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**Office of the Inspector General  
Corporation for National and Community Service**

**Analysis of the  
Corporation for National and Community Service's  
Net Position Balance as of September 30, 1997 and 1998**

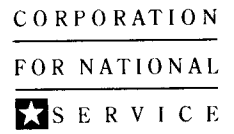
**Report Number 99-14  
March 24, 1999**

*Prepared by:*  
KPMG LLP  
2001 M Street, N.W.  
Washington, D.C. 20036

Under Corporation for National and Community Service  
Contract # 98-743-3002  
Task #5

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**Office of the Inspector General  
Corporation for National and Community Service**



**Analysis of the Corporation for National and Community Service's  
Net Position Balance as of September 30, 1997 and 1998**

In support of our audit of the Corporation's fiscal year 1998 financial statements, CNS OIG requested that KPMG LLP perform certain procedures related the Corporation's net position balances. As a result of their work, performed in accordance with *Government Auditing Standards*, KPMG proposed adjustments of about \$48 million to the component balances of net position. The Corporation's financial statements were revised to reflect these adjustments and fairly state net position at September 30, 1998.<sup>1</sup> We have reviewed the report and work papers supporting its conclusions and agree with the proposed adjustments.

Although this report is a matter of public record, it is intended solely for the use of Corporation management. Because it does not contain recommendations, and because the adjustments to net position determined through this work were agreed to by the Corporation and are reflected in the Corporation's fiscal year 1998 financial statements, we did not request Corporation comments on its contents.

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<sup>1</sup> See OIG Audit Report 99-12, *Audit of the Corporation for National and Community Service's Fiscal Year 1998 Financial Statements*.



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Inspector General  
Corporation for National and Community Service:

During the Corporation for National and Community Service's September 30, 1997, Statement of Financial Position audit, KPMG LLP determined that the Corporation's management was unable to provide sufficient evidence to support the two primary components of net position – unexpended appropriations (including obligated versus unobligated balances) and cumulative results of operations. As such, we qualified our opinion on the net position components in our related audit report.

Based on this audit result and at your request, we performed a detailed analysis to assist the Corporation in determining the component balances of net position as of September 30, 1997 and September 30, 1998. Appendix A to this letter describes the scope and methodology we used in our analysis.

We performed our analysis separately for each fund maintained by the Corporation – Appropriations, Trust and Gift. Based on the nature of the activity accounted for in the funds, we determined that the entire balance of net position for the Trust and Gift funds should be reported as cumulative results of operations and that net position in the Appropriations fund should be split between unexpended appropriations and cumulative results of operations.

The results of our analysis indicate the balance of cumulative results of operations at September 30, 1997 and 1998, should be \$58,964,000 and \$187,166,000, respectively. After all other adjustments had been made to the September 30, 1998 Statement of Financial Position, cumulative results of operations was determined to be \$126 thousand higher than the balance computed in our statistical analysis. As a result, we proposed an additional adjustment to move \$126 thousand from cumulative results of operations to unobligated, unexpended appropriations, so that the reported balance as of September 30, 1998, agreed to the statistically computed balance.

As of September 30, 1998, we projected a total error of \$129 million out of the originally recorded obligated, unexpended population sampled of \$583 million. However, Corporation and auditor adjustments to the fiscal year 1998 financial statements compensated for more than half of this error. After all other adjustments had been made





to the September 30, 1998 Statement of Financial Position, the remaining obligated, unexpended appropriations balance was determined to be \$502,419,000 which was \$47,899,000 higher than the statistically computed balance of \$454,520,000. We proposed an additional adjustment to deobligate the \$47,899,000 difference so that the reported balance as of September 30, 1998, agreed to the statistically computed balance. Appendix B to this letter describes these adjustments.

During the course of completing our procedures, we noted the Corporation does not consistently deobligate amounts once final invoices are received or when grants expire. As a result, numerous unliquidated obligations, dating back to fiscal year 1994, remain open as of September 30, 1998. Additionally, activity recorded in net position accounts is not routinely analyzed to identify and correct errors on a timely basis. Recommendations related to our net position findings are included in our combined report on the audit of the September 30, 1998 financial statements (OIG Audit Report 99-12).

Very truly yours,

KPMG LLP

A handwritten signature in cursive script that reads 'Karyn L. Molnar'.

Karyn L. Molnar  
Partner

March 24, 1999

## Scope and Methodology

The Corporation's Office of the Inspector General (OIG) contracted with us to analyze the net position components as of September 30, 1997 and September 30, 1998, and (1) propose restated balances or (2) explain why reasonable balances could not be determined for the component line items.

Our analyses included the following procedures:

- reviewing relevant work papers from the Corporation's Statement of Financial Position audit as of September 30, 1997;
- confirming our understanding of revenue and expense recognition in each fund with Corporation personnel;
- reviewing, through discussions with Corporation personnel, the Corporation's policies for recording obligations, de-obligations and liquidations of obligations;
- calculating each fund's total net position as of September 30, 1997 and 1998, based on audited assets and liabilities and restated grant advances and payable;
- verifying the propriety of recorded appropriations received by the Appropriations and Trust funds, since inception, by reference to applicable appropriation acts and warrants;
- reviewing the components of gift fund assets and liabilities for reasonableness in conjunction with work performed during the September 30, 1997 and 1998 financial statement audits;
- selecting a statistical sample of obligations outstanding as of September 30, 1998;
- evaluating the propriety of the sample of obligations outstanding as of September 30, 1998, through review of supporting documentation;
- extrapolating the error noted during our review of the sample of obligations outstanding as of September 30, 1998; and
- preparing the necessary journal entries to adjust the components of net position based on the results of our analyses.

We performed the above agreed upon procedures in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States in connection with other procedures as part of our audit of the Corporation's financial statements as of and for the fiscal year ended September 30, 1998. The result of that audit can be found in OIG Report 99-12, *Audit of the Corporation for National and Community Service's Fiscal Year 1998 Financial Statements*.

**Adjustments**

We proposed the following adjustments to the September 30, 1998 financial statements to properly state the components of net position.

*Prior Period Adjustments (in thousands)*

Financial Statement Level

Cumulative results of operations	52,509	
Unexpended appropriations, unobligated		52,509

(to properly state trust fund cumulative results of operations at September 30, 1997)

Appropriation Fund

Cumulative results of operations	71,587	
Unexpended appropriations		71,587

(to correct numerous errors that resulted in the overstatement of cumulative results of operations at September 30, 1997)

Gift Fund

Appropriated capital	56	
Cumulative results of operations		56

(to properly remove appropriated capital from the Gift fund at September 30, 1997)

*Adjustments as of September 30, 1998 (in thousands)*

Appropriation Fund

Appropriated capital	52,509	
Fund balance with Treasury		52,509

(to record the current year transfer of appropriations authorized in fiscal year 1997 to the Trust fund)

Cumulative results of operations	126	
Undelivered orders	47,899	
Allotments available		48,025

(to deobligate a portion of undelivered orders based on statistical sampling results and to properly report cumulative results of operations based on our analysis of net position components)

Trust Fund

Fund balance with Treasury	52,509	
Appropriated capital		52,509
Appropriated capital	52,509	
Appropriated capital used		52,509

(to record the current year transfer of appropriations authorized in fiscal year 1997 to the Trust fund and the related recognition of revenue)

Gift Fund

Appropriated capital used	211	
Appropriated capital		211

(to correct the erroneous recognition of appropriated capital used when certain Gift fund expenses were recorded)