

Presentation by Inspector General
To Corporation Board MAG Committee

May 15, 2008

My staff and I prize our generally excellent working relationship with the Corporation and its management. By working together, keeping all lines of communication open, and working out our occasional differences in a professional and amicable manner, the OIG and the agency it oversees have made strides in our joint effort to support and enhance service programs that are making a real difference in our communities.

As you know, Corporation management plays a key role in the ultimate resolution of the findings and offenses uncovered as the result of OIG audits and investigations, absent our referral of the matter to the U.S. Attorney. The bottom line objectives of our audits, the recovery of misspent taxpayer funds and improvements in grantee operations, are worked out together with the Corporation in the audit resolution process. Many of our investigative findings are resolved administratively by Corporation officials. And, when evidence establishes that program staff or volunteers have betrayed the public's trust, it is left to the Corporation's Debarment Official to make the ultimate decision on imposing the strong and effective sanction of suspension and/or debarment on guilty individuals, programs or contractors.

Over the past 18 months, the Corporation has, on many occasions, effectively coordinated with the OIG and taken timely actions as the result of our findings. For example, it quickly cut off funding to the YMCA of Greater New York following an OIG investigation that found this grantee had squandered more than \$500,000 in grant funds (an amount it agreed to repay in an out-of-court settlement). Recently, Corporation officials decided not to renew its grant to the Washington, DC, unit of Earth Conservation Corps, which, as shown by the OIG's investigative report, had proven a poorly managed recipient of Federal funds. It has also suspended funding to United States Veterans Initiative based on an OIG audit that found numerous violations of grant provisions and Federal law, followed by additional facts uncovered by OIG. It has recently declined to renew grants to St. HOPE Public Schools in Sacramento, CA -- more about which I will mention later in this report.

It would be too easy for me to stop with those accolades to OIG's relationship with the Corporation, which represents an overwhelmingly positive picture of that relationship. I know, and I believe I speak also for David Eisner in this regard, that we are both thankful for having each other in our respective positions, rather than engaged in the destructive and counterproductive conflict that exists between the IG and agency management in some other agencies, as recently headlined in the media.

But I know that my job here is to report to you on those areas in which I see problems and in which progress remains to be made and is needed.

Therefore, not to minimize the various notable successes in prompt action by the Corporation against “bad apples” uncovered by OIG, some of which I just mentioned, I must also report that I am somewhat perplexed about what appears to be a lack of consistency and timeliness in Corporation decision making, involving some other “bad apples” we uncover in OIG audits and investigations. Besides leaving taxpayer funds in peril, lack of consistency and timeliness can also undermine the deterrent effect of our crucial and shared oversight responsibilities.

Coinciding with my concerns is the Corporation’s ongoing initiative to improve its customer service. This initiative, which plays a key role in the performance evaluations of Corporation employees and managers is, properly understood, clearly valuable and laudable. But the drive for customer service can also be misplaced, thereby overwhelming the Corporation’s statutorily assigned mission to be an effective monitor of its grant recipients and a careful steward of Federal funds.

The OIG is fully supportive of the Corporation’s efforts more efficiently to serve its grantees, and especially its volunteers. My staff and I are also committed to service, striving to treat all Corporation employees, grantee personnel, and especially Corporation volunteers, fairly and equitably in the course of our audits and investigations. For example, in the case of members whose education awards and other benefits have been challenged due to faulty actions on behalf of grantee personnel, we have advocated making the grantees, not the innocent members, responsible for any financial reimbursement to the Corporation.

My concern about misplaced customer service attitudes was illustrated during a recent meeting with Corporation management on our proposal to make erring grantees, and not innocent members, financially responsible for problems involving education awards and other benefits. One Corporation manager expressed concern that holding grantee management financially responsible for its actions might dissuade some applicants from seeking Corporation grants, a reaction I found to be curious.

I am fully aware that, for many Corporation managers and employees, community service is not just a job, it's a passion driven by true idealism. The staff is highly motivated and committed to its mission of expanding community service nationwide. At the same time, there appears to be a reluctance to recognize wrongdoing or incompetence on the part of grantees and to take affirmative action against offenders. At worst, I have found customer service being confused with advocacy for grantees whose actions have been brought into question by the OIG.

