OFFICE OF THE INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE

RESPONSE TO THE SUBCOMMITTEE ON VA, HUD AND INDEPENDENT AGENCIES' REQUEST FOR REVIEW OF THE CORPORATION FOR NATIONAL SERVICE'S FISCAL YEAR 2002 FUNDING REQUEST FOR THE NATIONAL SERVICE TRUST FUND

OIG Audit Report Number 01-49
June 15, 2001

June 15, 2001

CORPORATION
FOR NATIONAL
SERVICE

The Honorable Barbara A. Mikulski
Madam Chair

The Honorable Christopher S. "Kit" Bond
Ranking Member
Subcommittee on VA, HUD, and Independent Agencies
Committee on Appropriations
United States Senate

This report responds to your request to review the methodology used by the Corporation for National Service to calculate its fiscal year 2002 Trust Fund budget authority request and the detailed documentation and analysis that supports the decision to request no additional funding for program year 2002. The review objective is to discuss the methodology's reasonableness and the potential future impact on the Trust Fund of zero funding in fiscal year 2002. A copy of the request, dated May 10, 2001, is enclosed at Appendix E.

The Office of the Inspector General engaged KPMG, LLP to perform the required review and analysis. A copy of KPMG's response is enclosed for your consideration. It finds adequate support for the Corporation's decision to request no additional funding for the Trust Fund in fiscal year 2002. KPMG's analysis also notes that it is likely that Congress will need to appropriate approximately $75 million in fiscal year 2003 to fund the additional awards for the 2003 program year assuming Congress elects to continue the program at levels consistent with historical experience over the past several years. We have reviewed KPMG's analysis and concur with its conclusions.

On June 14, 2001, OIG provided a copy of the report to the Corporation's senior management for comment. The Corporation did not significantly disagree with the report but wished to point out several considerations regarding the assumptions used in preparing the budget estimates. A summary of the Corporation's comments is attached to the report at Appendix D.

If you have any questions on this letter or wish to discuss this matter further, please contact me or the Deputy Inspector General for Audits and Policy, Terry Bathen on (202) 606-5000, extension 390.

Sincerely,

Luise S. Jordan
Inspector General

Inspector General
1201 New York Avenue, NW
Washington, DC 20525

REVIEW OF THE CORPORATION FOR NATIONAL SERVICE'S FISCAL YEAR 2002 FUNDING REQUEST FOR THE NATIONAL SERVICE TRUST FUND

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Inspector General
Corporation for National and Community Service

During testimony provided by the Corporation for National and Community Service on April 25, 2001, in a hearing before the Senate Appropriations Subcommittee on VA, HUD, and Independent Agencies, the Corporation indicated that it had changed its method of estimating the National Service Trust Fund's funding requests, resulting in no funding requested for the Trust Fund for fiscal year 2002.

On May 10, 2001, you received a letter from the Chairman and Ranking Member of the Senate Subcommittee, requesting that you review the Corporation's methodology for calculating the fiscal year 2002 Trust Fund budget authority request, along with the detailed documentation and analysis that supported the Corporation's decision to request no additional funding for program year 2002. You have requested our assistance in performing this review. Appendix A to this letter describes the objectives, scope and methodology we used in completing our review.

The results of our review are as follows:

- The Corporation's decision not to request additional funding for the Trust Fund for fiscal year 2002 is supported by the documentation and analysis reviewed. It indicates that sufficient Trust Fund assets will be available to fund educational awards, Presidential scholarships, and interest forbearance earned and expected to be paid for all service performed by Members through program year 2002. (See Appendix B)

- Additional funding will be required for each new program year after program year 2002. Total estimated Trust Fund outlays for each program year are approximately $91 million. An additional appropriation of approximately $75 million should be sufficient to fund the additional awards expected to be paid for the 2003 program year. (See Appendix C)

During our review of the propriety of the Corporation's methodology used in calculating the fiscal year 2002 Trust Fund budget authority request, we noted the following:

- The Corporation used an assumed interest rate of 5% in estimating the investment income to be earned by the Trust Fund that would be available to fund AmeriCorps member service awards earned, but unpaid, for all program years through 2002. Our

analysis of historical data for fiscal years 1994 to 2000 indicates that the average interest rate was approximately 7%. The use of a lower interest rate would tend to reduce the estimated amount of funding available for the payment of educational awards in the future.

- The Corporation applied the interest rate noted above for each fiscal year, to the prior fiscal year Trust Fund beginning balance *plus* appropriations received *minus* 50% of expected educational award outlays. We believe it would be more reasonable to use an average of the Trust Fund balances for each fiscal year as the base for applying the interest rate assumption to estimate investment income each fiscal year.

