
C O R P O R A T I O N

F O R N A T I O N A L



S E R V I C E

OFFICE OF THE INSPECTOR GENERAL

Audit Report:

The Corporation for National and Community Service's
Fiscal Year 1994 Financial Statements


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SECTION I

REPORT OF THE INSPECTOR GENERAL

Report of the Inspector General

CORPORATION
FOR NATIONAL
 SERVICE

To the Chief Executive Officer
and the Chairman of the Board of Directors of the
Corporation for National and Community Service (CNS):

In accordance with the Government Corporation Control Act,¹ the Office of Inspector General (OIG) engaged Williams, Adley & Co., LLP and Arthur Andersen LLP (the firms) to audit the accompanying statement of financial position of CNS as of September 30, 1994, and the related statements of operations and changes in net position, of cash flows, and of budgetary resources and actual expenses for the year then ended.² However, the firms have informed OIG and CNS that due to weaknesses in CNS financial systems, accounting records, and management controls, the firms were unable to perform an audit of the fiscal year (FY) 1994 financial statements.

In FY 1994 CNS began operations. In addition to launching the new National Service programs: AmeriCorps, the National Civilian Community Corps, and Learn and Serve America, CNS continued programs of the former ACTION agency and the former Commission on National and Community Service (the Commission). In doing so, CNS combined systems from the predecessor organizations to establish the foundation for its financial management and information systems, including its general ledger.

CNS' general ledger system, inherited from ACTION, is outmoded and poorly designed. The firms identified information security weaknesses that increase the risk that information in the general ledger system could be inappropriately accessed and modified. In addition, CNS uses three subsidiary systems to manage and account for CNS grants. In the manual process of consolidating grant financial information from the systems, CNS noted that no system maintains complete grant information. Moreover, during FY 1994, CNS did not routinely reconcile the general ledger grant information with that in the subsidiary grant systems. Although CNS reconciled the information as of September 30, 1994, and adjusted the grant-related liabilities, advances and expense balances in the accompanying financial

¹ 31 U.S.C. 9105

² 31 U.S.C. 9106 requires that a Government Corporation submit an annual management report which includes financial statements. The financial statements are the responsibility of CNS management.

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statements, detailed accounting information supporting the adjustments is not readily available. Therefore, the accuracy of the adjustments cannot be substantiated.

Further, because neither ACTION nor the Commission had previously been required to produce audited financial reports, subsidiary and detailed records substantiating October 1, 1993, opening balances and related supporting information were not appropriately retained to facilitate an audit. These conditions render an attempt to audit the financial statements ineffective and impractical.

In addition to the deficiencies in CNS' accounting and financial reporting and its financial information systems, there are other weaknesses in the CNS management control structure. As of the date of this letter, the firms had identified numerous weaknesses in CNS financial management practices, such as the matters described below.

- In FY 1994 CNS did not reconcile its Funds with the U. S. Treasury (Cash) accounts, and previously ACTION had never performed these reconciliations. Although CNS has begun to reconcile its Treasury accounts, reconciliations to support amounts reported for FY 1994 are presently unavailable. By not reconciling cash balances on a timely basis, errors or irregularities may occur and not be detected.
- CNS procedures for processing cash receipts during FY 1994 were inadequate to ensure that assets were safeguarded. At headquarters, the employee who receives cash also makes the deposits and records the related general ledger entries. This represents an inadequate segregation of duties, and creates the risk of errors or irregularities in the cash accounts.
- CNS budgetary controls do not ensure that all obligations are promptly recorded in the accounting system. Because of the inadequacies in the budgetary accounting system, CNS budget officials maintain cuff records to monitor their budgets and status of funds. Reviews of those records by OIG and the firms revealed that cuff records are not always maintained up-to-date or reconciled to the accounting records, and that not all purchases have prior budget authorization.

Report of the Inspector General

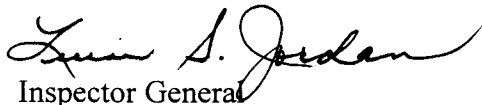
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- Management has not implemented a framework of policies and procedures which are designed to ensure that financial management is adequate. In its initial year of operations, CNS adopted ACTION's policies and procedures. However, OIG and the firms have found that critical accounting controls, such as procedures to ensure that all transactions are entered to the accounting system and that accounts are properly reconciled, have not been established and that existing management controls are sometimes circumvented or otherwise ineffective.

Further, CNS has not assessed and reported on its management control structure as required by the Government Corporation Control Act, as amended.³ Although CNS has performed some assessments, it has not performed a comprehensive review of its management control systems. As evidenced by the conditions reported above, CNS measures to date have not been sufficient to identify and correct material weaknesses in financial management controls.