The way I see it, the Corporation wears two hats: one for its role as grantor of Federal funds and nurturing supporter of its grantees, the other for its role as an exacting overseer of grantee performance. The first task, what could be termed "the dedication part," is taken on eagerly by Corporation managers and staff. Donning that other hat and taking on "the tough part" seems, at times, to engender much less enthusiasm.

I believe that providing true customer service must include both "the dedication part" and "the tough part."

Yes, the Corporation's customers certainly include grantees and volunteers. But, in reality – and often this is not understood by Corporation management – the Corporation's customer base also includes the taxpayers whose dollars pay our salaries and fund national service programs, and who expect their investment to be managed in an effective and efficient manner.

And let's not forget the importance of our niche customer base: the House and Senate members who represent those taxpayers and who have set down the legislation which governs our national service initiative. This includes lawmakers who have been opposed to the Corporation's service model from the outset and who could be expected to seize on indications of waste, fraud, and abuse engendered by lax oversight. Such lapses could also sap the support of Corporation allies on the Hill and at the White House, placing our entire program in jeopardy.

It can be argued that, for both our critics and allies alike, effective oversight and stewardship of taxpayer funds may be the only substantive criteria by which our national service initiative can be measured.

Over the years, the Corporation has been challenged to identify easily defined and empirical measures of performance. But how do you place a dollar value on the services of an AmeriCorps member who is helping to improve a child's reading skills or a Senior Companion who is enriching the life of an elderly shut-in? The Corporation has

necessarily had to rely on less definable performance measures, such as the total numbers of AmeriCorps members, hours served and grantees funded.

The OIG has also been challenged to measure the impact of its work, especially when we present our cases to Federal and other officials for prosecutorial decisions. Knowing that most of our cases are dwarfed in terms of monetary losses and recoveries when compared to fraud actions at larger Federal agencies, we attempt to break down the true impact of malfeasance: a loss of \$16,000 means one less AmeriCorps member can be deployed to serve for a full year; and the squandering of as little as \$500 mean that one less Senior Corps member can be supported..

Given these challenges, I believe that effective and unflinching grantee oversight and management of grant funds are the most crucial criteria by which this agency is measured. And if we fail to measure up, we will be the ones supplying ammunition to opponents, the result being that the days of Federal taxpayer-supported service programs could well be numbered.

One of my concerns centers on the Corporation's actions regarding OIG audits and its own Audit Resolution Policy. Both the audited party and the Corporation are afforded 30 days to comment on findings and issues raised in our draft audit reports. These comments are published verbatim as addenda to the final report and are an important part of our reporting. The subjects of our audits always take advantage of this opportunity, to either accept or challenge our audit findings. But, more often than not,

the Corporation's official response is limited to a brief note acknowledging receipt of the report and an ordinarily unfulfilled promise to "get back to us" at some future date as part of the audit resolution process.

Speaking of future dates, I have found that the Corporation is often lax when it comes to issuing its Preliminary and Final Management Decisions and Notices of Final Action regarding our audit findings. Several audit resolution processes have lingered for years.

For the 53 OIG audit reports issued in Fiscal Years 2006 and 2007, 29, or 55 percent, of the Corporation's Management Decisions were late. The Management Decision is due six months after the report is issued and the Notice of Final Action is due one year after the report is issued. The result of these late decisions is that audit findings can go unchecked and uncorrected for long periods of time.

Case in point, the Corporation still has not made a Management Decision for OIG Audit Report 06-05, Audit of the Puerto Rico Commission, which was issued on February 13, 2006. The report questioned the difference between costs claimed to have been spent on the grant and the costs supported by Centro de Servicios a la Juventud (CSJ), a Commission subgrantee.

For program years 2000-2001 through 2002-2003, CSJ claimed grant plus match costs of \$831,640. But, the costs for this grant reflected in the general ledger for the

same period was \$807,281 or a difference of \$24,359. CSJ was unable to explain this difference or provide documentation to support the grant costs claimed when the audit was conducted during the summer of 2005.

