

**Office of Inspector General  
Corporation for National and  
Community Service**

**EVALUATION OF THE CORPORATION'S  
COMPLIANCE WITH  
IMPROPER PAYMENTS ELIMINATION AND  
RECOVERY ACT (IPERA)**

**OIG REPORT 12-10**



*Corporation for*  
**NATIONAL &  
COMMUNITY  
SERVICE** 

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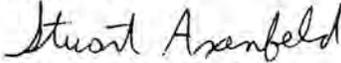
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This report was issued to Corporation management on March 7, 2012. Under the laws and regulations governing audit follow-up, the Corporation is to make final management decisions on the report's findings and recommendations no later than September 7, 2012 and complete its corrective actions by March 7, 2013. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



March 7, 2012

TO: Doug Hilton  
Acting Chief Financial Officer

FROM: Stuart Axenfeld   
Assistant Inspector General for Audit

SUBJECT: Office of Inspector General (OIG) Report 12-10: *Evaluation of the Corporation's Compliance with Improper Payments Elimination and Recovery Act (IPERA)*

Attached is the final report on the OIG's *Evaluation of the Corporation's Compliance with Improper Payments Elimination and Recovery Act (IPERA)*. This evaluation was performed by OIG staff in accordance with the Quality Standards for Inspection and Evaluation.

Under the Corporation's audit resolution policy, a final management decision on the findings in this report is due by September 7, 2012. Notice of final action is due by March 7, 2013.

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

Attachment

cc: Robert Velasco II, Acting Chief Executive Officer  
Kim Mansaray, Acting Chief Operating Officer  
Stu Graff, Team Leader, Internal Control and Analysis Team

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A: Corporation's Response to Draft Report

## TABLE OF ACRONYMS

AFR	Agency Financial Report
FY	Fiscal Year
IPERA	Improper Payments Elimination and Recovery Act
OIG	Office of Inspector General
OMB	Office of Management and Budget
VISTA	Volunteers in Service To America

## EXECUTIVE SUMMARY

In response to the President's July 2010 mandate on implementing the Improper Payments Elimination and Recovery Act (IPERA), the Office of Inspector General (OIG), Corporation for National and Community Service (Corporation) performed an evaluation of the Corporation's compliance with IPERA. An improper payment is defined as any payment that should not have been made or that was made in an incorrect amount, any payment to an ineligible recipient or for ineligible goods or services, any duplicate payment, any payment for goods or services not received, or any payment that does not account for credit for applicable discounts.<sup>1</sup> Office of Management and Budget (OMB) guidance also instructs agencies to report as improper payments of any payments for which insufficient or no documentation was found.

The objective of our evaluation was to determine whether the Corporation performed its improper payment assessment in compliance with IPERA, applicable Executive Orders, and the OMB guidance. The evaluation was conducted in accordance with the Quality Standards for Inspection and Evaluation issued by the Council of the Inspectors General on Integrity and Efficiency.

Federal agencies reported an estimated \$115.3 billion in improper payments in Fiscal Year (FY) 2011. The Corporation reported in its FY 2011 Agency Financial Report (AFR) improper payments of \$2.14 and projected estimated improper payments of \$3,947. We found that the Corporation reporting of its improper payment assessment in the AFR is in compliance with the reporting requirements prescribed by IPERA. However, we believe that its improper payment estimate of \$2.14 is underestimated and unreliable, based on the following findings:

1. A key attribute for testing improper payment was removed from the testing work papers and was not tested or considered in assessing improper payments; and
2. The Corporation's efforts to estimate improper payments did not address all known weaknesses.

## EVALUATION CONCLUSIONS

The Corporation's reporting of its improper payment assessment in the AFR is in compliance with the reporting requirements prescribed by IPERA; however, we believe the Corporation did not perform adequate testing to obtain reliable and reasonable results of improper payment estimates. The Corporation's mechanism used to review and evaluate improper payment is incomplete and needs to be refined. We found that the Corporation's testing procedures for improper payments excluded a key attribute to test that payments have been expended for the intended purpose of the AmeriCorps Volunteers in Service To America (VISTA) and National Trust Service agreements. According to the Corporation, this vital attribute was eliminated due to lack of resources to perform the required planned procedures. The Corporation tested a total of 1,072 payment samples which we considered inefficient. The sample size was too large to allow for sufficient testing procedures considering the limited resources.