Because of the significance of the matters discussed in the preceding paragraphs, the OIG is unable to express, and does not express, an opinion on the financial statements referred to above.

OIG has recommended that the firms perform a comprehensive auditability study to further assess CNS financial systems and management controls and to determine what actions CNS must take to produce auditable financial statements in future years. CNS has accepted the recommendation. The firms have begun the study, and OIG expects to receive their report in the second quarter of FY 1996.



Inspector General
Corporation for National and Community Service
Washington, D.C.
September 30, 1995

³ 31 U.S.C. 9106 (a) (2) (E) states that a government corporation is to include in its annual management report to Congress a statement on accounting and administrative controls consistent with the requirements of the Federal Managers' Financial Integrity Act.

SECTION II

FISCAL YEAR 1994 FINANCIAL STATEMENTS

Corporation for National and Community Service
Statement of Financial Position
As of September 30, 1994
(dollars in thousands)

ASSETS

Cash and Cash Equivalents (Note 3)	\$ 348,885
Accounts Receivable, Net (Note 4)	2,646
Interest Receivable	488
Advances, Net	37,115
Investments, Net (Note 5)	<u>100,643</u>

TOTAL ASSETS \$ 489,777

LIABILITIES

Accounts Payable	\$ 49
Accrued Liabilities	6,641
Service Awards (Note 6)	81,223
Refundable Advances	1,112
Grants Payable (Note 7)	<u>253,351</u>

TOTAL LIABILITIES \$ 342,376

NET POSITION

Unexpended Appropriations (Note 8)	\$ 386,969
Cash Balance in Trust Fund (Note 8)	19,211
Cumulative Results of Operations, Net	<u>(258,779)</u>

TOTAL NET POSITION \$ 147,401

TOTAL LIABILITIES AND NET POSITION \$ 489,777

The accompanying notes are an integral part of these financial statements.

Corporation for National and Community Service
Statement of Operations and Changes in Net Position
For the Fiscal Year Ended September 30, 1994
(dollars in thousands)

REVENUES AND OTHER FINANCING SOURCES

Appropriated Capital Used	\$ 536,848
Revenue From Inter-Agency Agreements (Note 9)	22,645
Other Revenue (Note 10)	<u>4,367</u>

TOTAL REVENUE AND OTHER FINANCING SOURCES \$ 563,860

EXPENSES

Operating/Program Expenses (Note 11)	\$ 512,697
Other Expenses (Note 12)	<u>1,076</u>

TOTAL EXPENSES \$ 513,773

Excess of Revenues and Other Financing Sources
Over Total Expenses, before Extraordinary
Items and Cumulative Effects \$ 50,087

Cumulative Effect of Change in Accounting
Principle (Note 13) (318)

Excess of Revenues and Other Financing Sources
Over Total Expenses \$ 49,769

Net Position, Beginning Balance, Restated (Note 13) \$ 97,632

Excess of Revenues and Other Financing Sources
Over Total Expenses 49,769

Net Position, Ending Balance \$ 147,401

The accompanying notes are an integral part of these financial statements.

Corporation for National and Community Service
Statement of Cash Flows - Direct Method
For the Fiscal Year Ended September 30, 1994
(dollars in thousands)

CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Cash Provided by:

Cash Collected from Inter-Agency Agreements	\$27,583
Other Operating Cash Provided	<u>3,971</u>

Total Cash Provided	<u>\$ 31,554</u>
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Cash Used for:

Interest	(\$ 661)
Personal Services and Benefits	(65,836)
Travel and Transportation	(364)
Rent, Communications and Utilities	(3,589)
Printing and Reproduction	(398)
Other Contractual Services	(11,052)
Supplies and Materials	(619)
Insurance Claims and Indemnities	(391)
Grants	(230,963)
Other Operating Cash Used	<u>(10)</u>

Total Cash Used	<u>(\$ 313,883)</u>
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Net Cash Provided (Used) by Operating Activities	<u>(\$ 282,329)</u>
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CASH PROVIDED (USED) BY INVESTING ACTIVITIES

Purchase of Property, Plant and Equipment	<u>(\$286)</u>
---	----------------

Net Cash Provided (Used) by Investing Activities	<u>(\$286)</u>
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CASH PROVIDED (USED) BY FINANCING ACTIVITIES

Appropriations (Current Warrants)	\$ 476,396
Gifts, Donations, and Deposit Funds	<u>1,387</u>

Net Cash Provided (Used) by Financing Activities	<u>\$ 477,783</u>
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Net Cash Provided (Used) by Operating, Investing, and Financing Activities	\$ 195,168
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Cash and Cash Equivalents, Beginning Balance	153,717
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Cash and Cash Equivalents, Ending Balance	<u>\$ 348,885</u>
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The accompanying notes are an integral part of these financial statements.

