

**Testimony of  
Stephen H Ravas, Acting Inspector General,  
Corporation for National and Community Service (AmeriCorps)**

**Before the  
United States House of Representatives Committee on Education and the  
Workforce, Subcommittee on Higher Education and Workforce  
Investment**

**December 11, 2024**

Chairwoman Foxx, Ranking Member Scott, Chairman Owens, Ranking Member Wilson, 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 AmeriCorps. The OIG is an independent and nonpartisan unit charged with detecting and preventing waste, fraud, and abuse and improving the efficiency and effectiveness of AmeriCorps programs and operations. I have had the privilege of serving as the Acting Inspector General since May of 2023, and have served in various positions within this OIG for more than five years.

My testimony today focuses on the top challenges facing AmeriCorps, including its continuing effort to improve its ability to manage and account for the approximately \$1.3 billion in taxpayer resources that it spent in fiscal year 2024. These challenges include: (1) improving financial management, (2) prioritizing grant fraud prevention and detection in its programs, and (3) modernizing and securing information technology.

**Improving Financial Management**

In November 2023, we released our first Top Management Challenges report in five years. In that report, we identified improving financial management as the agency's top challenge. As stewards of Federal resources, each Federal agency is responsible for reliable financial management and associated reporting. Effective internal controls over operations, financial reporting, and compliance with laws and regulations are essential to maintaining transparency and accountability, and to safeguarding Federal funds. AmeriCorps' financial statements are subject to annual independent OIG audits. Our office, like many other OIGs, contracts out these audits to independent public accounting firms, whose work is overseen by our staff. These audits measure the quality of AmeriCorps' financial management, including its ability to accurately report the use of public funds to Congress and the American people. More simply, the audit answers the question of whether the agency is appropriately handling its money.

## Fiscal Year 2024 Financial Statements Audit

For the eighth consecutive year,<sup>1</sup> AmeriCorps could not demonstrate that its financial statements accurately and fairly present the agency's financial condition. The auditors have therefore issued a disclaimer of opinion, indicating that the financial statements should not be relied upon and contain an unknown number of material misstatements. This is consistent with prior testimony of former AmeriCorps Inspector General, Deborah Jeffrey, and AmeriCorps CEO, Michael Smith, who informed this subcommittee in December 2022 that it would take three to five years to reach a clean audit due to the need to correct the systemic weaknesses that impair AmeriCorps' accounting and financial management.

The fiscal year 2024 audit report describes 11 material weaknesses in the agency's financial management and reporting. Eight of these material weaknesses have been known to the agency since the fiscal year 2017 and 2018 audits. Currently, AmeriCorps has 78 open recommendations — three are new, with the remainder being repeats from prior years, some in modified form.

These material weaknesses affect the agency's grantmaking responsibilities, which account for more than three-quarters of the agency's total funding. Longstanding open recommendations relate to the operational and financial aspects of its grant processes. Additionally, AmeriCorps remains unable to achieve accurate and timely financial reporting due to AmeriCorps' ineffective internal control environment over financial reporting. Internal controls are vital in assisting management to achieve its operational, reporting, and compliance objectives. AmeriCorps needs the appropriate people, processes, and systems for its success.

As of the end of fiscal year 2024, AmeriCorps' financial management team has not demonstrated that it fully comprehends Federal accounting standards and financial reporting requirements. Instead, it is relying on a team of contractors for training and the development of standard operating procedures. The agency also needs to develop standardized Federal financial management processes to provide assurance over the reliability and completeness of its financial and performance data. AmeriCorps has also experienced delays and cost overruns in implementing its new Grants Management System which, if implemented successfully, can help the agency address the root causes of many of its accounting and financial reporting issues.

AmeriCorps's lack of internal controls led to a number of significant findings this fiscal year. For example, AmeriCorps had a negative \$62 million National Service Trust fund balance with Treasury at year-end. The agency overinvested funds that it did not have available due, at least in part, to when and how it recorded Congress' March 2024 rescission of \$243 million in prior appropriations made available to the Trust. In addition, AmeriCorps' own assessment of its internal controls, using the Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) framework, determined that its internal control program

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<sup>1</sup> AmeriCorps OIG did not audit the agency's financial statements in fiscal year 2020 because the agency acknowledged that the audit results would have been substantially the same as in fiscal year 2019, including a disclaimer. AmeriCorps Annual Management Report, FY 2020 Statement of No Assurance (2020), pg. 23.

had only one out of the 17 principles functioning. Of the remaining 16 principles, nine were operating with deficiencies and seven did not exist.