For audit resolution, CSJ provided Excel spreadsheets, purportedly prepared from information in its revised ledgers, that support the costs claimed. However, CSJ provided no ledger reports and no documentation to support changes to the ledger, which increased its expenditures by \$24,359. In its Proposed Management Decision, the Corporation allowed the additional costs. It withdrew that decision when challenged by the OIG.

To date, this report, for which final action was to take place by February 13, 2007, is still open and CSJ continues to receive grant funds from the Corporation.

When we receive the Corporation's management decisions, I am sometimes taken aback by their contents, which appear more focused on advocacy for the audited grantee than on affirmatively dealing with important issues. In many cases, as part of audit resolution, grantees are allowed by the Corporation to introduce documentation supporting claimed costs that should have been made available during our audit. This results in after-the-fact Management Decisions that are clearly outside the scope of our audits.

Our recent audit of Public Allies Inc. resulted in a Final Management Decision that we did not consider final. At issue is the veracity of the service hours reported by Public Allies for its members, some of whom had been credited with 24 hours of service

in a single day. The Corporation's decision called for its own separate review of the issue "*outside of the audit resolution process*," a course of action that amounts to a re-audit of our audit.

The OIG conducts its audits to identify grantee weaknesses, and questioned and un-allowed costs. The ultimate goal of this exercise is the timely recovery of taxpayer funds that can be reinvested in national service and the implementation of reforms that will prevent a recurrence of problems. The longer the audit resolution process drags on, the longer it takes to make whole the audited programs and the taxpayers who support them.

There are also some concerns on the investigative front, The OIG was recently unpleasantly surprised to learn that the Corporation had adopted Policy No. 08-001, entitled "Prohibition on and Penalties for VISTA Outside Employment," a measure which basically eviscerates the longstanding ban on outside employment by VISTA members. The regulation, dated November 6, 2007, and promulgated without any required coordination with -- or review and comment by -- OIG, allows VISTA members to keep any Corporation funds already paid to them even if they have done outside work as long as they are simultaneously performing their service.

The controlling statute mandates that "Volunteers serving ... shall be required to make a full-time commitment [which] ... shall include a commitment ... to remain available for service without regard to regular working hours, at all times during their

service” The VISTA Member Handbook itself expressly states that “employment is not permitted during AmeriCorps VISTA service.”

This newly issued Corporation policy effectively is a notice that there is limited sanction for VISTAs who violate both the statute and rule that mandate VISTA members devote all their energies and time to anti-poverty programs during their period of service. It communicates to a member who is thinking about violating the prohibition that the risk from such violation is minimal: not only is it unlikely that any one will discover the violation (as a practical matter, there is no sleuthing procedure to uncover such conduct), but, in the unlikely discovery of the violation, the member will still be allowed to keep what was already earned.

This new policy fails even to underline the unacceptability of violations of this no outside employment role through at least expressly notifying grantees that they will have to reimburse the Corporation for knowingly allowing these violations.

Given the opportunity to comment on this policy, I would have argued that it would have a negative impact on the very fine efforts of the VISTA program by too easily permitting diversion of taxpayer-supported resources from a full commitment to solving community problems. Moreover, it demeans both the controlling statute and the Corporation’s own VISTA Handbook.

When I communicated my concerns to David Eisner, he informed me that he, too, was unaware of the existence of this important and controversial policy change.

But my blindsiding in this case was of minimal importance compared to the impact on OIG investigators, who have been pursuing several cases of what they believed to be illegal work arrangements involving VISTA members.

I must candidly inform you that your CEO and I, as has been our agreed procedure on all differences, have had frank discussions on this issue. I believe that we will agree on a new policy which will emphasize grantees' obligation to ensure the required full-time service and hold grantees responsible for knowingly authorizing or even inducing a violation, while not imposing impractical sanctions on the member.

Our investigators have faced other concerns, perhaps driven by a misplaced interpretation of customer service by Corporation offices and State Commission partners that are charged with program oversight and effective coordination with the OIG.