Corporation for National and Community Service
Statement of Budgetary Resources and Actual Expenses
For the Fiscal Year Ending September 30, 1994
(dollars in thousands)

Programs	----- BUDGET -----		----- ACTUAL -----	
	Resources	----- Obligations -----		Expenses
		Direct	Reimbursed	
Domestic Volunteer Service Act Programs	\$ 257,941	\$ 361,486	\$ 6,714	\$ 288,255
National and Community Service Act Programs	357,869	195,763	0	81,882
Other Programs	<u>158,123</u>	<u>9,150</u>	<u>0</u>	<u>143,635</u>
Totals	<u>\$773,932</u>	<u>\$ 566,399</u>	<u>\$ 6,714</u>	<u>\$ 513,773</u>
Budget Reconciliation:				
Total Expenses				\$ 513,773
Add:				
Capital Acquisitions				0
Loans Disbursed				0
Other Expended Budget Authority				0
Less: Expenses not Covered by Available Budgetary Resources				
Depreciation and Amortization				0
Annual Leave				(354)
Other Expenses				(657)
Other Adjustments				<u>(201,511)</u>
Accrued Expenditures				\$ 311,251
Less Reimbursements				<u>(6,714)</u>
Accrued Expenditures, Direct				<u>\$ 304,537</u>

The accompanying footnotes are an integral part of these financial statements.

Note 1. Reporting Entity

The Corporation for National and Community Service (the Corporation, or CNS) was created by the National and Community Service Trust Act of 1993 (Public Law 103-82), which amended both the National and Community Service Act of 1990 (42 U.S.C. Sec. 12501 et seq.) and the Domestic Volunteer Service Act of 1973 (42 U.S.C. Sec. 5950 et seq.).

The Corporation was established in September 1993, and fiscal year 1994, covered by these financial statements represents the first year that financial statements were prepared.

At the start of the fiscal year the Corporation inherited the resources of the former Commission on National and Community Service. ACTION was merged with the Corporation in April 1994. Thus, while these statements cover the Corporation's first year of operations, they also include the activity and accounts of the predecessor organizations.

The Corporation receives funding under two legislative authorities, the National and Community Service Act and the Domestic Volunteer Service Act. Major programs administered by CNS are AmeriCorps grants, AmeriCorps*National Civilian Community Corps, AmeriCorps*VISTA, Learn and Serve, and the National Senior Service Corps.

The mission of the Corporation is to engage Americans of all ages and backgrounds in community-based service. This service must address the nation's education, human, public safety, and environmental needs and achieve direct and demonstrable results. In doing so, the Corporation fosters civic responsibility, strengthens the cords that bind us together as a people, and provides educational opportunity for those who make a substantial commitment to service.

Note 2. Significant Accounting Policies

A. Basis of Presentation

Fiscal Year 1994 represents the first year that CNS has prepared financial statements for audit. As required by the National and Community Service Act of 1990, as amended, the statements have been prepared to report the financial position, results of operations, sources and uses of cash, and a reconciliation of budgeted and actual expenses. The financial statements include information on all entities which were merged to form the Corporation.

Note 2 (continued):

Comparative financial statements are not presented because this is the first year in which financial statements have been prepared for CNS.

B. Basis of Accounting

The financial statements have been prepared pursuant to the requirements of the Government Corporation Control Act, and in accordance with generally accepted accounting principles. The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management's estimates.

Some transactions are recorded internally on a cash basis of accounting but are adjusted to the accrual basis for financial statement reporting purposes. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. CNS also records transactions on the budgetary basis. Budgetary accounting facilitates compliance with legal constraints and control over the use of federal funds.

C. Assets

Cash and Cash Equivalents

CNS does not maintain cash in commercial bank accounts, but instead maintains its cash accounts with the U.S. Treasury. Cash receipts and disbursements are processed by the U.S. Treasury. Cash is primarily appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchase commitments.

Cash equivalents include short-term Treasury securities held that are due to mature within 90 days of year-end.

Investments

Investments are made by the Trust Fund in low-risk government securities, in accordance with the requirements of the National and Community Service Act of 1990, as amended, 42 U.S.C. Sec. 12601(b). Appropriated amounts were transferred to the Trust account in 1994 to be invested and eventually used to pay most service awards. Investments are recorded net of related discounts and premiums.