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<sup>1</sup> OMB Circular A-123, Management's Responsibility for Internal Control, Appendix C. Requirements for Effective Measurement and Remediation of Improper Payments, April 14, 2011.

In addition, the Corporation's efforts to estimate improper payments did not address all known weaknesses. Specifically, it did not incorporate improper payments identified in OIG audit and investigative reports in its evaluation of improper payments. OIG audits and investigations have consistently identified internal control weaknesses that have resulted in improper payments. For example, we reported more than \$200,000 in improper payments of the National Service Trust over the span of period the Corporation conducted its assessment.

The Corporation reported on its FY 2011 AFR of improper payments of \$2.14 and projected estimated improper payments of \$3,947. These totals are in significant contrast to the more than \$200,000<sup>2</sup> in improper payments identified by the OIG. The Corporation reported finding no improper payment errors in its testing of the National Service Trust. As a result of this discrepancy and the omission of the key attribute that was not tested, we do not place high level of confidence in the reliability of the results of improper payments estimates reported in the AFR.

We believe the Corporation's testing procedures was not sufficiently comprehensive to produce reliable estimates. We recommend that the Corporation:

- Refine the testing plan to include attributes to verify that the Corporation did not make payments for unintended and unallowable activities. It is efficient to incorporate this type of testing in the internal control structure used to manage high-risk programs;
- Ensure that the sample size utilized to analyze improper payments will enable sufficient and comprehensive testing;
- Implement effective testing procedures to completely and accurately identify the full extent of improper payments by capturing improper payments identified in OIG audits and investigations; and
- Utilize existing Corporation monitoring tools, including quarterly reviews, internal control reviews, and grantee/subgrantee monitoring reviews, to enhance the process of identifying and recovering improper payments.

## RESULTS OF EVALUATION

### **Finding 1. A key attribute for testing improper payment was removed from the testing work papers and was not tested or considered in assessing improper payments.**

The testing procedures conducted by the Corporation were not adequate to obtain a reasonable and reliable improper payment estimate. For example, the Corporation

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<sup>2</sup> This amount represents questioned cost incurred during the time span the Corporation conducted the IPERA evaluation. This amount is not statistically projected and is the actual cumulative amount, derived from a few FY 2011 OIG audit reports, representing FY 2010 disbursements relating to education awards. The Corporation is yet to provide management decisions on this amount. The OIG audits were conducted in accordance with generally accepted government auditing standards.

improperly removed a key attribute to verify that payments have been expended for the intended purpose of the AmeriCorps VISTA program and National Service Trust. This removed attribute is “verify that payments were used for the intended purpose.” We consider the removed attribute crucial in determining unallowable activities. We first noted the Corporation included the now-removed attribute in the IPERA draft report that was submitted to the OIG. The draft IPERA report was developed and prepared by the contracted consultants and they documented the attribute in question as “unable to test.” The OIG met with the consultants upon noticing the untested attribute and inquired why it was not tested. We were initially informed by the consultants that they were restricted by the Corporation to perform testing specifically related to that attribute, and were later informed by the consultants that the reason was due to lack of resources. The Corporation tested a total of 1,072 payment samples, in which we considered inefficient. The sample size was too large and impractical to allow for sufficient testing procedures considering the limited resources. Before the consultants issued the final IPERA report, we notified the Corporation and expressed our concerns that we considered the particular attribute as crucial in determining improper payment estimates. However, all references related to the discussed attribute was removed from the final IPERA report, as well as supporting documentation, without any explanation for the exclusion from testing procedures.

The consultants informed us that they reviewed grantees’ progress reports to identify unallowable activities in lieu of performing the removed attribute. Based on this review, they found no improper payments. However, we believe it is unlikely that grantees would self-report violations of the terms and conditions of grants in their own progress reports. Therefore, we consider their alternative procedure performed in lieu of testing the attribute inadequate and insufficient.

Without testing this important attribute, the improper payments estimate reported by the Corporation in its FY 2011 AFR is incomplete and unreliable. As we will reveal in Finding 2, we believe the improper payment of \$2.14, as identified by the Corporation, is understated due to the limitations in the testing procedures performed. Overall, it appears the Corporation has understated the magnitude of improper payments in its high-risk programs.

