

Office of Inspector General Corporation for National and Community Service

AUDIT OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S FISCAL YEAR 2005 FINANCIAL STATEMENTS

Audit Report Number 06-01
October 28, 2005



Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

Prepared by:

COTTON & COMPANY LLP
635 Slaters Lane, Fourth Floor
Alexandria, Virginia 22314

This report was issued to Corporation management on November 14, 2005. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than May 14, 2006, and complete its corrective actions by November 14, 2006. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



OFFICE OF INSPECTOR GENERAL

Office of Inspector General Summary Audit of the Corporation for National and Community Service's Fiscal Year 2005 Financial Statements Audit Report 06-01

In accordance with the Government Corporation Control Act (31 U.S.C. §§ 9101-10), the Office of Inspector General (OIG) engaged Cotton and Company LLP to audit the Corporation for National and Community Service's fiscal year 2005 financial statements. This report presents the results of the audit. In summary:

- Cotton and Company's opinion on the financial statements is unqualified. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and results of operations of the Corporation.
- Cotton and Company considered two matters involving internal controls over financial reporting and their operations to be reportable conditions. For the fifth consecutive year, the Corporation's monitoring of grantee activities has been cited as a reportable condition. Although progress on monitoring was noted compared to 2004 audit results, further improvements are required. Deficiencies were also observed in personnel and payroll processing. Cotton and Company does not, however, consider these reportable conditions, more specifically described in Exhibit 1, to be material weaknesses.
- Cotton and Company found no instances of material noncompliance with laws and regulations that would have a direct and material effect on the financial statements.

We provided a draft of this report to Corporation management for review and comment. The Corporation's response outlines several initiatives undertaken during the year to improve its monitoring of grantees. Management agreed with Cotton and Company's recommendations and will implement them in fiscal year 2006. Additionally, the Corporation began implementing standard operating procedures to resolve the personnel and payroll deficiencies cited in this report. The Corporation's response is presented in its entirety at Appendix A.

The OIG reviewed Cotton & Company's report and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the Corporation for National and Community Service's financial statements, conclusions about the effectiveness of internal control or conclusions on compliance with laws and regulations. Cotton & Company is responsible for the attached auditor's report dated October 28, 2005, and the conclusions expressed in the report. However, our review disclosed no instances where Cotton & Company did not comply, in all material respects, with generally accepted government auditing standards.



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Office of Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying Statements of Financial Position of the Corporation for National and Community Service (Corporation) as of September 30, 2005, and September 30, 2004, and the related Statements of Operations and Changes in Net Position, Budgetary Resources, and Cash Flows for the years ended September 30, 2005, and September 30, 2004. These financial statements are the responsibility of Corporation management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation at September 30, 2005, and September 30, 2004, and the results of its operations and changes in its net position, budgetary resources, and cash flows for the years ended September 30, 2005, and September 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 28, 2005, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with provisions of laws and regulations. Our reports on internal control and compliance are an integral part of an audit conducted in accordance with *Government Auditing Standards* and, in considering the results of our audit, those reports should be read together with this report.