Note 2 (continued):

Advances

Advances are prepaid assets. They represent cash payments made by CNS that have not been reported as used. For example, an Advance is recognized when cash is paid to an employee for upcoming travel. When expenses are reported by the traveler, an expense is recognized and the corresponding advance is eliminated (decreased). Most Advance payments are made to CNS grantees.

Accounts Receivable

Accounts and reimbursable receivables are presented net of an allowance for uncollectible amounts. Based on management's estimate, the allowance has been established at ten percent of outstanding receivables.

D. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by CNS as the result of a transaction or event that has already occurred. However, no liability can be paid by CNS absent an appropriation.

Liabilities for which an appropriation has not been enacted are therefore considered unfunded liabilities since there is no certainty that the appropriations will be enacted. Such liabilities to CNS total \$2.8 million for annual leave and workers compensation costs and are included in the Accrued Liabilities caption on the Statement of Financial Position.

Grants

The most significant of all liabilities are for grants made to non-profit organizations, educational institutions, and other external organizations. In addition to grants awarded under the new AmeriCorps program begun in 1994, CNS also administers grants made by the organizations which were merged into the Corporation, including the Commission on National and Community Service, and other programs operating under the Domestic Volunteer Service Act.

Grants become liabilities when they are awarded, regardless of the length of the grant. The liability becomes liquidated as grantees submit quarterly expense reports.

Note 2 (continued):

Service Awards

Starting in 1994, program participants can receive an award upon satisfactory completion of service. The awards differ among programs. The primary type of award is an educational award which can be used to repay student loans or to pay all or part of the cost of attendance at an institution of higher education. Payments are forwarded directly to the bank or educational institution, not to the individual participant, and can be drawn on within seven years.

Alternatively, in fiscal year 1994, participants in AmeriCorps*VISTA or AmeriCorps*NCCC could elect to receive a partial payment in cash, in lieu of the educational award.

In addition to receiving an award upon completion of service, some participants may also benefit from interest forbearance on their outstanding student loans while participating in CNS programs. The amount that CNS pays for interest forbearance is included in the liability for service awards and amounts to less than \$1.7 million as of year-end.

Based on participant enrollment levels at the end of the fiscal year, an expense was recognized for the full amount of service awards expected to be disbursed. Certain estimates were made regarding participant dropout rates and the proportion of participants who choose cash over the educational award. As the programs develop and enrollment expands, CNS will have historical information on which to base these estimates.

See further discussion of the National Service Trust in paragraph H of this footnote.

Accounts Payable

Accounts payable represent the amounts owed by CNS for goods and services received at fiscal year-end.

Accrued Liabilities

Accrued liabilities include accruals for annual leave, workers' compensation, and payroll and benefits accrued at year-end.

Note 2 (continued):

E. Recognition of Revenues and Other Financing Sources

Appropriations

The Corporation receives the majority of the funding needed to support its programs through appropriations. Appropriations are provided on an annual and multi-year basis and are used to fund program and other operating expenses. Such expenses include personnel compensation and benefits, grants, rents, communications, utilities, and other administrative expenses.

For financial reporting under accrual accounting, appropriations are considered "used" as they finance expenses. Unexpended appropriations are presented as Equity in the financial statements.

The differences between the accrual-based recognition of appropriations used and obligation-based budgetary outlays are reconciled in the Statement of Budgetary Resources and Actual Expenses.

Other Income

The Corporation also receives income from interest earned on authorized investments, reimbursable service agreements, and gifts and donations for the support of service projects from individuals and public and private organizations.

Revenues are recognized on an accrual basis when the goods have been delivered or the services provided. CNS revolving funds use revenues to support operations. In some cases, CNS is required to remit revenue receipts at fiscal year-end to the U.S. Treasury. In other cases, a portion of CNS revenues may be used for specific purposes.

F. Expenses

Operating/Program Expenses

Expenses incurred to operate CNS programs are reported in accordance with accrual accounting procedures. As noted in section B of this footnote, cash-based transactions are adjusted to the accrual basis for financial statement reporting. Such expenses include costs for personnel and benefits, grants, rents, utilities, communications, equipment and supplies, printing and reproduction, travel, transportation, and service awards.

Note 2 (continued):

Service awards (i.e., educational awards or, in some cases, cash payments) are expensed in full on the financial statements, based on eligible enrollment at the end of the reporting period.

Other Expenses

Other expenses include workers' compensation, annual leave, and other expenses.

G. Retirement Benefits

The majority of CNS' employees participate in the Civil Service Retirement System (CSRS), to which CNS makes contributions equal to 7 percent of pay. On January 1, 1983, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335.

Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to CNS which automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay.

For most employees hired since December 31, 1983, CNS also contributes the employer's matching share for Social Security.

CNS does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management and FERS. Amounts contributed by CNS on behalf of its employees for Fiscal Year 1994 are not determinable at this time.

