

Office of Inspector General Corporation for National and Community Service

AUDIT OF NATIONAL SERVICE TRUST PAYMENTS TO FINANCIAL AND EDUCATION INSTITUTIONS

OIG REPORT 12-08



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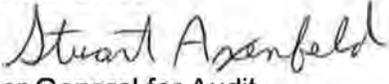
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This report was issued to Corporation management on April 3, 2012. Under the laws and regulations governing audit follow-up, the Corporation is to make final management decisions on the report's findings and recommendations no later than October 3, 2012, and complete its corrective actions by April 3, 2013. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



April 3, 2012

TO: Douglas Hilton
Acting Chief Financial Officer

FROM: Stuart Axenfeld 
Assistant Inspector General for Audit

SUBJECT: Office of Inspector General (OIG) Report 12-08: *Audit of National Service Trust Payments to Financial and Education Institutions*

Attached is the final report on the OIG's *Audit of National Service Trust Payments to Financial and Education Institutions*. This audit was performed by OIG staff in accordance with generally accepted government auditing standards.

Under the Corporation's audit resolution policy, a final management decision on the findings in this report is due by October 3, 2012. Notice of final action is due by April 3, 2013.

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

Attachment

cc: Rocco Gaudio, Deputy CFO for Grants and Field Financial Management Center
Peter Rudman, Director, Accounting and Financial Management Services
Maggie Taylor-Coates, Chief, Trust Operations Branch
Claire Moreno, Audit Liaison, Office of Grants Management

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A – Corporation for National and Community Service’s Response to Draft Report

TABLE OF ACRONYMS

CFR	Code of Federal Regulations
GAO	Government Accountability Office
ICR	Internal Control Review
NCCC	National Civilian Community Corps
OIG	Office of Inspector General
OMB	Office of Management and Budget
USC	United States Code
VISTA	Volunteers in Service to America

EXECUTIVE SUMMARY

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), performed an audit of the National Service Trust Payments to Financial and Education Institutions. Our audit objectives were to determine whether National Service Trust (Trust) payments, including interest forbearance, were made to legitimate financial and educational institutions; were properly reviewed and approved prior to disbursement; were accurately recorded in a timely manner; and the Corporation has adequate internal controls over the Trust payment process.

During our audit, nothing came to our attention that institutions we reviewed are not legitimate and we did not note any improper payments from our samples. Also, we noted that our selected Trust payments were recorded timely, and properly reviewed and approved prior to disbursements. However, we found that the Corporation had no documented review process to verify that financial institutions have a qualified student loan that is eligible to receive an education award disbursement. We also noted that there was no documented review process to verify that installment payments were paid in accordance with Title 45 of the Code of Federal Regulations (C.F.R.) § 2528.30(c), *Installment Payments*. Although the financial institution samples we selected and reviewed appeared to be legitimate, we found that the Corporation solely relies on the institutions' self-validation to certify their eligibility to receive education awards and comply with applicable regulations. We further noted that there were multiple duplicated financial and education institutions recorded in the eSpan system¹ and some of the samples we selected had been incorrectly inactivated by the Corporation personnel. This condition could lead to invalid institutions receiving Trust disbursements and improper payments. Also, Trust disbursements could be delayed if they are sent to an incorrect institution, or to an institution that is listed in eSpan system, but with multiple institution identifications in the eSpan system.

Based on our audit findings, we recommend the Corporation document and implement scheduled reviews of disbursements to financial institutions to validate that education awards are paid to a qualified loan and ensure that installment payments are being disbursed in accordance with Title 45 C.F.R. § 2528.30(c). We also recommend the Corporation reviews the validity and existence of financial and education institutions recorded in the eSpan on a regular basis, ensure the institutions are registered through the MyAmeriCorps Portal², and input comment in the eSpan system on the Institution Maintenance Screen that includes written reason(s) when an institution becomes inactive, its date of inactivation, and the identification of the Trust personnel who initiates the institution inactivation.

¹ eSpan processes education award payments for the AmeriCorps National Service Program. It interfaces with Momentum, the Corporation's core financial management system. It uploads a weekly file to Momentum to update accounting data, and uses electronic file transfers to receive enrollment data and provide updated financial information to Momentum.