COTTON & COMPANY LLP

Alan Rosenthal, CPA
Partner

October 28, 2005
Alexandria, Virginia

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

| | 2005 | 2004 |
|---|-------------------------|-------------------------|
| ASSETS | | |
| Fund Balance with Treasury <i>(Note 2)</i> | \$ 904,096 | \$ 854,370 |
| Trust Investments and Related Receivables <i>(Note 3)</i> | 404,745 | 337,913 |
| Advances to Others | 63,589 | 66,154 |
| Accounts Receivable, Net <i>(Note 4)</i> | 3,187 | 2,636 |
| Property and Equipment, Net <i>(Note 5)</i> | 982 | 962 |
| Total Assets | <u>\$ 1,376,599</u> | <u>\$ 1,262,035</u> |
| LIABILITIES | | |
| Trust Service Award Liability <i>(Note 6)</i> | \$ 260,061 | \$ 237,497 |
| Grants Payable | 91,448 | 117,250 |
| Accounts Payable | 7,061 | 7,133 |
| Actuarial FECA Liability <i>(Note 8)</i> | 12,298 | 12,401 |
| Other Liabilities | 10,109 | 10,391 |
| Accrued Annual Leave | 3,412 | 3,050 |
| Advances from Others | 68 | 187 |
| Capital Lease Liability <i>(Note 7)</i> | 402 | 66 |
| Total Liabilities | <u>384,859</u> | <u>387,975</u> |
| Commitments and Contingencies <i>(Notes 7 and 14)</i> | | |
| NET POSITION | | |
| Unexpended Appropriations | | |
| Obligated | 785,209 | 740,769 |
| Unobligated | 79,191 | 48,286 |
| Cumulative Results of Operations | <u>127,340</u> | <u>85,005</u> |
| Total Net Position <i>(Note 9)</i> | <u>991,740</u> | <u>874,060</u> |
| Total Liabilities and Net Position | <u>\$ 1,376,599</u> | <u>\$ 1,262,035</u> |

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

Corporation for National and Community Service
Statements of Operations and Changes in Net Position
For the Years Ended September 30
(dollars in thousands)

| | 2005 | 2004 |
|--|-------------------|-------------------|
| REVENUE | | |
| Appropriated Capital Used, excluding Trust Fund | \$ 678,753 | \$ 644,171 |
| Appropriations Received by the Trust Fund <i>(Note 10)</i> | 142,848 | 205,389 |
| Interest | 12,096 | 8,873 |
| Revenue from Services Provided | 8,248 | 7,329 |
| Other | 1,111 | 539 |
| Total Revenue | <u>843,056</u> | <u>866,301</u> |
| EXPENSES | | |
| AmeriCorps | 494,246 | 454,971 |
| National Senior Service Corps | 233,285 | 240,775 |
| Learn and Serve America | 54,695 | 45,155 |
| Subtotal | <u>782,226</u> | <u>740,901</u> |
| Earmarked Grants | 12,465 | 18,412 |
| Office of Inspector General | 6,029 | 5,017 |
| Total Expenses <i>(Note 11)</i> | <u>800,720</u> | <u>764,330</u> |
| NET OF REVENUE OVER EXPENSES | <u>\$ 42,336</u> | <u>\$ 101,971</u> |
| NET POSITION | | |
| Net of Revenue over Expenses | \$ 42,336 | \$ 101,971 |
| Change in Unexpended Appropriations, Net <i>(Note 13)</i> | 75,344 | 123,702 |
| Change in Net Position, Net | 117,680 | 225,673 |
| Net Position, Beginning Balance | 874,060 | 648,387 |
| Net Position, Ending Balance | <u>\$ 991,740</u> | <u>\$ 874,060</u> |

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

Corporation for National and Community Service
Statement of Cash Flows
For the Year Ended September 30, 2005
(dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

| | | |
|---|-----------------|------------------|
| Net of Revenue over Expenses | | \$ 42,336 |
| Adjustments Affecting Cash Flow: | | |
| Appropriated Capital Used, excluding Trust Fund | \$ (678,753) | |
| Appropriations Received by the Trust | (142,848) | |
| Increase in Accounts Receivable | (551) | |
| Increase in Interest Receivable | (1,332) | |
| Decrease in Advances | <u>2,565</u> | |
| | | \$ (820,919) |
| | | |
| Decrease in Accounts Payable, Other Liabilities and Advances from Others | (473) | |
| Increase in FECA and Annual Leave Liabilities | 259 | |
| Increase in Trust Liability | 22,564 | |
| Decrease in Grants Payable | <u>(25,802)</u> | |
| | | (3,452) |
| | | |
| Amortization of Premium/Discount on Investments | (1,732) | |
| Depreciation, Amortization, and Loss on Disposition of Assets | <u>402</u> | |
| | | \$ (1,330) |
| | | |
| Total Adjustments | | <u>(825,701)</u> |
| Net Cash Used in Operating Activities | | \$ (783,365) |

