Chairman Scott, Dr. Foxx, and Members of the Committee:

Thank you for the opportunity to testify today about the work of the Office of Inspector General (OIG) to strengthen oversight and accountability at the Corporation for National and Community Service (CNCS), now operating under the name “AmeriCorps.” As you know, the OIG is an independent and nonpartisan unit charged with detecting and preventing waste, fraud and abuse and improving the efficiency and effectiveness of CNCS and its programs. I have had the privilege of serving as the Inspector General for nine years and have twice testified before this Committee.

Grant-making is CNCS’s core activity. Grants account for about three-quarters of the agency’s regular $1.1 billion appropriation and are expected to account for more than three-quarters of the $1 billion awarded to the agency under the American Rescue Plan. An interagency agreement with the Centers for Disease Control will bring in another $400 million for Public Health AmeriCorps grants. Two weeks ago, the House passed legislation that would award CNCS an additional $15.2 billion to support national service in responding to climate change. Annualized, these increases about quadruple AmeriCorps’ budget, which would challenge even the best-run organization.

My testimony today will identify some of the unique challenges that CNCS currently faces in supporting its mission, particularly with respect to financial management and grants management. Many of these difficulties stem from a legacy of underinvestment in agency operations and technology. I will also touch on two areas of longtime concern in which the agency has made good progress: performing criminal history checks to safeguard national service programs from convicted murderers and registered sex offenders, and developing a new grant risk model.

1 This testimony uses CNCS and AmeriCorps interchangeably.
I. Improving Financial Management Must Be an Urgent Priority

A. Financial statements of AmeriCorps and the National Service Trust remain unauditable, with pervasive and persistent material weaknesses

A fundamental responsibility of agency management is to track and report their use of public funds, in the form of financial statements subject to independent OIG audit. For the past five years, the financial statements of AmeriCorps and the National Service Trust, which holds the funds needed to pay the education awards earned by AmeriCorps members, have not been auditable. The independent auditors have been required to issue disclaimers of opinion because they are unable to say that the financial statements are accurate, complete, and reliable and fairly present AmeriCorps’ financial position. The auditors have identified and described in detail pervasive material weaknesses in AmeriCorps’ internal controls over financial reporting. A 35-page audit report issued two weeks ago listed nine material weaknesses, defined as problems so severe that they could materially affect the financial statements. Five of these weaknesses date back to 2018 and three of them to 2017. In 2019, the auditors made 75 recommendations to strengthen AmeriCorps’ financial management and financial reporting. Two years later, in our most recent report, the auditors found that AmeriCorps had implemented ten of them, less than 15 percent. The most recent audit report also added eight recommendations, leaving a total of 73 pending recommendations. In other words, AmeriCorps has made little progress in resolving serious financial accountability problems that it has known about for four years.

At the beginning of the FY 2021 audit, AmeriCorps candidly acknowledged that it had not made progress as to certain of the material weaknesses and requested that they be excluded from this year’s audit.\(^2\) With respect to others, the agency could not implement its planned actions until after the end of the third quarter, leaving insufficient time for the auditors to evaluate the changes.\(^3\) In May 2021, the auditors advised AmeriCorps that these limitations would likely result in another disclaimer of audit opinion and a repetition of the material weaknesses.

Some of the material weaknesses concern unexplained discrepancies between the financial information in AmeriCorps’ grants management system and the information in its accounting system. The discrepancies include such basic information as the amounts awarded to individual grantees and the amounts unspent and available to them. A sample of twelve grants tested in

\(^2\) These areas included: (1) verification of the data underlying the Trust Obligation and Liability Model, and (2) Undelivered Orders and Accounts Payable relating to Procurement. AmeriCorps also acknowledged that it was not properly tracking and following up on grants Single Audit compliance.

\(^3\) These areas were a new actuarial model for estimating the Trust liability and obligation and a new grant accrual methodology.
2019 found discrepancies of $1 million or more in the award totals for five of the grants; in two cases, the discrepancy was more than $4 million.

Another example: In FY 2021, the auditors found that AmeriCorps overstated its grant advances by 97.7 percent, even higher than the 90 percent rate they found in the FY 2019 audit. And if they overstated advances, then they have understated how much money remains to be paid to grantees. This is one of the uncorrected problems first identified in FY 2017.

