Statement of the Honorable Deborah J. Jeffrey, Inspector General
Corporation for National and Community Service
before the
United States House of Representatives Committee on Education and Labor,
Subcommittee on Higher Education and Workforce Investment

December 14, 2022

Chairman Scott, Dr. Foxx, Chairwoman Wilson, Ms. Miller-Meeks and Members of the Subcommittee:

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."[1] 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 more than ten years, and this is my fourth appearance before this Subcommittee and the full Committee.

My testimony today will focus on the significant challenges that AmeriCorps faces in managing and accounting for the approximately $ 1.3 billion in taxpayer resources that it spent in Fiscal Year 2022 (FY 2022). 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. These audits measure the quality of AmeriCorps' financial management, including its ability to report accurately the use of public funds to Congress and the American people. The basic question in a financial statement audit is "Can the agency prove how it handled its money?" Because if the agency can't do that, how can we have confidence that it spent the money properly?

Testifying alongside me today is Michael Smith, who was confirmed as AmeriCorps' Chief Executive Officer (CEO) one week after last year's hearing on this same subject. Mr. Smith inherited the burden of correcting longstanding weaknesses in CNCS's financial management. Mr. Smith and I met shortly after his arrival and have met frequently thereafter to discuss candidly AmeriCorps' progress in addressing the challenges that it faces on these and other fronts. He appreciates the gravity and complexity of these issues and can tell you what he and CNCS are doing to address them. He is engaged on these issues far more than any of the past CEOs with whom I have served. That is important because the agency has a long way to go before its accounting reaches an acceptable level.

[1] The names AmeriCorps and CNCS are used interchangeably in this testimony.

Results of the FY 2022 Audit of AmeriCorps' Financial Statements

For the sixth consecutive year, AmeriCorps was unable to demonstrate that its financial statements accurately and fairly present the agency's financial condition. The auditors have therefore issued a disclaimer, indicating that the financial statements should not be relied upon and contain an unknown number of material misstatements. The FY 2022 audit report describes 12 material weaknesses in the agency's financial management and reporting. Eight of these material weaknesses have been known to the agency since the 2017 and 2018 audits. A table attached to this testimony lists the material weaknesses reported in this year's audit, along with the year that they were originally identified.[2] As of now, AmeriCorps has 79 open recommendations; 17 of them are new, 62 (about 78 percent) were repeated from prior years, some in modified form. The auditors closed 12 recommendations from the prior year.

These material weaknesses go to the core of AmeriCorps' grantmaking, which accounts for more than three-quarters of the agency's total funding. For example, AmeriCorps cannot accurately track the status of grant funds at any given time, *i.e*., determine whether certain grant funds have been spent or remain unspent as of a certain date. This impairs the agency's ability to timely redirect to better uses funds that are not likely to be spent. In addition, AmeriCorps does not know whether grantees have placed funds at risk by noncompliance with Federal cash management requirements. One final example: AmeriCorps cannot demonstrate that grantees account properly for their expenditures at the end of their grants and that AmeriCorps collects the unused funds.

Although a different audit firm conducted the FY 2022 audit, its findings and conclusions were nearly identical to those of its predecessor. Their assessment both confirms the weakness of AmeriCorps' accounting and shows that AmeriCorps did not make substantial progress in resolving its serious financial management problems. Any improvements were negligible.

To some extent, the audit results are not a surprise. This time last year, I told the full Committee that it would be nearly impossible for AmeriCorps to make sufficient progress to obtain an audit opinion, rather than a disclaimer, in FY 2022. Years of sustained effort will be needed to correct the systemic weaknesses that impair AmeriCorps' accounting. Still, the lack of any meaningful improvements, as depicted in the attached table, suggests that greater changes are needed.

In addition, new issues emerged. This year, the financial statements and the Annual Management Report (AMR) contained so many calculation errors and inconsistencies that AmeriCorps was unable to correct them, even after the auditors pointed them out. Although AmeriCorps delayed issuance of the audit report and the AMR beyond the November 15 statutory deadline, most of the errors remain uncorrected. Production errors after the initial publication of the AMR required that the document be corrected and reissued on November 30. In addition, the financial statements were not prepared in accordance with Generally Accepted Accounting Principles (GAAP), as the law requires. Each of these defects became an independent basis for the auditors' disclaimer.

[2] For comparison purposes, the table also shows the material weaknesses reported by the auditors in FY 2021.