### AmeriCorps' Accomplishments in Fiscal Year 2024

While significant work remains, the agency took positive steps in fiscal year 2024. Historically, the agency did not treat financial management as an urgent priority. AmeriCorps CEO Michael Smith and his leadership team have taken a different approach by making financial management reform a top agency priority and are building the foundation for sound financial management. The agency devoted considerable resources to improving its financial management and the agency's financial management staff is committed to fixing this issue. AmeriCorps engaged a subject matter expert and a team of contractors with expertise in financial reform, who have assessed the systems, processes, and staff involved in AmeriCorps' financial management functions and developed a plan to improve its financial management. Due to contracting delays, the contractors did not begin substantive work until early in fiscal year 2024. Since that time, the agency has pressed forward with executing its financial and operational reform plan. The plan focuses on financial management, globally, rather than addressing specific material weaknesses. In addition, we've seen that the agency's walkthroughs of current financial management processes and procedures have evolved over the last year; the agency's contractors involved the correct staff; and, in general, the agency has been more receptive to feedback from the independent auditors.

According to the agency, the contractors have facilitated remediation in many of the deficient areas and the agency has remediated four material weaknesses as of the end of fiscal year 2024. While the agency has not yet implemented this work, we look forward to testing and validating it in fiscal year 2025. This, plus the 20 recommendations closed from prior years during the fiscal year 2024 audit, are promising steps. Finally, the agency made gains on its Federal Information Security Modernization Act maturity ratings, which focus on cybersecurity of its IT systems including those that relate to the financial statements audit.

### Looking Forward

Under the agency's financial and operational reform plan, AmeriCorps is not scheduled to remediate two material weaknesses until sometime in fiscal year 2027. Given that, the earliest the agency would likely receive a clean audit opinion is fiscal year 2029. As we continue our oversight of AmeriCorps' financial management reform, we expect it to be similar to peeling an onion: AmeriCorps will continue to close older recommendations, and our work may find new issues or old issues that were not completely addressed. More work will be required and, as the agency progresses in its financial and operational reform, we will have more areas to test. Issues uncovered in subsequent layers should be less complex and more easily resolved. In order to reach sound financial management, it is critical that the new administration continue dedicating time and resources to improving financial management and related IT systems.

## **Prioritizing Grant Fraud Prevention and Detection in its Programs**

The second top challenge facing AmeriCorps is preventing and detecting fraud in its programs. Fraud negatively impacts AmeriCorps' ability to carry out its mission. Grant fraud in AmeriCorps' programs deprives deserving beneficiaries and organizations of essential funding and erodes the public's trust in national service programs. To combat fraud at all levels, oversight, transparency, and accountability measures are essential to ensure that grant funds are used for their intended purposes. AmeriCorps and its grantees must prioritize fraud prevention and detection to mitigate fraud risks.

Similar to other Federal agencies, AmeriCorps programs are susceptible to fraud at both the grantee and subgrantee levels. Each dollar lost to fraud is a dollar that does not help individuals and communities in need of assistance.

### False and Unallowable Timekeeping is a Frequent OIG Finding

Falsified or noncompliant timesheets is one of the most frequently encountered issues identified by our office. AmeriCorps members earn Segal Education Awards (education awards) based on the number of hours served and AmeriCorps Seniors volunteers receive stipends based on the amount of time they volunteer. When members' and volunteers' service hours are inflated or misrepresented, AmeriCorps expends funds for falsely certified education awards and stipend payments that should not have been issued. Falsified timesheets also have an accounting impact, as any fraudulent payments based on falsified timesheets are an overstatement of liabilities or expenditures by AmeriCorps. Over one-third of AmeriCorps OIG investigations opened since 2020 relate to allegations of false or unallowable timekeeping. This is the single biggest issue that the OIG currently encounters in its audits and investigations, and it continues to have a negative impact on AmeriCorps' core mission and financial statements. Falsified timesheets can and should be mitigated with the proper controls.