Another material weakness relates to how AmeriCorps determines the amount of money needed for the National Service Trust to pay the education awards earned by AmeriCorps members. The Trust is AmeriCorps’ largest single liability, valued at $356 million in FY 2021. For many years, the agency continued to include in this liability expired awards dating back to the agency’s founding in 1993. In this and other ways, the Trust accumulated at least $150 million more than it needed. Those funds sat idle, while AmeriCorps continued to request appropriations for the Trust. Our audit discovered these problems, and, as a result, Congress rescinded $150 million from the Trust in 2018. Late in FY 2021, the Trust adopted an actuarial model to estimate the Trust liability and obligations, something that the auditors had long recommended. The implementation was too late for this year’s audit.

Although 2021 was AmeriCorps’ fifth year with the same outside audit firm, AmeriCorps had difficulty providing correct, complete and responsive information from AmeriCorps, which delayed the audit work, in some cases for months. Difficulties responding to the auditors persisted until the end of the audit when AmeriCorps requested more time to respond to the written Notices of Findings and Recommendations (NFR) because it had lost track of the NFRs and their response dates. Typically by the fifth year of an audit contract, the auditee knows what to expect and responds easily and readily to information requests. That was not the case at AmeriCorps.

B. AmeriCorps was unprepared for the conversion to shared services, which remains incomplete

AmeriCorps’ primary response to years of negative audit findings was the decision in 2019 to move its financial management and accounting functions, as well as travel and procurement, to the Department of the Treasury’s Administrative Resource Center (ARC), effective FY 2021. Given AmeriCorps’ history, and the difficulty of any small agency in attracting and retaining accounting personnel, the OIG endorsed this idea, and we still do. AmeriCorps predicted that the move to shared services would resolve most of the material weaknesses and open recommendations identified in past audits.
However, as the most recent audit showed, AmeriCorps has not yet realized the benefits that it expected from shared services, in part because AmeriCorps did not complete all of the work needed for the conversion. The agency greatly underestimated the level of effort needed to align its years of noncompliant financial records with Federal reporting requirements and did not have a realistic plan or commit sufficient resources to complete the effort before the October 1, 2020, go-live date. As a result, AmeriCorps continues to perform the accounting for grants—its core business—in-house, using a system that is not configured to report financial data in accordance with Federal cost and budget reporting requirements and does not communicate easily with ARC’s systems. Thus, when AmeriCorps sends grant data to ARC, manual adjustments are needed to conform to ARC’s reporting system. Similarly, AmeriCorps was unable to complete the clean-up work for past transactions. That work continued throughout FY 2021 and is still going on today. AmeriCorps accounting staff must make manual adjustments, called journal entries, (worth more than $45 billion in absolute value in 2020 and more than $27 billion in absolute value in FY 2021) so that the financial information can be reported as required.

AmeriCorps encountered similar problems in transferring data regarding its portfolio of contracts to ARC. A procurement official told the auditors that key supporting documentation was lost in the transfer and may not be recoverable.

At this point, AmeriCorps needs to finish the clean-up of prior transactions needed to complete the conversion and to perform a quality control review of the journal entries to ensure that they are now properly categorized by object class code. Necessary measures include recovering lost documentation if possible and ensuring that future transactions processed within AmeriCorps’ system are properly coded for transfer to ARC. The sooner AmeriCorps can discontinue use of its internal accounting system and transfer the grant accounting directly to ARC, the better. AmeriCorps has estimated that it can accomplish this in FY 2024, but we are not sure of the basis for this estimate, or whether it is realistic.

C. AmeriCorps’ internal control over financial reporting, program/grant operations, and compliance is not effective

AmeriCorps is aware of the depth of these problems. In each annual financial and management report, the head of a Federal agency is required to state whether the agency’s internal control system is functioning effectively in three areas: financial reporting, operations (which at AmeriCorps includes grantmaking and grant management), and compliance with laws, rules, and regulations. In FY 2020, and again in FY 2021, AmeriCorps’ Chief Executive Officer acknowledged that its system of internal controls was not effective in any of these three areas.
D. Why the lack of progress? And what must AmeriCorps do to improve?