- The Corporation estimated that up to $7.5 million of Trust funds will be approved for the President's Student Service Scholarship Program in fiscal years 2001 and 2002. The appropriation bills for fiscal years 1998 to 2001 permitted up to $5 million of Trust Funds to be used for these scholarships; however, our analysis of historical data indicated that less than 50% of this amount has actually been expended each fiscal year. The Corporation's estimate that all of the $7.5 million will be expended in fiscal years 2001 and 2002 may be overly optimistic, and would reduce the estimated amount of funding available for the payment of educational awards in the future. We believe $5 million is a more reasonable estimate for fiscal years 2001 and 2002.

- The Corporation calculated the estimated liability for still active members, as of April 4, 2001, who would eventually earn an award for program years 1994 to 1998 using the same percentages for each year remaining in the seven year period of availability as those used to calculate the Service Award Liability in the annual financial statements as of September 30, 2000. Our analysis of historical data indicates that the percentages should be reduced for each program year based on the number of years since the members completed service. The use of higher percentages would reduce the estimated amount of funding available for the payment of educational awards in the future.

- The Corporation estimated that 50% of still active members as of April 4, 2001 from program year 1999 would eventually earn an award. Our analysis of historical data indicates that 15% would be a more reasonable estimate. The use of a higher percentage would reduce the estimated amount of funding available for the payment of educational awards in the future.

- The Corporation's analysis was based on a simple average in computing award outlays, and did not take into account the variability experienced in those outlays since 1994. To be conservative, we believe annual outlays should be increased to include a factor to account for unexpected increases in award usage.

We have adjusted the Corporation's initial estimate of the Trust Fund balance for each fiscal year from 2001 to 2010, assuming that there are no program years after 2002 and no additional funding is provided after fiscal year 2001, based on our observations noted above (see Appendix B).

KPMG

Although the adjusted estimated Trust Fund balance for fiscal year 2010 is greater than the Corporation's original estimate by $4.5 million, the analysis supports the Corporation's decision not to request additional funding for the Trust Fund for fiscal year 2002 program service. This decision is based on the assumption that current Trust Fund assets will be adequate to fund all earned and expected to be paid service awards through program year 2002 AmeriCorps member service.

The Corporation's analysis, which is supported by historical trends, indicates that the ultimate outlays for educational awards, Presidential scholarships and interest forbearance earned in program years 2000 through 2002 will approximate $91 million. Because the excess of Trust Fund assets over expected outlays for these awards for all program years through 2002 is not sufficient to fund similar awards expected to be earned or awarded in program years subsequent to 2002, additional Trust Fund appropriations will be necessary in future years. Our analysis indicates that an additional appropriation of approximately $75 million should be sufficient to fund the additional awards expected to be paid for the 2003 program year, assuming (1) the number of Members remains constant at 43,000, (2) outlays for Presidential scholarships and interest forbearance do not change from the amounts estimated for program year 2002, and (3) investment income on all Trust Fund assets remains constant at 7% per year. (See Appendix C)

Appendix C also assumes the additional appropriation will be received by the Trust Fund at the beginning of the fiscal year. If other options for the timing of appropriation additions to the Trust Fund are used (i.e., a different funding stream), the additional appropriation requirement would be different.

This report is intended solely for the information and use of the Office of Inspector General, the Senate Appropriations Subcommittee on VA, HUD and Independent Agencies, and the Corporation for National and Community Service, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 13, 2001

Corporation for National and Community Service
Review of Methodology Used to Estimate FY2002
National Service Trust Fund Budget Request

Objectives, Scope and Methodology

The Corporation's Office of Inspector General contracted with KPMG to review the methodology used by the Corporation for calculating the fiscal year 2002 National Service Trust Fund budget authority request to the U.S. Senate Committee on Appropriations (Subcommittee on VA, HUD, and Independent Agencies), and the detailed documentation and analysis supporting the Corporation's decision to request no additional funding for program year 2002. The objectives of the review were to provide any appropriate advice to the Subcommittee as to the propriety of the methodology used and the potential impact on the Trust Fund of zero funding in fiscal year 2002 for AmeriCorps member service awards.

To accomplish these objectives, we performed the following procedures:

- held meetings with William Anderson, Deputy CFO, Charlene Dunn, Director National Service Trust and Julia Fisher, Accountant, to discuss the methodology used to calculate the Trust Fund budget authority for fiscal year 2002;

- reviewed the supporting documentation and analysis, and the underlying assumptions used by the Corporation to calculate the Trust Fund budget authority for fiscal year 2002;

- compared the methodology used to calculate the Trust Fund budget authority for fiscal year 2002 to the methodology used by the Corporation to calculate the corresponding Service Award Liability included in the annual financial statements for consistency; and

- reviewed the documentation and analysis prepared by the Corporation to identify the potential impact on the Trust Fund of zero funding in fiscal year 2002 for AmeriCorps member service awards.

We performed the above procedures in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States of America. These procedures are substantially less in scope than would be necessary to render an opinion on the methodology and supporting documentation and accordingly, we did not issue such an opinion.