H. National Service Trust (Trust Fund)

Established by the National and Community Service Trust Act of 1993, the National Service Trust provides funds for educational awards for eligible participants who complete service under AmeriCorps, the national service program. By providing awards to individuals who successfully complete a term of service in an approved national service position, the Trust assists in expanding educational opportunity and rewards individual responsibility.

Note 2 (continued):

The National Service Trust consists of: (1) amounts appropriated to the Corporation that are designated by the Corporation as being for national service educational awards and certain interest expenses; (2) any amounts received by the Corporation as gifts, bequests, devises, or otherwise; and (3) the interest on, and proceeds from the sale or redemption of, any obligations held by the Trust.

Trust Fund amounts shall be available to participants for the following: (1) to repay student loans, (2) to pay all or part of the cost of attendance at an institution of higher education, (3) to pay expenses incurred in participating in an approved school-to-work program, and (4) to repay certain interest expenses.

The Department of Housing and Urban Development, Veterans Administration, and Independent Agencies Appropriations Act for fiscal year 1994 provided \$94,500,000 into the Trust. These monies were deposited immediately upon creation of the Trust account by Treasury, OMB, and the Corporation in late January 1994. Subsequent legislation enacted by Congress rescinded monies from CNS, \$1,250,000 of which related to the Trust. This amount was withdrawn from the Trust on April 14, 1994.

Additional funds were received in February 1994 and September 1994. Of the amounts appropriated to the National Civilian Community Corps in fiscal year 1994, an amount of \$5,000,000 was earmarked at the beginning of the year for service awards for NCCC participants serving in both 1994 and 1995. Subsequently, an additional \$501,000 was obligated by the NCCC for this purpose.

The Corporation did not receive any gifts or donations earmarked for the National Service Trust and its purposes. In general, gifts and donations are provided directly to local programs.

Cash expenditures made from the Trust Fund in fiscal year 1994 were approximately \$206,000, beginning in August 1994, following the completion of the Corporation's Summer of Safety program.

Note 3: Cash and Cash Equivalents

Cash is not maintained in commercial bank accounts; rather, cash receipts and disbursements are processed by the U.S. Treasury. The cash balances are in appropriated, revolving, and trust funds that are available to pay current liabilities and to finance authorized purchase commitments.

Cash equivalents are short term Treasury securities held as of September 30, 1994, which are due to mature within 90 days of year-end. Dollars are in thousands.

Appropriated Funds	\$ 347,172
Revolving Funds	1,522
Trust Funds	1
Cash Equivalents	<u>190</u>
Total Cash and Cash Equivalents	<u>\$ 348,885</u>

Note 4: Accounts Receivable, Net

The Accounts receivable balance at year-end is shown below, by category, net of an Allowance for Doubtful Accounts. Dollars are in thousands.

Accounts Receivable:

From Others	\$ 1,752
Resulting From Audits	<u>795</u>
Subtotal	2,547

Reimbursable Receivable:

From Government Agencies	832
From Others	<u>232</u>
Subtotal	1,064

Allowance for Doubtful Accounts (965)

Total Accounts Receivable, Net \$ 2,646

Note 5: Investments, Net

Investments purchased by CNS are held in the National Service Trust (the Trust Fund) and are invested in U.S. Treasury interest-bearing obligations, including notes, bills, and bonds. The Corporation may not issue its own backed securities or invest in non-Governmental securities. The Corporation's investments are referred to as Market-Based Specials, which are similar to government securities sold on the open market.

When the Trust fund was initially established during 1994, the Corporation invested in short-term bills pending development of an investment strategy. The first investments occurred at the end of January 1994. Based on advice from Treasury and private investment and accounting firms, the policy has been determined to invest in securities which provide the highest yield possible while accommodating the cash flow needs of the Trust.

During fiscal year 1994, 54 securities were purchased, ranging in size from \$6,495 to \$85,049,021, with term lengths ranging from one to 1,663 days. At year end, the fund's portfolio held 36 Treasury notes, 3 bonds, and 1 bill, ranging in size from \$6,750 to \$13,499,775 and with interest rates ranging from 3.875% to 12.625%. Days to maturity of investments held at year end ranged from 190 to 1,468 days.

For additional information on the Trust Fund and its sources and uses of funds, see Note 2.

Investments are recorded at cost as indicated below. Dollars are in thousands.

Investments, Par Value:

Current Securities	\$ 16,889
Long-Term Securities	<u>79,866</u>
Total Investments, Par Value	96,755
Less: Unamortized Discount	(423)
Add: Unamortized Premium	<u>4,311</u>
Total Cost, Net	<u>\$ 100,643</u>

Note 5 (continued):

Current investments are those held at year end which are due to mature between 90 days and one year of the end of the reporting period. Long Term investments are those scheduled to mature after one year.