(continued)

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

Corporation for National and Community Service
Statement of Cash Flows
For the Year Ended September 30, 2005
(dollars in thousands)
(continued)

CASH FLOWS FROM INVESTING ACTIVITIES

| | | |
|---|------------------|-------------|
| Purchase of Property and Equipment | \$ (46) | |
| Sales of Securities | 337,175 | |
| Purchase of Securities | <u>(400,983)</u> | |
| Net Cash Provided by Investing Activities | | \$ (63,854) |

CASH FLOWS FROM FINANCING ACTIVITIES

| | | |
|---|--------------------|-------------------|
| Appropriations Received | 934,482 | |
| Canceled/Rescinded Appropriations | <u>\$ (37,537)</u> | |
| Net Cash Provided by Financing Activities | | <u>896,945</u> |
| Net Increase in Cash | | 49,726 |
| Fund Balance with Treasury, Beginning | | <u>854,370</u> |
| Fund Balance with Treasury, Ending | | <u>\$ 904,096</u> |

Supplemental Disclosure of Cash Flow Information

| | |
|---------------|-------|
| Interest Paid | \$ 16 |
|---------------|-------|

Supplemental Schedule of Financing and Investing Activities

| | |
|---|--------|
| Property and Equipment Acquired Under Capital Lease Obligations | \$ 435 |
|---|--------|

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

Corporation for National and Community Service
Statement of Cash Flows
For the Year Ended September 30, 2004
(dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

| | | |
|---|------------------|------------------|
| Net of Revenue over Expenses | | \$ 101,971 |
| Adjustments Affecting Cash Flow: | | |
| Appropriated Capital Used, excluding Trust Fund | \$ (644,171) | |
| Appropriations Received by the Trust | (205,389) | |
| Decrease in Accounts Receivable | 120 | |
| Increase in Interest Receivable | (1,720) | |
| Increase in Advances | <u>(16,875)</u> | |
| | | \$ (868,035) |
| Increase in Accounts Payable, Other Liabilities and Advances from Others | 1,085 | |
| Decrease in FECA and Annual Leave Liabilities | (141) | |
| Increase in Capital Lease Liability | 27 | |
| Increase in Trust Liability | 6,875 | |
| Increase in Grants Payable | <u>452</u> | |
| | | 8,298 |
| Amortization of Premium/Discount on Investments | (1,208) | |
| Depreciation, Amortization, and Loss on Disposition of Assets | 717 | |
| Prior Year Expenses as authorized by P.L.108-11 | <u>\$ 63,055</u> | |
| | | \$ 62,564 |
| Total Adjustments | | <u>(797,173)</u> |
| Net Cash Used in Operating Activities | | \$ (695,202) |

(continued)

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

Corporation for National and Community Service
Statement of Cash Flows
For the Year Ended September 30, 2004
(dollars in thousands)
(continued)

CASH FLOWS FROM INVESTING ACTIVITIES

| | | |
|---|------------------|--------------|
| Purchase of Property and Equipment | \$ (893) | |
| Sales of Securities | 557,035 | |
| Purchase of Securities | <u>(660,140)</u> | |
| Net Cash Provided by Investing Activities | | \$ (103,998) |

CASH FLOWS FROM FINANCING ACTIVITIES

| | | |
|---|--------------------|-------------------|
| Appropriations Received | 940,918 | |
| Canceled/Rescinded Appropriations | <u>\$ (30,711)</u> | |
| Net Cash Provided by Financing Activities | | <u>910,207</u> |
| Net Increase in Cash | | 111,007 |
| Fund Balance with Treasury, Beginning | | <u>743,363</u> |
| Fund Balance with Treasury, Ending | | <u>\$ 854,370</u> |

Supplemental Disclosure of Cash Flow Information

| | | |
|---------------|----|----|
| Interest Paid | \$ | 10 |
|---------------|----|----|