In most organizations, a disclaimer of opinion and multiple material weaknesses would have been an all-hands-on-deck emergency, requiring immediate action. But AmeriCorps for many years treated it as business as usual. The leadership stated publicly that they were committed to resolving these material weaknesses and occasionally asserted that had or would shortly do so. These assertions proved unsupported when tested. The truth is that AmeriCorps’ leadership simply did not treat fixing financial management as an urgent priority.4

Moreover, the leadership conveyed a sense of helplessness and inability to tackle these problems. For several years, they delegated responsibility to two senior officials, neither of whom was an accountant or had audit experience. The OIG repeatedly advised AmeriCorps’ senior leadership of the lack of progress, to no avail.

Overall, the agency lacks the people, plans, and technology to solve these problems. It does not have a sufficient skilled workforce, has not devoted sufficient resources, and lacks the procedures and documentation necessary for audit readiness. It is alarming that the Deputy Chief Financial Officer left after less than a year, and another senior financial manager chose the same time to retire. This is often the pattern when financial managers see major problems and lack confidence that they will be given the leadership, resources, or support to solve them.

The ad hoc approach to audit issues has not served AmeriCorps well. Most agencies tackle individual audit issues by developing one or more Corrective Action Plans (CAPs). A CAP breaks a problem into its parts, identifies the steps to be taken to solve each, establishes interim milestones to measure progress, specifies the resources to be used, and assigns responsibility to specific employees or officials. CAPs are basic management and accountability tools used throughout the private and public sectors. AmeriCorps has not prepared CAPs for most of its audit issues and, in the past, actively resisted doing so. The Office of the Chief Risk Officer, the one office within AmeriCorps that has used CAPs, has made notable progress toward resolving its audit issues. We have recommended that AmeriCorps prepare CAPs for all of the audit issues, and I am told that AmeriCorps has begun training its staff, including senior staff, in the preparation of CAPs. This is an important first step in tackling the many outstanding issues.

The financial management problems at AmeriCorps did not develop overnight, and it will likely take years of sustained, directed effort to fix them. We know that it can be done, because of the

4 Perhaps this was because AmeriCorps’ former leadership saw little connection between financial management and the agency’s core grant-making mission. See Management Alert: Unrealistic Transformation Plan Unnecessarily Jeopardizes CNCS Mission, Agency response at 10, and OIG comments at 3.
example of the Department of Housing and Urban Development (HUD). In 2017, HUD, like AmeriCorps, received a disclaimer on its financial statement audit. Unlike AmeriCorps, HUD developed a comprehensive strategy and made steady progress, receiving a modified opinion in FY 2019 and a clean opinion in FY 2020.

How did HUD do this? The White House recruited a Chief Financial Officer from a major accounting firm, who had a combination of subject matter expertise and strong project management skills and who saw his job as driving positive change. He was empowered to make changes and given resources and backing by the Secretary of HUD. He developed a comprehensive strategy to address each of the weaknesses and to improve financial management at the Department, getting concurrence from the Office of Management and Budget, the OIG, and other relevant stakeholders. He put teams to work on the various problems and tracked their progress, intervening when obstacles arose.

The same approach would work for AmeriCorps—an overall strategy to improve financial management, led by a subject-matter expert with the experience to manage a multi-year project of many parts. I am pleased to see that the tone at the top of the agency has changed for the better and now reflects a sense of urgency about sound financial management. That is an important precondition to positive change. The next ingredient is strong, knowledgeable leadership to translate that urgency into effective action.

II. Modernizing Legacy Information Technology Is Essential to AmeriCorps’ Mission and Mission Support

Information technology (IT) is integral to both financial management and management of the agency’s growing grant portfolio. As discussed previously in my testimony, AmeriCorps must align its grant and accounting systems so that they contain the same financial data with respect to grants. Additional needs include improving cybersecurity and replacing the outdated legacy grant management system with a new system that supports robust grants management.

A. Cybersecurity improvement has stalled

Like most Federal agencies, AmeriCorps depends on information technology both for the accomplishment of its mission and for mission support. Appropriate cybersecurity is needed to ensure the integrity, confidentiality and reliability of critical data and systems while reducing the risk of error, fraud and disruption. The SolarWinds breach that affected so many other agencies did not affect AmeriCorps, but it illustrates the potential for malign actors to compromise
confidential information and disrupt operations. Particularly in today’s telework environment, strong IT security is a necessity.

Unfortunately, AmeriCorps’ cybersecurity program is not effective, and the financial statement auditors once again found a significant deficiency in the security of AmeriCorps’ financial systems. Metrics used throughout the Federal government show that cybersecurity across AmeriCorps has been stuck at the same low level since 2018, leaving the agency vulnerable. A major investment is necessary to protect AmeriCorps and the data of national service participants.