One recent audit involving YouthBuild, a large AmeriCorps grantee, demonstrates that timekeeping remains a top challenge. The audit of five out of 82 YouthBuild subgrantees found that neither YouthBuild nor the subgrantees complied with Federal and AmeriCorps timekeeping requirements and identified a monetary impact of over \$6.6 million. The subgrantees lacked documentation supporting the members' actual service hours performed in AmeriCorps programs and time for other Federally and privately funded activities. The one subgrantee audited that had compliant timecards was improperly using AmeriCorps funds to recruit prospective and existing employees as AmeriCorps members for a wage earning, city-funded program, contrary to AmeriCorps regulations.

In response to this audit, AmeriCorps agreed to disallow and recover over \$3 million in funds used to support the non-compliant program but has thus far declined to disallow over \$3 million in education awards for members of the non-complaint program and for members in other programs whose service hours lack appropriate documentation. More problematic, however, is the agency's decision to remove its requirement that grantees record all hours served by

members regardless of funding source. This decision eliminates the only way for AmeriCorps and the OIG to verify that the hours billed to AmeriCorps were not also billed to another Federal grant or funding source. We have had numerous discussions with agency personnel at all levels on this issue but have been unable to convince senior leadership that such timekeeping is necessary for the agency to ensure its funds are being used properly and to prevent duplicate charging schemes. Ultimately, AmeriCorps' decision will harm both the agency's grant monitoring efforts and the OIG's ability to perform effective oversight of grantee timekeeping, which could result in grantees failing OIG audits, and put hundreds of millions of dollars at higher risk of fraud, waste, and abuse. Beyond the financial implications, grantees and subgrantees that misstate the time spent serving in our communities undermines the core of all AmeriCorps' programs – service.

We continue to have frequent dialogue with AmeriCorps on audit and investigation results and the importance of holding grantees accountable. I presented to about half of the state service commissions and their AmeriCorps grantee staff in fiscal year 2024 on fraud awareness and internal control best practices. In addition, we recently began holding periodic anti-fraud roundtables that bring together OIG staff and staff from numerous AmeriCorps departments in an effort to discuss and share best practices on preventing and detecting fraud within AmeriCorps' programs. We also have frequent discussions with the agency's Office of Audit and Debt Resolution to ensure that staff understand why our recommendations for disallowance and other remediation are necessary and appropriate. I believe that these efforts contributed to AmeriCorps' recent decision to disallow over \$560,000 from a large municipality for paying Senior Companion Program and Foster Grandparent Program volunteers full stipends post-COVID-19 when volunteers either did not serve or lacked documentation for the hours claimed, contrary to Federal regulations.

### **Modernizing and Securing Information Technology**

Historically, AmeriCorps has underinvested in its information systems, forcing personnel and grantees to work with outdated legacy systems that require work arounds or manual entries and that fail to capture necessary data. Its systems are not designed to capture accurate and complete data such as grant, member, volunteer, procurement, and financial reporting data, and the agency continues to have issues transferring information from its outdated financial reporting system to its shared service providers' financial system. In 2022, AmeriCorps began upgrading its grants management system and will soon begin to upgrade its member management system. These are necessary steps to ensure that AmeriCorps can operate effectively. Given the significant cost associated with these IT modernization projects, and the agency's prior attempts at modernization, we are paying particular attention in this area. Recently, we issued a Management Alert informing the agency that the cost to develop and maintain a new Grants Management System will likely exceed \$18 million, more than double the original contract amount. The cost overruns appear to be due to a number of missteps, including the choice of a firm-fixed price contract for a project with uncertain requirements, a lack of technical expert involvement in contract oversight, and the descoping of contract tasks to accommodate cost overruns. While we are still looking at this issue, our suggested actions focus on making improvements to the pre-award process, selection, modification, and oversight of

major contracts to avoid this issue in the future.

## **Conclusion**

The top challenges that we identified a year ago remain our most important concerns. AmeriCorps' financial management deficiencies touch upon all three of these challenges. Financial reform is the lynchpin of AmeriCorps' success. When the agency undertook its renewed efforts in 2022, we indicated that a comprehensive overhaul of financial systems, processes, and staff was required to compensate for years of inattention and lack of investment. We can now report that the agency has both a reform plan in place and has dedicated the staff and funding to address these issues. We look forward to testing items the agency asserts it has remediated in the fiscal year 2025 audit. I am cautiously optimistic that if AmeriCorps sustains the commitments that it has made and executes its plan as intended, it will continue on the path to a clean audit. The support and dedication of the new administration's leadership team to continue these efforts will be critical to the agency's progress.

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