Since all investments are backed by the federal government, there is no discernible credit risk associated with these investments.

The total cost shown above excludes accrued interest, which is the amount of interest paid between the date of the last interest payment and the date the security was purchased by CNS. Accrued interest is presented separately as Interest Receivable on the Statement of Financial Position.

During fiscal year 1994, discounts and premiums were not amortized.

In fiscal year 1995 CNS will adopt and implement Statement of Financial Accounting Standard No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The primary effect will be to present investments at market value and recognize a holding gain or loss in the equity section of the Statement of Financial Position.

Note 6. Service Awards

As discussed in Note 2, program participants are eligible to receive certain awards upon satisfactory completion of service.

Educational awards in the amount of \$4,725 per person will be available for use by AmeriCorps participants after completing their service. These awards may be used to pay for further education or to pay student loan liabilities. Some participants (in NCCC and VISTA) may elect to receive half of the amount (\$2,362.50) as a cash payment, in lieu of the educational award.

In addition to educational awards to be made available after service is satisfactorily completed, the Corporation may also pay for the interest charges that are accruing on outstanding, authorized student loans during the participant's service. The cost of estimated interest forbearance is shown below.

Except for the Cash Award in Lieu of Education, all amounts are paid from the National Service Trust Fund. Cash awards are paid out of program funds.

Note 6 (continued):

The figures shown below are based on program enrollment data as of the end of the fiscal year and represent the full amount expected to be paid. Educational awards can be used within seven years of completion of service. Dollars are in thousands.

Educational Awards	\$ 76,856
Interest Forbearance	1,692
Cash Award in Lieu of Education	<u>2,675</u>
Total	<u>\$ 81,223</u>

Note 7: Grants Payable

Grants awarded to grantees become liabilities to the Corporation when the grant is awarded. The liability is liquidated as grantees submit their quarterly Financial Status Reports, detailing their expenses incurred.

A breakdown of the outstanding grants liability, by program, at the end of the fiscal year, is below. Dollars are in thousands.

"DVSA Grants" refer to VISTA and Senior Corps program grants. Grants awarded by the former ACTION organization are included in this category. "NCSA Grants" are the grants awarded by the Corporation for AmeriCorps and Learn and Serve programs. "Commission Grants" are those awarded by the Commission on National and Community Service prior to the establishment of the Corporation for National and Community Service.

DVSA Grants	\$ 59,490
NCSA Grants	149,429
Commission Grants	<u>44,432</u>
Total	<u>\$ 253,351</u>

Note 8. Equity

CNS receives various Congressional appropriations for use in program operations. During fiscal year 1994, \$570 million in new appropriations, net of rescissions, were received. Below is an allocation of the ending balances of these amounts. Dollars are in thousands.

Domestic Volunteer Service Act Corporation for National Service	\$ 283,232
Commission on National and Community Service	38,968
Emergency Appropriation	61,301
	<u>3,468</u>
Subtotal, Unexpended Appropriations	386,969
National Service Trust	<u>19,211</u>
Total	<u>\$ 406,180</u>

Amounts included in the National Service Trust are designated by law to be used for national service educational awards and certain loan and interest expenses. The amount shown above is the amount specifically set aside for these purposes, offset by expenses recorded for (1) cash payments for Summer of Safety service awards and (2) estimated future liability for service awards of participants eligible for the program at September 30, 1994. See additional information on the Trust Fund in Notes 2 and 6.

Note 9: Revenue from Inter-Agency Agreements

This amount relates to the earned portion of reimbursable agreements CNS has with other entities to perform services in exchange for cash. Most of the revenue reported at year-end relates to one agreement for \$20 million, which was received to establish and operate AmeriCorps*NCCC. The full amount of the agreement was received from the Department of Defense and earned during FY 1994.

Note 10. Other Revenues

Other Revenues include the following. Dollars are in thousands.

Interest and Penalties Revenue	\$ 2,426
Donated Revenue	1,534
Other Revenue	1
Gains on Disposition of Assets	<u>406</u>
Total Other Revenue	<u>\$ 4,367</u>

Note 11. Operating/Program Expenses

Following is a breakdown of FY 1994 Operating/Program expenses by category. Dollars are in thousands.

