TESTIMONY OF LUISE S. JORDAN
INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
BEFORE THE SUBCOMMITTEE ON INVESTIGATIONS AND OVERSIGHT
OF THE U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON EDUCATION AND THE WORKFORCE
May 5, 1999

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to testify about the recent Office of Inspector General audit of the Corporation for National and Community Service's fiscal year 1998 financial statements. I am pleased to be here today with Karyn Molnar, Partner, KPMG.

As you are aware, the Government Corporation Control Act (31 U.S.C. 9101 *et seq.*), requires that OIG audit the Corporation's annual financial statements. To fulfill this requirement, we engaged KPMG to audit the Corporation's fiscal year 1998 financial statements. The audit, conducted in accordance with government auditing standards, included extensive audit procedures to overcome known material weaknesses and other pervasive systems deficiencies. As a result, KPMG was able to issue an unqualified opinion on the Corporation's Statement of Financial Position at September 30, 1998; however, due to deficiencies in the Corporation's financial systems and management's inability to explain certain adjustments made to the accounting records, KPMG was unable to render an opinion on the Statement of Operations and Changes in Net Position, and the Statement of Cash Flows for the fiscal year.[1]

Although the Corporation has made some progress toward producing auditable financial reports, serious financial management issues remain. The audit report cites *eight areas* of the

[1] OIG Audit Report 99-12, *Audit of the Corporation for National and Community Service's Fiscal Year 1998 Financial Statements.*

Corporation's financial operations as materially weak: financial management and reporting, the Corporation's general control environment,[2] grants management, financial systems, the National Service Trust, fund balance with Treasury, net position reporting,[3] and inadequate procedures to properly record and report revenue from reimbursable agreements.

We also reported that, as a result of the financial management weaknesses, material adjustments ranging from $1.4 million to $106 million were necessary to correct amounts reported in the financial statements.[4] These deficiencies impact all of the Corporation's financial information, including its budgetary accounts and reports. For example, a material adjustment of $48 million was necessary to reclassify unexpended appropriations balances[5] related to grants and other obligations that had expired. As another example, an adjustment to reduce the service award liability by $106 million in the National Service Trust was necessary to fairly state the liability at September 30, 1998. The Corporation's initial calculation of the service award liability was made on a very conservative basis, assuming that all members enrolled as of September 30, 1998, had earned awards, and that all awards earned would ultimately be used. Historical experience now indicates that not all member slots result in earned awards, and that only about 80 percent of earned awards will be used. Calculation of the service award liability on a more realistic basis would provide the Corporation with a better indication of the available Trust Fund surplus and should be considered in the annual budget process.

[2] Control environment factors include commitment to competence, management philosophy and operating style, organizational structure, and assignment of authority and responsibility. The control environment sets the tone of an organization, influences the level of control consciousness, and provides the discipline and structure of an organization.

[3] The report cites the Corporation's failure to properly adjust obligations for expired grants and other expired obligations as well as errors in reporting results of operations. Material adjustments were required to correct the financial statements for both of these conditions.

[4] OIG Report 99-12, Internal Control over Financial Reporting, Section A, Financial Management and Reporting, page 5.

[5] OIG Report 99-12, Internal Control over Financial Reporting, Section G, Net Position, page 13.

The report also repeats two areas of non-compliance with laws and regulations: the Corporation's failure to establish an effective system to assess and report on its internal controls as required by the Government Corporation Control Act and the Corporation's substantial non-compliance with Federal financial systems requirements.

CNS OIG participated in the planning of the audit work and evaluated the nature, timing and extent of the procedures performed, monitored progress throughout the audit, and reviewed the auditors' report and the work papers supporting its conclusions. Audit fieldwork was completed on March 24, 1999, and we issued our report on April 9, 1999.[6]

I have included a copy of the audit report as a part of my statement. It contains 39 recommendations to guide the Corporation in correcting the reported material weaknesses. About half of the recommendations are new. The rest have been included in OIG reports since 1996, when we first reported that the Corporation's systems, internal controls, record keeping and accounting procedures were materially weak.

Corporation management generally acknowledges the deficiencies and has initiated various action plans over the past several years. The Corporation's most recent Action Plan, issued December 21, 1998, incorporates many of the recommendations that we have made over the years to correct these conditions. Issued in response to a Conference Committee report, it is, by far, the Corporation's most ambitious plan to date.[7] As revised in February 1999, it lists nine

[6] There is one final report that results from our audit work, the management letter. A management letter is issued to provide additional comments and recommendations to improve financial management or to address conditions that are deemed less serious than those required to be reported in the audit report. As might be expected, given the number of material weaknesses, the management letter includes numerous recommendations and is quite lengthy. We expect to issue the management letter as OIG Report 99-24 in June.

[7] The House of Representatives Conference Committee Report accompanying HR 105-769 required that the Corporation submit to the House and Senate Committees on Appropriation a detailed Plan for the expenditure of certain funds for financial management reforms and provide Plan updates every 60 days on the use of the funds. The Conference Committee Report directs OIG to independently review and comment upon the Plan and each update within 30 days of their submission to the Congress. The Corporation submitted its "Action Plan," to Congress on December 21, 1998, and subsequent updates in February and April. In response, OIG has issued its review reports 99-17 and 99-23. OIG's review of the April update will be issued later this month as OIG Report 99-25.

high level management goals and numerous tasks related to 40 objectives, most of which are intended to remediate material weaknesses and other deficiencies previously reported in OIG investigative and audit reports and other issues resulting from an assessment by the National Academy of Public Administration.[8]

Our latest review indicates that, as of April 21st, about 100 tasks are categorized as completed, but, to date, only three of the 40 objectives have been completed. There are no dramatic accomplishments. For many of the incomplete objectives, the remaining tasks are those that require the greatest amount of effort and are critical to accomplishing the objective. Therefore, although the Corporation can report some progress, it is still too early to know when or whether the Corporation will correct its material weaknesses and improve its financial management.

In our view, continuous improvement is essential in a number of areas to improve the Corporation's financial management –

Yes, it is important that the Corporation's records are now auditable. However, while the auditors were able to issue an unqualified opinion on the Corporation's balance sheet, the Corporation still has a great deal of work to do in order to receive an opinion on its full set of financial statements. It is equally important to recognize that a "clean" opinion on the financial statements is but one objective of good financial management.

Yes, it is imperative that the Corporation remediate long-standing systems deficiencies that are now exacerbated by Y2K concerns, however, new automated systems will not fix problems resulting from a lack of clear policy guidance and a lack of accountability. It is equally important that the Corporation address staffing issues ranging from a need for a Chief Financial

[8] *Corporation for National Service: Strengthening Organizational Effectiveness and Service Delivery*, a report from a panel of the National Academy of Public Administration.

Officer to providing training for current staff and hiring knowledgeable financial management staff.

For these reasons, OIG continues to emphasize that, without a serious and continuous commitment of resources, and competent financial management oversight and monitoring, the Corporation can not improve its financial management in a timely and effective manner.

Ms. Molnar will provide further information on the audit in her testimony. We will also be glad to respond to questions that Committee Members may have.