Appendix B

Corporation for National and Community Service
Revised Estimated Trust Fund Balances

Assets	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Balance at 9/30/00	333,058	319,755	252,196	183,963	115,207	75,729	51,688	34,713	21,513	11,487
Appropriation received	39,846									
Interest received	22,076	19,341	14,749	10,117	6,457	4,309	2,922	1,901	1,116	609
Outlays	-75,225	-86,900	-82,982	-78,873	-45,935	-28,350	-19,897	-15,101	-11,142	-5,576
Estimated balance C/F	319,755	252,196	183,963	115,207	75,729	51,688	34,713	21,513	11,487	6,520

Assumptions

1. No new appropriation after FY2002
2. No subsequent program year after PY2002

Appendix C

Corporation for National Service
Estimated Trust Fund Balances

Assets	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Balance at 9/30/00	333,058	319,755	252,196	256,349	185,921	115,265	75,441	50,940	33,139	19,843	9,700
Appropriation received	39,846		75,000								
Interest received	22,076	19,341	17,197	14,956	10,185	6,449	4,274	2,843	1,792	999	484
Outlays	-75,225	-86,900	-88,044	-85,384	-80,841	-46,273	-28,775	-20,644	-15,088	-11,142	-5,576
Estimated balance C/F	319,755	252,196	256,349	185,921	115,265	75,441	50,940	33,139	19,843	9,700	4,608

Assumptions

1 Appropriation of $75 million received in FY2003.

2 No new program year after 2003.

APPENDIX D

SUMMARY OF CORPORATION'S COMMENTS CONCERNING REPORT ON FISCAL YEAR 2002 FUNDING REQUEST FOR THE NATIONAL SERVICE TRUST FUND

The Corporation did not significantly disagree with the report but wished to point out several considerations regarding the assumptions used in preparing the budget estimates:

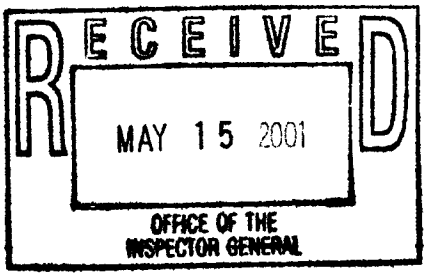
-- After reviewing the report, the Corporation noted its continuing belief that using a future interest rate of 7% is inappropriate. The current rate is approximately 5¾% and future trends appear to support declining interest rates. As a result, the Corporation elected to use a more conservative rate in preparing its estimates.

-- The Corporation would like the opportunity to more thoroughly analyze the model used by KPMG LLP to arrive at its estimates. A copy of the KPMG model has been furnished to the Corporation.

-- Concerning KPMG's conclusion that only 15% of still active members from program year 1999 would eventually earn an award, the Corporation was not aware of a basis for such a low percentage and believes it is not reasonable. The Corporation continues to believe that the actual figure will be much closer to 50%. The Corporation requested additional information on the methodology that KPMG LLP used to arrive at the 15% figure.

United States Senate
COMMITTEE ON APPROPRIATIONS
WASHINGTON, DC 20510–6025
www.senate.gov/~appropriations

May 10, 2001



The Honorable Luise Jordan
Inspector General
Corporation for National Service
2101 New York Avenue, NW
Washington, DC 20525

Dear Ms. Jordan:

The President's Fiscal Year 2002 Budget requests no funding for AmeriCorps member education awards. This contrasts with funding requests for the Trust Fund in previous years that ranged from $70 to $90 million.

The Corporation for National Service's budget submission states that no new authority is required in fiscal year 2002 for the Trust Fund costs associated with new AmeriCorps members because of changes to policies and estimating procedures. And in testimony during our Subcommittee hearing on April 25, 2001, the Corporation's Acting CEO, Ms. Wendy Zenker and Deputy CFO Bill Anderson described a change in the method of estimating the Trust's funding requests. However, questions remain as to whether or not the fiscal year 2002 request adequately provides for awards that AmeriCorps members will earn.

We request that you review the Corporation's methodology for calculating the FY 2002 Trust Fund budget authority request and the detailed documentation and analysis that supports the decision to request no additional funding for program year 2002 service. Please include in your response any advice you may have as to the propriety of the methodology and the potential impact on the Trust Fund of zero funding in FY 2002 for AmeriCorps member service awards.

Please respond to this request by the close of business, June 7, 2001. If you have any questions regarding this request, please contact our Subcommittee staff, Cheh Kim at 202-224-7858 and Gabrielle Batkin at 202-224-3106.

Thank you for your assistance in this matter.

Sincerely,

Christopher S. "Kit" Bond
Chairman, Subcommittee on VA,
HUD, and Independent Agencies

Barbara A. Mikulski
Ranking Member, Subcommittee on VA,
HUD and Independent Agencies