Root Causes and a Comprehensive Reform Strategy

AmeriCorps' auditors have long cited outdated systems and technology, inefficient and inadequate business processes, data quality issues, and poor recordkeeping as factors that impair the agency's accounting, financial management, and ability to report accurately on its financial condition. AmeriCorps' leadership has come to agree with this assessment.[3] In FY 2022, as in the prior two years, AmeriCorps' CEO issued a Statement of No Assurance acknowledging that AmeriCorps does not have effective internal control over grants and program operations or over financial reporting.[4]

This year, the auditors identified a knowledge gap at all levels of AmeriCorps' financial management operations as the most important material weakness, placing it first for emphasis. In their words:

> Management has not demonstrated adequate knowledge and understanding of (1) Federal accounting standards, U.S. GAAP promulgated by FASAB, (2) Federal financial reporting requirements provided by OMB A-136, (3) effective financial management practices (i.e., people, processes, and systems), and (4) the internal control environment necessary to mitigate the associated risks. Without the proper subject matter experts that can assist in creating sustainable processes and systems that operate effectively in a U.S. GAAP-compliant environment, AmeriCorps is unable to develop, implement, and execute an effective internal control environment, which includes people, processes, and systems.[5]

The auditors recommend a complete reassessment and restructuring of accounting and financial management. Their first recommendation is that AmeriCorps "[c]onduct a detailed performance diagnostic and gap analysis on AmeriCorps' financial management personnel, processes, and systems, including a root cause analysis, and then develop, design, and implement a plan toward short- and long-term goals."[6] The best path to a clean audit opinion requires comprehensive reform to achieve strong financial management, rather than a focus on individual audit issues.

Other agencies that have followed this approach were able to attain a clean audit opinion after three to four years of well-directed effort. The most recent success story is the Department of Housing and Urban Development (HUD), which had a long string of disclaimed audit opinions under circumstances similar to AmeriCorps. They emerged from this condition under the leadership of Irving Dennis, formerly a global partner of Ernst & Young, who joined the Department as Chief Financial Officer in the last Administration. Mr. Dennis assessed the systems, processes, and staff in HUD's financial management functions and developed a plan and

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[3] Written testimony of Malcolm Coles, Acting CEO, December 1, 2021, available at https://edlabor.house.gov/imo/media/doc/ColesMalcolmTestimony120121.pdf.

[4] See FY 2022 Statement of No Assurance, *Annual Management Report, FY 2022,* (Nov. 18, 2022), p. 15 https://americorps.gov/sites/default/files/document/AmeriCorps-FY22-Annual-Management-Report_508.pdf

[5] *Id.*

[6] *Id*.

roadmap by which he led HUD to strong financial management and a clean opinion over the course of three years. Auditors at HUD's Office of Inspector General spoke highly of his abilities and accomplishments and described him as having a combination of subject matter expertise, strong project management skills and a commitment to driving positive change.

Last year, I testified that AmeriCorps needs a similar overhaul, led by someone with a similar skillset. When AmeriCorps did not find a suitable candidate, I suggested that they reach out to Mr. Dennis for suggestions. Ultimately, Mr. Dennis himself agreed to assist AmeriCorps and came onboard in October.

I am not personally acquainted with Mr. Dennis and have met him in a single introductory meeting conducted remotely. But his track record at HUD shows that he has the skills, expertise, and ability to guide AmeriCorps to success in financial management reform. Provided that he is empowered and supported by AmeriCorps' leadership and can access the necessary resources, his participation offers the best opportunity that I have seen for AmeriCorps to achieve effective financial management, accurate reporting of financial results, and clear accountability for taxpayer funds.

Conclusion

The weaknesses in AmeriCorps' financial management are severe, and correcting them is essential to continuing the national service mission. A comprehensive overhaul of financial systems, processes and staff is required to compensate for years of inattention and lack of investment. The reform strategy recommended by the auditors provides a framework for achieving an acceptable level of financial management and accountability to the taxpayers. Success is not guaranteed, but although the challenges are large, they are not insurmountable. A key ingredient, missing in FY 2022 but now available, is the leadership of an experienced professional who successfully reformed the financial management of a Cabinet Department with a budget 40 times that of CNCS. When completed, the financial management reforms should leave AmeriCorps stronger, more accountable, and better able to sustain its mission well into the future. 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.

AmeriCorps' Material Weaknesses and Significant Deficiencies

Material Weaknesses as of FY22	FY 21 Material Weaknesses	First Reported
Knowledge Gap throughout Financial Management Operations (New)	N/A	FY 2022
Internal Controls Program (FMFIA)	**Internal Controls Program (FMFIA)**	FY 2018
Financial System and Reporting	**Financial System and Reporting**	FY 2017
General Ledger Adjustments	*Included in Financial System and Reporting*	FY 2022
Undelivered Orders- Grants	**Undelivered Orders- Grants**	FY 2018
Undelivered Orders and Accounts Payable -Procurement	**Undelivered Orders and Accounts Payable -Procurement**	FY 2018
Trust Obligations and Liability Model	**Trust Obligations and Liability Model**	FY 2017
Recoveries of Prior Year Obligations	**Recoveries of Prior Year Obligations**	FY 2018
Grants Accrual Payable and Advances	**Grants Accrual Payable and Advances**	FY 2017
Advances From Others (New)	N/A	FY 2022
Migration to Shared Services	**Migration to Shared Services**	FY 2021
Other Liabilities	**Other Liabilities**	FY 2018
Significant Deficiencies		**First Reported**
Information Technology Security Controls	**Information Technology Security Controls**	FY 2017
Accounts Receivable	Accounts Receivable	FY 2017