Consider the case of the VISTA program at Columbus Housing Partnership in Ohio. After receiving a Hotline e-mail concerning the misuse of members as grantee employees and as a babysitter for a grantee official, we learned that the allegations, which were upheld by our investigation, had earlier been reported to the Corporation's Ohio State Office and Ohio State Commission. Both entities failed to notify the OIG on the

ground that *they had determined* the source of the allegation was suspect. This failure to notify the OIG allowed a serious abuse to go unchecked and unpunished for months.

In another case, which is still ongoing, a Corporation State Director received an allegation of fraud committed by a program director. Again, the OIG was not immediately notified. The State Director, coordinating with another Corporation employee, apparently decided to conduct his/her own investigation. This so-called investigation started and ended with the accused program director being conclusorily asked if he/she had misapplied funds. The program director denied the allegation and the matter would have been dropped had the OIG not later otherwise learned of the allegation and opened a case.

Our case involving Senior Citizens Industries of Grand Island, NE, which was found to have misapplied grant funds nearly a year ago by Corporation grant monitors, should have, under the Corporation's own regulations, resulted in a speedy revocation or suspension of its funding. Instead, the Corporation requested a separate OIG investigation and advised it would await the results of the ensuing OIG investigative report before taking action. That report was furnished to Corporation management on February 5, 2008, but no action has been forthcoming. I can only assume that grant funding to Senior Citizens Industries is still in jeopardy of waste, fraud, and abuse.

Just as is the case with our audits, time is money when it comes to OIG investigations. Our goal is to stop the bleeding, bring wrongdoers to justice and seek

compensation for losses of Corporation funds in a timely and efficient manner. We cannot succeed in this mission absent timely and affirmative action by Corporation management.

We are all aware that, for every grantee the Corporation is able to fund, there are multiple applicants, and likely equally worthy service efforts, that must be turned down due to limited resources. Given this competitive grant-making environment, I find it hard to understand why proven “bad apples” are not cast aside in a timely manner to make way for the many worthy applicants lingering on the waiting list. Such a policy would enhance customer service for the entire nonprofit community, not just those entities fortunate enough currently to be in receipt of Corporation funding.

I suggest that the Corporation assess the resources it has committed to audit resolution, and suspensions and debarment actions, and take action to increase those resources as needed. I know that recently the Corporation has recognized the unacceptable status of audit resolutions and has brought in additional personnel to break the log jam. I welcome that movement and look forward, hopefully, to progress. I also suggest that Corporation management stress to its own staff, State Commission partners, and especially its grantees, the responsibilities inherent in the acceptance and management of Federal grant funds.

My office stands willing to assist in that effort. The OIG has drafted a letter for David Eisner that basically outlines grantee responsibilities, as well as common pitfalls

and problems. We are advocating that this “primer,” which we have furnished to David, be included in the acceptance information packets for all newly approved and renewed grantees. I know it is currently being considered by top management.

The OIG is also redrafting its audit notification documents better to explain the process and the types of documents that will be reviewed. And our auditors and investigators continue to take to the field to give training to grantees.

My staff and I take no personal pleasure in uncovering program weaknesses, grantee incompetence or criminal behavior by the aforementioned “few bad apples.” It’s “the tough part” of our job that has been statutorily assigned to the OIG. We get our satisfaction in knowing that program weaknesses have been effectively remedied, misapplied funds have been recovered for reinvestment in community needs, and offenders have been removed from participation in the Corporation’s laudable efforts.

I have previously advised you of “head notes” in possibly sensitive OIG investigations. You may recall my report at an earlier Board or MAG meeting concerning United States Veterans Initiative. There have been newspaper reports that OIG is examining that agency. Our work is continuing, although we have already succeeded in the fact that the grantee has restructured its management, eliminated those principally responsible for the wrongdoing, is cooperating fully with our investigation, and is itself attempting to recoup some of the funds improperly allowed to be taken from it.

Another sensitive investigation, which has also been reported in California newspapers, involves St. HOPE Public Schools and its president, Kevin Johnson. Again as a confidential report to you as Board representatives, there is substantial evidence of Mr. Johnson's responsibility for misuse of grant funds, misuse of AmeriCorps members assigned to his grantee, and, unfortunately, inappropriate touching of young female members by Mr. Johnson. Our work is continuing.

I believe these OIG efforts provide real customer service to all of the customer bases that have a stake in national service.