## **Recommendations**

We recommend that the Corporation:

- 1a. Refine the testing plan to include attributes to verify that the Corporation did not make payments for unintended and unallowable activities. It is efficient to incorporate this type of testing in the internal control structure used to manage high-risk programs; and
- 1b. Ensure that the sample size utilized to analyze improper payments will enable sufficient and comprehensive testing.

## **Finding 2. The Corporation’s efforts to estimate improper payments did not address all known weaknesses.**

We found that the Corporation’s efforts to estimate improper payments did not address all known weaknesses. The Corporation did not incorporate the improper payments

identified in OIG audits and investigations in its overall improper payments evaluation. During our review of supporting documentation and interviews we had with the consultants, we found that the Corporation reviewed audit reports issued by the OIG. However, the Corporation did not perform a comprehensive analysis of the improper payments amounts identified in those reports. Based on the supporting documentation provided by the Corporation, only OIG audit and investigative reports issued in FY 2010 were reviewed. OIG reports issued in FY 2010 mainly reported improper payments identified in prior periods that were not within the scope of the Corporation's IPERA assessment. OIG reports for FY 2011 did identify improper payments within the scope of the Corporation's IPERA assessment, but there was no evidence that those reports were reviewed by the Corporation.

We performed an analysis of improper payment amounts identified in OIG reports for AmeriCorps VISTA and National Service Trust disbursements. We found that we reported questioned costs<sup>3</sup> of over \$200,000 incurred over the span of time (from October 2009 to September 2010) the IPERA assessment was conducted. In our discussions with the Corporation personnel, we learned that OIG's identified questioned costs were not incorporated in the Corporation's IPERA assessment. Therefore, we believe the Corporation's assessment of improper payments is incomplete and understated.

## **Recommendations**

We recommend that the Corporation:

- 2a. Implement effective testing procedures to completely and accurately identify the full extent of improper payments by capturing improper payments identified in OIG audits and investigations; and
- 2b. Utilize existing Corporation monitoring tools, including quarterly reviews, internal control reviews, and grantee/subgrantee monitoring reviews, to enhance the process of identifying and recovering improper payments.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

We conducted this evaluation in accordance with the Quality Standards for Inspection and Evaluation issued by the Council of the Inspectors General on Integrity and Efficiency.

Our objective was to determine whether the Corporation performed its improper payment assessment in compliance with IPERA, applicable Executive Orders, and OMB guidance.

We performed our evaluation from August 2011 to February 2012. Our evaluation entailed a review and assessment of the Corporation's efforts in determining and reporting improper payments. We conducted interviews with the consultants to obtain

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<sup>3</sup> A questioned cost is an alleged violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds or a finding that, at the time of testing, includes costs not supported by adequate documentation.

an understanding of the work they performed. We requested, obtained, and reviewed their draft and final reports and supporting documentation to ensure that the methodology and testing procedures used to assess improper payments was reasonable, sound, and reliable. The Corporation reviewed and tested payments made between October 1, 2009 and September 30, 2010.

In addition, we reviewed our relevant audit and investigation reports to assess the amount of questioned costs that should have been considered and included in the Corporation's overall improper payment assessments. We also reviewed applicable laws and regulations (such as OMB Circular A-123, Appendix C, the IPERA [Public Law 111-204], the OMB Memorandums M-11-04, M-11-16, and Executive Order 13520), and the Corporation's FY 2011 AFR.

We conducted our evaluation at the Corporation's headquarters in Washington, DC. We interviewed the consultants that performed the test work regarding their methodology, results of risk assessments, and testing procedures and results. The interviews were conducted in person at the Corporation's headquarters. In addition, we reached out to Corporation's personnel to express our preliminary concerns on the testing attributes and exclusion of OIG's improper payments in the Corporation's overall improper payment assessment.

## **BACKGROUND**

To implement the goal of reducing wasteful improper payments, the President signed IPERA into law in July 2010. IPERA amended the Improper Payments Information Act of 2002. IPERA requires agencies to identify programs or activities that are susceptible to significant improper payments, conducting a risk assessment, perform testing of programs considered high risk, testing a sample of transactions, determining the estimated amount of improper payments, and develop and implement corrective actions plans for high risk programs. Improper payments may result from inadequate recordkeeping, inaccurate eligibility determinations, inadvertent processing errors, the lack of timely and reliable information to confirm payment accuracy, or fraud. OMB Circular A-123, Appendix C, provides guidance to Federal agencies on implementing IPERA which reinforces significant reliance on internal controls. As stated in the Government Accountability Office's testimony before the "Subcommittee on Government Organization, Efficiency, and Financial Management, Committee on Oversight and Government Reform, House of Representatives" on February 7, 2012, implementing strong preventive controls can help defend against improper payments, increasing public confidence and avoiding the difficult "pay and chase" aspects of recovering improper payments. Preventive controls involve activities such as upfront validation of eligibility using electronic data matching, predictive analytic tests, and training programs.