B. AmeriCorps must improve its grants management IT system, without repeating the mistakes of the past

As with financial management, AmeriCorps must modernize its grants management technology. A 2014 study confirmed that the legacy grants management IT system is outdated and does not support robust oversight or operating needs.

However, subsequent efforts to modernize AmeriCorps’ grants management technology have been unsuccessful. In FY 2019, AmeriCorps wrote off a total loss of $33.8 million spent in a four-year effort to develop a new grants management system. AmeriCorps then spent $3.9 million to develop a “minimum viable product,” essentially a proof-of-concept system, for VISTA, the agency’s smallest and least complex program. AmeriCorps has not used the resulting system. Instead, it continues to rely on a cumbersome, unreliable system that the staff widely views as an impediment to their work. The taxpayers have little to show for the nearly $38 million that AmeriCorps spent, and the agency still needs a new grants management system.

IT acquisition and development is an inherently high-risk area, with a high rate of failure, according to GAO. Indeed, a GAO study released shortly before CNCS stopped the first development effort identified a number of mistakes and warned of potential failure.

So how to ensure that the next effort at a grant management system will be successful? First, the agency is now considering a hybrid approach, adapting the system developed for the

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5 According to GAO, “federal IT investments too frequently fail or incur cost overruns and schedule slippages while contributing little to mission-related outcomes.” Such projects often “lack [] disciplined and effective management, such as project planning, requirements definition, and program oversight and governance” and because the agency “ha[s] not consistently applied best practices that are critical to successfully acquiring IT investments. http://www.gao.gov/highrisk/improving_management_it_acquisitions_operations/why_did_study.

Department of Health and Human Services to manage grants and developing its own system to interface with members. Building on an existing system, which already has many of the capabilities that AmeriCorps needs, limits the risk considerably. Second, AmeriCorps hopes to obtain the support of the Technology Modernization Fund, which carries with it ongoing oversight, accountability in the form of incremental funding dependent on hitting defined milestones, and technical expertise by government IT experts. This level of support and supervision increases the likelihood of success of this long-needed modernization.

III. AmeriCorps Has Made Important Progress In Key Areas

I am encouraged by the progress that AmeriCorps has made in two areas about which I previously expressed concern in testimony before this Committee: criminal history checks and the grant risk model used for grant monitoring.

A. AmeriCorps’ vendor solution has substantially improved grantees’ criminal history checks

In prior testimony, I described the difficulties that AmeriCorps grantees have in performing the statutorily required criminal history checks designed to exclude convicted murderers and registered sex offenders from national service. I am pleased to say that AmeriCorps now offers grantees the option to contract with two vendors who can perform and document the checks quickly and completely. As more grantees use the vendors, compliance has improved dramatically, making AmeriCorps programs safer for the communities that they serve. I hope that AmeriCorps will do everything in its power to see that new grantees use the vendors to ensure compliance with this important requirement.

B. The new data-driven grant risk model is now fully implemented

OIG and GAO reports, as well as my prior testimony, described the weaknesses in AmeriCorps’ outdated grant risk model, which we had shown to be a poor predictor of catastrophic outcomes. AmeriCorps has since developed a new risk model, far more sophisticated and data-driven, that is now in use. The OIG helped AmeriCorps in this process by identifying certain risks and by connecting the agency to external data sources that have been integrated into the model. AmeriCorps will continue to test and refine the model as new data becomes available and as new risks emerge. We hope that the risk model will be useful not only in grant monitoring but also in identifying the kinds of technical training and assistance needed by individual grantees.
The OIG believes that more must be done at AmeriCorps to improve fraud prevention and detection, to sharpen grant monitoring, and to support grantees, especially those who are new to Federal programs. We are working with AmeriCorps in these and other areas, to strengthen national service.

IV. Conclusion

AmeriCorps must treat financial management as an urgent priority, essential to continuing the national service mission. The challenge is a large one, and the public should demand strong leadership and steady progress in this area to make up for years of inattention. Similarly, the modernization of AmeriCorps’ grants management IT system cannot be deferred. The project must be properly planned and executed under strict supervision to avoid the failures of the past. The OIG stands ready to assist where appropriate, to provide oversight, and to ensure transparency about AmeriCorps’ progress.

I would be pleased to answer the Committee’s questions.