implementation.

Overall, the Corporation has shown, and continues to show, a strong commitment to improving management. Management controls are stronger, improvements have been and are being made in infrastructure, and major technology and systems work is underway. The Corporation has established its management priorities in the Action Plan and is aggressively working to implement those priorities within the resources available.

We are sending copies of this semi-annual report to interested Congressional committees, the Office of Management and Budget, and the Corporation's Board of Directors. We will also make copies available to others on request.

If you have any questions concerning these reports, please contact me or Luise Jordan, the Inspector General.

Sincerely,

Harris Wofford

Enclosures

TABLE I

ACTION TAKEN ON AUDIT REPORTS
(for the Period October 1, 1999 through March 31, 2000)

		Number of Reports	Disallowed Costs ($000)
A.	Audit reports with final action not taken by the commencement of the reporting period October 1, 1998.	24	
B.	Audit reports issued by the OIG during the period	14	
C.	Audit reports for which final action was taken during the reporting period	5	
	1. Recoveries (a) Collections and offsets (b) Property in lieu of cash (c) Other (reduction of questioned costs)	2	$74
	2. Write-offs	0	
	3. Audits with no disallowed costs	3	
D.	Audit reports for which final action was not taken by the end of the reporting period.[1]	33	
E.	Additional audit reports upon which management decisions were made during the six-month reporting period and for which final action is underway.[2]	9	$62

[1] This includes 22 audits for which final action is not overdue.
[2] Management decisions on 20 of the remaining 24 audits were made in previous reporting periods or are not yet due.

TABLE II
AUDITS WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE
(for the period October 1, 1999 through March 31, 2000)

	Number of Audit Reports	Dollar value ($000s)
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period.	0	-
B. Audits which were issued during the period	0	-
C. Total audit reports on which management decisions were made during the period.	0	-
D. Audit reports pending action during the period	0	-
E. Audit reports for which final action was taken during the period	0	-
1. Value of recommendations that were completed	0	-
2. Value of recommendations that management concluded should not or could not be implemented or completed	0	0
3. Total of 1 and 2	0	-
F. Audit reports for which no management decisions were made during the reporting period	0	0

TABLE III

STATUS OF AUDIT REPORTS WITH MANAGEMENT DECISIONS THAT HAD NO FINAL ACTION WITHIN ONE YEAR OF THE ISSUANCE OF THE REPORT
(As of March 31, 2000)

Audit Number	Date Issued	Title	Disallowed Costs	Status of Action/Reason No Final Action Was Taken
97-02	12/23/96	Audit of the Oregon Youth Conservation Corps	$161,960	In appeal
97-12	4/11/98	Review of the National Alliance of Veteran Family Services Organizations	$2,958	In collection
98-02	4/27/98	Review of Pre-award Financial Assessment of Grant Applications	N/A	The Corporation made its final management decision on 9/15/99. Final action will be completed by late Spring 2000 when revised grants policies and procedures will be issued.
98-15	6/29/98	Audit of the Navajo Nation	$3,093	The Corporation collected disallowed costs. Final action is awaiting confirmation that internal control issues have been addressed.
98-16	6/29/98	Audit of the Youth Volunteer Corps of America	$2,430	The Corporation collected disallowed costs. Final action is awaiting confirmation that internal control issues have been addressed.
98-23	7/8/98	Auditability Assessment of the Corporation's FY97 Statement of Financial Position	0	All remaining open recommendations in this audit report are included in the comprehensive Action Plan the Corporation is implementing to address items related to auditability. The Corporation first submitted the plan to Congress on 12/21/98 and provides regular updates on progress. As of 5/22/00, 293 of 335 tasks had been completed. In a status report provided to the OIG on 3/13/00, the Corporation reported that corrective action was completed on 57 of the 64 recommendations contained in the report.
99-01	10/9/98	Audit of the Corporation's FY97 Statement of Financial Position	0	All remaining open recommendations in this audit report are included in the comprehensive Action Plan the Corporation is implementing to address items related to auditability. The Corporation first submitted the plan to Congress on 12/21/98 and provides regular updates on progress. As of 5/22/00, 293 of 335 tasks had been completed. Status report provided to the OIG on 3/13/00 reported that corrective action was completed on 14 of the 15 recommendations contained in the report.

Audit Number	Date Issued	Title	Disallowed Costs	Status of Action/Reason No Final Action Was Taken
99-02	11/17/98	Recommended Improvements to the Corporation's Internal Controls (Management Letter)	0	All remaining open recommendations in this audit report are included in the comprehensive Action Plan the Corporation is implementing to address items related to auditability. The Corporation submitted the plan to Congress on 12/21/98 and provides regular updates on progress. As of 5/22/00, 293 of 335 tasks had been completed. In a status report provided to the OIG on 10/12/99, the Corporation reported that corrective action was completed on 12 of the 14 recommendations contained in the report.
99-04	1/22/99	Audit of Congressional Hunger Center Cooperative Agreement	$111,351	In appeal.
99-05	2/26/00	Evaluation of the Corporation's Monitoring and Oversight of Cooperative Agreement Awarded to Congressional Hunger Center	0	As of 3/31/00, 4 of the 5 recommendations were closed. Subsequent to 3/31, the final recommendation was implemented and will be evaluated by 6/30/00.
99-06	12/23/98	Review of the Corporation's Liability for Post-service Benefits Related to Former Commission on National and Community Service Grants	0	In order to close this audit the Corporation needed to close out former Commission grants. Closeout on all 255 of those grants has been completed.
99-11	3/19/99	Audit of Corporation Contracts with Advanced Systems Technology Corporation	$5,427	In collection