² MyAmeriCorps Portal communicates data for the National Service Trust and grantees/sub-grantees through the grantees' financial status reports. It also allows AmeriCorps members and Corporation personnel to record and view AmeriCorps members' personal information, education award status, as well as program information.

RESULTS OF AUDIT

Finding 1. Lack of Review of Financial Institutions Validity and Installment Payments Dates

During our review of the education award disbursements, we noted the Corporation has no documented review process to verify that financial institutions have a qualified student loan or are eligible to receive an education award disbursement. We noted that, for all 10 active financial institutions we sampled, and for three sampled Trust disbursements that were paid after expiration date, the loan types and financial institutions were not validated by the Corporation. The financial institution samples we selected appeared to be legitimate. Based on our discussion with Trust personnel, we determined that the Corporation relies on the financial institutions' self-validation that their student loans meet the criteria for an education award. Although the Corporation performed Fiscal Year 2011 Internal Control Review (ICR) of the Trust, we determined that it did not review whether financial institutions were legitimate and eligible to receive an education award disbursement.

We also noted that the Corporation had no documented review process to verify that installment payments were paid in accordance with Title 45 of the C.F.R. § 2528.30(c), *Installment Payments*. We noted that 44 of the 47 Trust disbursements we sampled that were paid to institutions after expiration date had installment payments, and the installment payment dates were not verified by the Corporation to determine if those payments were in compliance with Title 45 C.F.R. § 2528.30(c). Title 45 C.F.R. § 2528.30(c) requires that the Corporation disburses the education award to the education institution in at least two separate installments, and none of which exceeds 50 percent of the total amount. The interval between installments may not be less than one-half of the period of enrollment, except as necessary to permit the second installment to be paid at the beginning of the second semester, quarter, or other division of a period of enrollment. Currently, for education award requests made through the MyAmeriCorps Portal, education institutions record the dates for the installments in the "Enrollment Start Date" and "Enrollment Midpoint Date" fields in the "Education Award Payment Request" screen. For manual education award requests, education institutions complete the "Enrollment Start Date" and "Enrollment Midpoint Date" fields in the "Manual Payment Request Form." The Corporation requires that the education institutions record the installment dates on the applicable form and self-validate that the information compiles with Title 45 C.F.R. § 2528.30(c). Based on our discussion with Trust personnel, we determined that the Corporation relies solely on the institution to certify that all of the information it provides is true and correct, and that knowingly and willfully providing a false statement on the form could be punished by a fine or imprisonment or both by the United States Code (U.S.C.) Title 18, § 1001. Our review of the ICR of the Trust conducted in Fiscal Year 2011 verified that the Corporation did not review whether the installment payment dates were in compliance with Title 45 C.F.R. § 2528.30(c).

Title 45 C.F.R. § 2528.30(c), *Installment payments*, states:

The Corporation will disburse the education award to the institution of higher education in at least two separate installments, none of which exceeds 50 percent of the total amount. The interval between installments may not be less than one-half of the period of enrollment, except as necessary to permit the second installment to be paid at the beginning of the second semester, quarter, or other division of a period of enrollment.

The Corporation's National Service Trust Standards & Operating Procedures, Chapter VI. Making Payments, section "What is a 'qualified loan'?" states:

AmeriCorps legislation defines a "qualified" student loan as one backed by the federal government under Title IV of the Higher Education Act (except Parental PLUS loans) or under Titles VII and VIII of the Public Health Service Act. Also included are loans covering all or a part of a student's cost of attendance made directly to the student by a state agency. A defaulted student loan, as long as it meets the definition of "qualified," can be paid using the educational award. Some of the most common qualified loans are Stafford Loans, Perkins Loans, Federal Direct Loans, and Supplemental Loans for Students (SLS), Federal Consolidated Loans, Health Education Assistance Loans (HEAL), Health Professions Student Loans (HPSL), and loans made directly to members by a state agency.

Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*, states:

Internal control should provide reasonable assurance that the objectives of the agency are being achieved in the following categories:

- *Effectiveness and efficiency of operations including the use of the entity's resources.*
- *Compliance with applicable laws and regulations.*

Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, states:

Agency managers should continuously monitor and improve the effectiveness of internal control associated with their programs... Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

Recommendations

We recommend the Corporation:

- 1a. Document and implement scheduled reviews of disbursements related to financial institutions in order to validate that education awards are paid to qualified loans; and
- 1b. Document and implement reviews to ensure that installment payments are disbursed in accordance with Title 45 C.F.R. § 2528.30 (c), *Installment Payments*.

Finding 2. Duplicated and Inactive Institutions Recorded in eSpan System

We noted that there are multiple duplicated financial and education institutions recorded in the eSpan system. This results from institutions either being added or updated manually by Trust personnel, or the institutions that have been previously added in the eSpan system by Trust personnel also registered through the MyAmeriCorps Portal. Since March 2011, the Corporation's Trust Office has been working to clean up the eSpan system of multiple listings of education or financial institutions. However, the Trust Office is unaware of the frequency, if at all, of financial and education institution reviews or updates conducted prior to the appointment of the current Chief of the Trust Operations Branch in 2008. There are no policies and procedures outlining the process for reviewing or documenting scheduled reviews for the institutions listed in eSpan system.

In our testing of 45 sampled inactive institutions, 43 became inactive as a result of the Corporation's effort to clean up the duplicated financial and education institutions from the eSpan system. For nine of the 45 inactive institutions, there were no comments or explanations explaining why these institutions had become inactive. In addition, we noted that there was a lack of consistent documentation (such as the reasons for inactivation, date, or identification of the Corporation employee(s) who initiated the inactivation), included in the comment section of the Institution Maintenance Screen in the eSpan system. We further noted that two of our inactive samples were incorrectly inactivated. Two of the 45 inactive institutions were incorrectly inactivated on January 21, 2010, and March 17, 2011, respectively, and were subsequently reactivated on September 29, 2011. Under these conditions, invalid institutions could receive Trust disbursements, resulting in improper payments. Also, Trust disbursements could be delayed if they are sent to the incorrect institution, or to an institution that is listed in eSpan system, but with multiple institution identifications.

GAO *Standards for Internal Control in the Federal Government*, states:

Internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results.

Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations.

Internal control should provide reasonable assurance that the objectives of the agency are being achieved in the following categories:

- *Effectiveness and efficiency of operations including the use of the entity's resources.*
- *Compliance with applicable laws and regulations.*

Recommendations

We recommend the Corporation:

- 2a. Develop policies and procedures to require periodic reviews of the validity and existence of financial and education institutions recorded in the eSpan;
- 2b. Ensure financial and education institutions are registered through the MyAmeriCorps Portal; and
- 2c. Add comments in eSpan's Institution Maintenance Screen that includes documented reason(s) when an institution becomes inactive, the date of inactivation, and identification of the Trust employee(s) who initiated the inactivation.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

We conducted our audit in accordance with generally accepted government audit standards. Those standards required that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit objectives were to determine whether: Trust payments, including interest forbearance, were made to legitimate financial and educational institutions; were properly reviewed and approved prior to disbursement; were accurately recorded in a timely manner; and the Corporation has adequate internal controls over the Trust payment process.

The scope of this audit was from June 1, 2010 to June 30, 2011. Our preliminary audit scope period, stated on the audit notification, was changed from June 1, 2009 to June 1, 2010. We modified the scope because the Corporation's Trust Standards & Operating Procedures were revised in December 2010. Our revised audit scope, which was communicated to the Corporation on August 2, 2011, covered the latest control environment of the Corporation's Trust operations.

We performed our fieldwork at the Corporation Headquarters between May 2011 and December 2011. The methodology included obtaining and reviewing applicable Federal and Corporation policies and procedures to obtain an understanding of the Trust disbursement process to education and financial institutions. We interviewed Corporation personnel responsible for processing and overseeing the Trust fund disbursements. We also obtained a list of education and financial institutions recorded in eSpan and performed testing on these institutions, as well as related Trust disbursements, through judgmental or randomly selected samples. Our samples included the following categories: (1) active education and financial institutions (we selected 55 samples from a population of 21,992); (2) inactive education and financial institutions (45 samples from a population of 245); and (3) Trust disbursements paid after expiration date (47 samples from a population of 263).