In recent years, the Federal government has made eliminating improper payments a focal point targeting reduction in fraud, waste, and abuse. IPERA requires the following:

- Increased transparency and intensified agency efforts in preventing, identifying, and recovering payment errors within Federal spending;

- Agencies annually identify programs and activities susceptible to improper payments, estimate the annual amount of improper payments and submit the estimate to the President and Congress. Agencies are to include the estimates in their AFR; and
- Inspector General review their agency's improper payment reporting in the AFR and report on the agency's compliance.

The Office of the Chief Financial Officer is responsible for reporting on the Corporation's compliance with IPERA. The Corporation contracted with a consulting firm to conduct improper payment testing on programs deemed to be of the highest risk. As stated in the FY 2011 AFR, the Corporation based its risk assessment on a payment risk criteria matrix, including factors such as internal controls over financial processing, internal monitoring and assessments, human capital turnover, programmatic complexity and size of payments. The Corporation selected payments from the AmeriCorps VISTA program as well as payments from the National Service Trust for the FY 2011 IPERA reporting. The scope of the payments was made between October 1, 2009 and September 30, 2010. For FY 2010, the AmeriCorps VISTA and the National Service Trust reported Federal outlays of about \$119 million. The Corporation reported one improper payment of \$2.14 based on the testing procedures it performed. The \$2.14 improper payment discovered was used to statistically project \$3,947 of improper payments made by the Corporation in FY 2010. The Corporation tested a total of 1,072 payment samples.

#### **EXIT CONFERENCE**

We discussed the contents of this draft report with Corporation representatives at an exit conference on February 23, 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 draft report and stated that it conducted the first two IPERA assessments through a contractor, and that the results of the second assessment will be reported in the FY 2012 AFR. The Corporation stated that it is in the process of awarding a new contract for IPERA assessment. The Corporation plans to discuss results of our report with the new contractor and our recommendations will be considered in planning future IPERA assessments.

#### **OIG COMMENT**

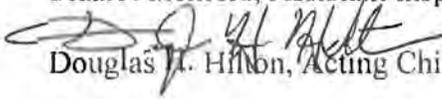
The Corporation's planned actions satisfy the intent of our recommendations. The Corporation should reassess results of the second IPERA assessment, which will be reported in the FY 2012 AFR, based on recommendations from this evaluation report.



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

**Appendix A**  
**Corporation's Response to Draft Report**

**To:** Stuart Axenfeld, Assistant Inspector General for Audit  
**From:**   
Douglas J. Hilton, Acting Chief Financial Officer  
**Date:** March 6, 2012  
**Subject:** Response to OIG Draft Report: Evaluation of the Corporation's Compliance with Improper Payments Elimination and Recovery Act (IPERA)

Thank you for the opportunity to review the February 27, 2012, draft report on the OIG evaluation of the Corporation's Compliance with Improper Payments Elimination and Recovery Act (IPERA). Your report concludes that CNCS' report on its assessment of the extent of improper payments in its FY 2011 Annual Financial Report was in compliance with the requirements of IPERA. The draft report also included two findings and a number of recommendations to improve CNCS's future testing for improper payments.

CNCS conducted its first two assessments under IPERA through a contract with Grant Thornton. That contract is completed, and the results of the second assessment (covering payments under the AmeriCorps State and National and Senior Corps programs) will be included in CNCS' FY 2012 Annual Financial Report. The draft OIG report includes a number of recommendations to improve CNCS' future IPERA assessments. CNCS is in the process of awarding a new contract for IPERA assessments. Once a new contract is in place, CNCS will discuss the results of the OIG review with the contractor and ask that the OIG's recommendations be considered in planning the IPERA assessments, consistent with the requirements of Office and Management and Budget Circular A-123, Appendix C.

**cc:** Kim Mansary, Acting Chief Operating Officer  
Stu Graff, Director of Internal Control and Analysis