TABLE IV

Management Response to Status of Recommendations on Corporation Management Issues

Category and Report	Number of Recs. in Report	Number Corrected	Number Open	Comments
Financial Management				
Audit of the Corporation's FY1999 Financial Statements Audit Report 00-01	**30**	**0**	**30**	Management Decision due on 9/27/00.
Review of the Corporation's Action Plan, Audit Report 00-13	**22**	**2**	**20**	Agreement with OIG on 12/7/99 set number of recommendations at 22.
Audit of the Corporation's FY1998 Financial Statements and Management Letter, Audit Reports 99-12 and 99-24	**57**	**28**	**29**	Final Management Decision issued to OIG on 2/3/00 reported 28 recommendations closed.
Audit of the Corporation's Procurement and Contracting Operations, Audit Report 98-24	**26**	**26**	**0**	Notice of Final Action issued to OIG on 1/27/00 reported all corrective action complete.
Audit of the Corporation's FY1997 Statement of Financial Position, Audit Report 99-01	**2**	**0**	**2**	Status Report issued to OIG on 3/13/00 reported 2 remain open.
Recommended Improvement to the Corporation's Internal Controls, Audit Report 99-02	**12**	**10**	**2**	Status Report issued to OIG on 10/12/99 reported 2 remain open.
Auditability Survey and Follow-up Reports, Audit Reports, 96-38,97-09, 97-29 and 99-23	**141**	**131**	**10**	Status Report issued to OIG on 3/13/00 reported 10 remain open.

Contract Oversight and Monitoring[1]				
Audit of Corporation Contract #95-43-1005 with OASYS, Audit Report 00-21	**18**	**0**	**18**	Management decision is overdue. OASYS must submit incurred cost schedules before decision can be made.
Audit of Corporation Contract #94-004 & 97-743-1006 with Aguirre, Audit Report 00-02	**2**	**1**	**1**	Management Decision due 5/29/00. See Footnote 1
Letter Report on Review of ETR Audits that cover Corporation Agreement #CA95-06, Audit 99-19	**1**	**0**	**0**	OIG monthly status reports have not listed this review as needing any follow-up. Corporation will prepare management decision.
Audit of Corporation Contract #97-743-1001 with GS Tech, Audit Report 99-18	**2**	**1**	**1**	See Footnote 1
Audit of Corporation Contract #97-743-1005 with ASTEC, Audit Report 99-11	**2**	**1**	**1**	See Footnote 1
Audit of Corporation Contract #95-001 with TvT Associates, Audit Report 99-10	**2**	**1**	**1**	See Footnote 1
Audit of Corporation Contract #95-743-1009 with Biospherics, Audit Report 99-09	**2**	**1**	**1**	See Footnote 1
Audit of Corporation Contract #97-743-1002 with R.O.W. Sciences, Audit Report 99-08	**3**	**3**	**0**	Final Management Decision issued to OIG on 2/3/00 reported these recommendations closed.
Audit of Corporation Contract #93-743-1005 & 96-743-1008 with Ogilvy, Adams, & Rinehart, Audit Report 99-07	**3**	**3**	**0**	Final Management Decision issued on 3/22/00 following OIG concurrence.
Audit of Corporation Oversight of the Health Benefits Program, Audit Report 99-15	**11**	**0**	**11**	Management decision will be discussed in June audit resolution meeting.

[1] OIG report indicates that audits of Corporation contracts repeatedly recommend that the Corporation "direct the contractor to limit its claimed costs to those allowable under the contract and under applicable cost principles...." This recommendation is implemented through the contract itself, which includes payment clauses and requires contractors to certify that they are billing appropriately according to the terms and conditions of the contract. Therefore, the Corporation considers this recommendation closed in contract audits.

Grant Oversight and Monitoring				
State Commission Pre-Audit Surveys Issued during this Period	**6**	**0**	**6**	Recommendations in each case require follow-up through the Corporation's Commission Standards Review process. Reviews scheduled over 3 years.
Audit of Grants to Health Association of Niagra County, Audit Report 00-05	**2**	**0**	**2**	Proposed Management Decision was discussed with OIG on 5/11/00.
Evaluation of the Corporation's Oversight and Monitoring of NACCRRA, Audit Report 00-04	**17**	**0**	**17**	Management Decision due 6/11/00
Audit of Corporation Cooperative Agreement with Walker and Co, Audit Report 00-03	**4**	**3**	**1**	Management Decision issued to OIG on 3/1/00 reported corrective action on 3 of 4.
Review of the Corporation's Liability for Post-Service Benefits Related to Former Commission Grants, Audit Report 99-06	**4**	**4**	**0**	Final Management Decision issued to OIG on 11/5/99, reported 3 of 4 recommendations closed. Subsequent to 3/31/00, Corporation completed corrective action on all 4.
Assessment of AmeriCorps Service Hour Reporting, Audit Report 98-19	**18**	**18**	**0**	Notice of Final Action, issued to OIG on 1/21/00, reported all corrective action completed.
Review of Corporation Pre-Award Financial Assessment of Grant Applicants, Audit Report 98-02	**3**	**2**	**1**	Final Management Decision, issued to OIG on 9/15/00, reported 2 of 3 recommendations closed.
Audit Resolution				
OIG FY97 Semiannual Report I, issued April 30, 1997	**5**	**5**	**0**	Corporation provided final report to OIG on 1/3/00. Audit resolution system in place and operational.
TOTAL	**395**	**240**	**155**	