Personnel and Benefits	\$ 66,473
Travel and Transportation of Persons	12,926
Transportation of Things	1,154
Rent, Communications, and Utilities	12,776
Printing and Reproduction	1,183
Other Services	46,975
Supplies and Materials	1,350
Equipment	799
Grants	169,698
Miscellaneous	120,029
Service Awards and Related Expenses	<u>79,334</u>
Total Operating/Program Expense	<u>\$ 512,697</u>

Note 12. Other Expenses

Expenses not included as Operating/Program expenses are included as Other Expenses. A breakdown of these expenses is shown below. Dollars are in thousands.

Workers Compensation	\$ 657
Annual Leave	353
Interest Penalty	2
Other	<u>64</u>
Total Other Expenses	<u>\$ 1,076</u>

Note 13. Adjustments

Net Position, Beginning Balance, has been restated for the following:

Prior Period Adjustments

Some adjustments were posted for FY 1994 financial statement presentation to correct errors that occurred in prior accounting periods. As required by Accounting Principles Board (APB) 20, "Accounting Changes," corrections of errors impact the ending balance of the equity account "Cumulative Results of Operations" but do not affect the current year income statement.

The prior period adjustments (1) record prior year expenses and related liabilities for annual leave and workers compensation (\$3.7 million); (2) record the prior year impact of the inconsistent application of an accounting policy (\$23.9 million). This inconsistency was caused by different policies held by two entities which were merged to form the Corporation, and was not an error; and (3) cash deposits and disbursements recorded in subsequent periods.

Cumulative Effect of Change in Accounting Policy

For Fiscal Year 1994, the capitalization threshold for purchases of real and personal property was increased from \$5,000 per item to \$100,000 per item. The increased threshold was deemed more meaningful a presentation by management. Such a policy has an immaterial effect on the financial statements.

As required by APB 20, "Accounting Changes," changes in accounting principles are accounted for in the current year's income statement.

If the new capitalization threshold had been in effect when property was purchased in Fiscal Year 1994 and prior years, all items would have been expensed instead of capitalized. The effect would be to reduce net income in the years of purchase and thus, reduce Cumulative Results of Operations by \$317,812 as of September 30, 1994.

Note 14. Subsequent Events

Appropriations. As of January 1996, Congress is considering reducing or eliminating authorized Fiscal Year 1996 funding for CNS.

Note 15. Contingencies

Except as described below, there are no unasserted claims or assessments exceeding \$10,000 that our General Counsel has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies."

The Corporation was named as a defendant, along with a contractor and a health insurance company, in a lawsuit alleging misrepresentation of health benefit coverage by a contract worker claiming unspecified damages. The Corporation denies all charges in the case and is preparing its defenses against them. The Corporation is advised by legal counsel that it is not possible at this time to determine the ultimate legal or financial responsibility with respect to this litigation.

The Corporation received an administrative claim alleging improper conversion of a donated commodity by a program participant. The Corporation denies all charges in the case and is preparing its defenses against them. The ultimate legal or financial responsibility with respect to this litigation is expected not to exceed \$60,000.

Abbreviations:

DVSA = Domestic Volunteer Service Act, as amended

NCSA = National and Community Service Act, as amended

FY = Fiscal Year

CNS = Corporation for National and Community Service

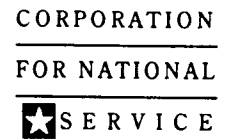
NCCC = National Civilian Community Corps

VISTA = Volunteers in Service to America

SECTION III

**RESPONSE TO THE REPORT OF
THE INSPECTOR GENERAL**

March 15, 1996



The Honorable Luise Jordan
Inspector General
Corporation for National and Community Service

Dear Ms. Jordan,

Thank you for your report of the results of your efforts to audit the Corporation's financial statements for fiscal year 1994. As you have requested, I am providing a preliminary response to your letter at this time. A more detailed response will be delivered on March 22 and will address each item identified in the auditability assessment that your office and your contractors have performed and given to the Corporation in draft.

Staff of the Corporation for National and Community Service have been working with your office to conduct the assessment of the auditability of the Corporation's financial statements and systems. This assessment was performed by two independent accounting firms under contract to you. The Corporation's Board of Directors has expressed its determination, as do I, to ensure that every possible step is taken to meet legislative requirements and to produce financial statements that are auditable.

The review to which your report refers was to determine whether the Corporation's financial statements for fiscal year 1994 meet generally accepted accounting principles and to assess the adequacy of internal controls. As you point out, the Corporation for National Service is covered by requirements of the Government Corporation Control Act.

Since the merger that created the Corporation for National Service was not completed until April of 1994, much of the audit of the 1994 financial statements covers systems used by a predecessor organization, the former ACTION agency.

This financial statement audit of the Corporation was begun in May of 1995 under a contract with Williams, Adley & Company, LLP in association with Arthur Anderson LLP.