BACKGROUND

The National Service Trust was established by the National and Community Service Act of 1990 and was amended by the Edward M. Kennedy Serve America Act of 2009. The Trust consists of:

- The payment of national service education awards, Summer of Service education awards, Silver Scholar education awards, and forbearance interest expenses;
- Any amounts received by the Corporation as gifts, bequests, or otherwise pursuant to section, if the terms of such donations direct that the donated amounts be deposited in the National Service Trust;
- Any amounts recovered by the Corporation; and
- The interest on, and proceeds from the sale or redemption of, any obligations held by the Trust.

The Trust is to provide funds for education awards for eligible participants who successfully complete service in AmeriCorps, which engages American of all ages and backgrounds in full-time and sustained part-time service to the community. AmeriCorps is made up of three components: AmeriCorps State and National, AmeriCorps Volunteers in Service to America (VISTA), and AmeriCorps National Civilian Community Corps (NCCC). Trust funds are available to:

- Repay qualified student loans;
- Pay educational expenses at a qualified institution of higher education; and
- Repay eligible interest expense on student loans.

The value of an education award depends on the term of service performed by an AmeriCorps member. The following table shows education awards available for different service types:

Types of Service	Minimum Service Hours	Education Award 2010 (\$)	Education Award 2011 (\$)
Full Time	1,700	5,350.00	5,550.00
Half Time	900	2,675.00	2,775.00
Reduced Half Time	675	2,038.00	2,114.29
Quarter Time	450	1,415.00	1,468.25
Minimum Time	300	1,132.00	1,174.60

Education awards earned by AmeriCorps members are available to be used for seven years from the completion of the service. Extension of the seven-year time period is granted under certain circumstances and can be extended. However, extension requests must be made before the end of the seven-year period and approved by the Corporation. Payments from the Trust are made directly to the education institutions and the loan holders, as directed by the members or education institutions. The Trust is not used to pay member stipends or other grant costs.

EXIT CONFERENCE

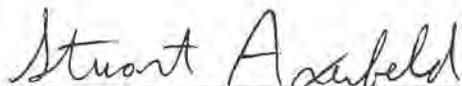
The contents of this report were discussed with the Corporation representatives at an exit conference on January 25, 2012. We summarized the Corporation's response to the draft report below and included its response, in its entirety, as Appendix A.

CORPORATION RESPONSE

Corporation management acknowledged the findings and recommendations in the report. The Corporation stated that it is beginning a consolidation of the offices responsible for reviewing internal controls, and our recommendations will be submitted to a new office for its consideration in reviewing risks and controls related to the Trust.

OIG COMMENT

The Corporation's planned actions satisfy the intent of our recommendations. We will assess the Corporation's implementation of our recommendations during the audit resolution process.



Stuart Axenfeld, Assistant Inspector General for Audit
Office of Inspector General
Corporation for National and Community Service

Appendix A

Corporation for National and Community Service's Response to Draft Report

To: Stuart Axenfeld, Assistant Inspector General for Audit

From: 
Douglas H. Hilton, Acting Chief Financial Officer

Date: March 30, 2012

Subject: Response to OIG Draft Report: Audit of the National Service Trust
Payments to Financial and Educational Institutions

Thank you for the opportunity to review the February 10, 2012 draft report on the OIG Audit of the National Service Trust Payments to Financial and Educational Institutions. Your report concludes that all sampled institutions were verified as legitimate institutions; all sampled payments were determined to be proper, with appropriate reviews and approvals prior to disbursement; and that the payments were recorded in a timely manner. The draft report also included two findings and several recommendations to improve CNCS' future reviews of Trust payments, and to improve the reliability of information in systems which are used to process Trust payments.

CNCS is beginning a consolidation of the offices responsible for reviewing internal controls, including risk assessments of core business cycles and evaluation of the design and effectiveness of policies and procedures to mitigate those risks. The recommendations in this report will be submitted to this new office for its consideration in reviewing the risks and controls related to the National Service Trust.

cc: Rocco Gaudio, Deputy CFO for Grants and Field Financial Management
Peter Rudman, Director of Accounting and Financial Management Services
Maggie-Taylor-Coates, Chief, Trust Operations Branch
Claire Moreno, Audit Liaison, Office of Grants Management