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Your report indicates that during the auditing process the contractors raised significant issues related to the Corporation's accounting, recordkeeping, and management control activities. Specifically, your letter concludes that the Corporation's financial statements from its first year of operations are not auditable, and that the Corporation needs to take additional steps to strengthen internal controls within the organization.

The Corporation's financial staff advise me that the auditors' conclusions were not unexpected. Experience has shown that auditors have been unable to audit the financial statements of most Federal agencies preparing financial statements for the first time under the provisions of the Chief Financial Officers Act. The situation, as you recognize, was exacerbated in the Corporation's case, because in addition to launching the new national service programs--AmeriCorps, the National Civilian Community Corps, and Learn and Serve America--the Corporation continued programs of the former ACTION agency and the former Commission on National and Community Service. In doing so, the Corporation combined systems from the predecessor organizations, neither of which were required to produce auditable financial statements.

As you note, CNS' status as a government corporation means it should prepare annual financial statements using generally accepted accounting principles (GAAP) that are applied to non-governmental entities. The Corporation's predecessor organizations had their own accounting systems, and it should be noted, were not required to produce private sector-type financial statements. None of the financial staff from these organizations had significant experience in the production of private sector financial statements, which differ greatly from traditional federal government-type accounting reports.

To address these new requirements, I am informed that in 1995 CNS hired or contracted with four professional Certified Public Accountants (CPAs) to assist in the improvement of financial management activities and the production of financial statements. These staff made every effort to obtain the information necessary to construct the 1994 financial statements from accounting records that had been maintained using significantly different accounting systems and principles. We fully recognize that the 1994 statements therefore represent simply a best effort--no more and no less--to establish a starting point for the new Corporation's financial position. Their preparation was, however, a serious effort by professional accountants and others using the available information and their collective best judgment.

The organizational and financial consolidations within the Corporation, combined with a demanding start-up for major new programs, severely strained the Corporation's limited financial personnel and systems. Particular attention had to be focused on designing interim program data and grant management systems; building a data base for over 20,000

AmeriCorps Members the first year; creating an automated Trust Fund system to manage education awards for these individuals; and modifying the Corporation's accounting and financial system, which was a stopgap measure involving the system carried forward from the former ACTION agency. Therefore, as your review has correctly observed, our accounting systems have yet to receive the intense and sustained remedial attention they need.

From the beginning of the Corporation through today, the Office of the Chief Financial Officer produces budget and financial information in conformance with traditional Department of the Treasury and Office of Management and Budget requirements for government agencies. This information has been reported annually to the Congress as part of the President's Budget, and is reviewed annually by the Congress in making spending determinations.

While I believe that we both understand what has brought us to the results identified in your letter, I am committed to working with you as well as others in the Corporation to resolve the issues you have identified. Specifically, the Corporation has begun redesigning its financial management processes to meet the challenges resulting from its expanded responsibilities. The auditability assessment, once issued, will help us to identify the short-term and long-term steps we must take. Based on this survey, we have already accomplished the following:

- Established a single point for approval of access to the accounting system, documentation of approvals, and periodic reviews of approvals as a means of strengthening controls over access.
- Improved cash receipts control by segregating duties related to the receipt of cash and the entry of information into the accounting system.
- Initiated a detailed cash reconciliation between Corporation and Treasury records for fiscal year 1996.
- Reconciled data between the payment system used for grants and the accounting system.
- Provided for a second review of all investment decisions made by the Corporation.
- Improved the comprehensiveness of procurement policies.
- Enhanced the security of computer systems.

The Corporation is committed to securing additional independent expertise from prominent accounting firms to augment our staff resources. The firms that are selected will focus primarily, over the next twelve months, on addressing observations in the auditability survey related to the Corporation's day-to-day operations. Our goal is to resolve all

operational issues during this period and develop auditable financial statements for fiscal year 1996 and thereafter.

On a longer term basis, a complete redesign and modernization of the Corporation's accounting systems will be undertaken to ensure they address both current and emerging needs. This includes the possibility of a complete replacement of the Corporation's current accounting system. Our belief is that while the present system may have been adequate in previous decades for a far smaller organization, state-of-the-art systems are now required to carry out the Corporation's broader legislative mandate. We look forward to your office's expertise and assistance in the implementation of a new accounting system for the Corporation.

As you are aware, I am committed to quickly identifying and proposing for nomination a permanent Chief Financial Officer to carry out these initiatives.

Any questions concerning this letter should be directed to the Acting Chief Financial Officer.

Sincerely,

A handwritten signature in black ink, appearing to read "Harris Wofford". The signature is written in a cursive, flowing style with some loops and flourishes.

Harris Wofford
Chief Executive Officer