Supplemental Schedule of Financing and Investing Activities

| | | |
|---|----|----|
| Property and Equipment Acquired Under Capital Lease Obligations | \$ | 44 |
|---|----|----|

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

Corporation for National and Community Service
Statements of Budgetary Resources
For the Years Ended September 30

(dollars in thousands)

| BUDGETARY RESOURCES | 2005 | 2004 |
|---|---------------------|---------------------|
| Budget Authority | | |
| Appropriations Received, including Trust Fund | \$ 1,086,254 | \$ 1,151,820 |
| Total Budgetary Resources | <u>1,086,254</u> | <u>1,151,820</u> |
| Unobligated Balance | | |
| Beginning of Period | 154,669 | 347,495 |
| Subtotal | <u>154,669</u> | <u>347,495</u> |
| Spending Authority From Offsetting Collections | | |
| Collected | 7,809 | 31,117 |
| Receivable from Federal Sources | (1,726) | 1,061 |
| Advances Received | (187) | (35) |
| Without Advance from Federal Source | - | (896) |
| Anticipated for Rest of Year Without Advance | - | 1,807 |
| Subtotal | <u>5,896</u> | <u>33,054</u> |
| Recoveries of Prior Year Obligations | | |
| Actual | 42,426 | 3,872 |
| Subtotal | <u>42,426</u> | <u>3,872</u> |
| Permanently Not Available | | |
| Cancellations of Expired and No-Year Accounts | (30,062) | (25,158) |
| Enacted Rescissions | (7,475) | (5,553) |
| Subtotal | <u>(37,537)</u> | <u>(30,711)</u> |
| Total Budgetary Resources | <u>\$ 1,251,708</u> | <u>\$ 1,505,530</u> |
| STATUS OF BUDGETARY RESOURCES | | |
| Obligations Incurred | \$ 1,035,880 | \$ 1,350,861 |
| Unobligated Balance: | | |
| Balance, Currently Available | 111,941 | 49,346 |
| Exempt from Apportionment | 38,227 | 25,073 |
| Subtotal | <u>150,168</u> | <u>74,419</u> |
| Unobligated Balance Not Available | 65,660 | 80,250 |
| Total Status of Budgetary Resources | <u>\$ 1,251,708</u> | <u>\$ 1,505,530</u> |

(continued)

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

Corporation for National and Community Service
Statements of Budgetary Resources
For the Years Ended September 30
(dollars in thousands)
(continued)

| | 2005 | 2004 |
|--|---------------------|---------------------|
| RELATIONSHIP OF OBLIGATIONS TO OUTLAYS | | |
| Obligated Balance, Net, Beginning of Period | \$ 1,037,666 | \$ 629,155 |
| Obligated Balance, Net, End of Period | | |
| Accounts Receivable | (2,789) | (2,708) |
| Undelivered Orders | 721,603 | 674,840 |
| Accounts Payable | 362,347 | 365,534 |
| Obligated Balance, Net, End of Period Total | <u>1,081,161</u> | <u>1,037,666</u> |
| Obligations Total | <u>\$ 2,118,827</u> | <u>\$ 1,666,821</u> |
| | | |
| Outlays: | | |
| Disbursements | \$ 943,333 | \$ 938,313 |
| Collections | <u>(7,622)</u> | <u>(31,081)</u> |
| Subtotal | 935,711 | 907,232 |
| | | |
| Less: Offsetting Receipts | (21,273) | (17,206) |
| | | |
| Net Outlays | <u>\$ 914,438</u> | <u>\$ 890,026</u> |

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

These financial statements have been prepared to report the financial position, results of operations, cash flows, and budgetary resources of the Corporation for National and Community Service (Corporation), as required by the Government Corporation Control Act (31 USC 9106), the National and Community Service Act of 1990, as amended (42 USC 12651), and the President's February 27, 2004, Executive Order on National and Community Service Programs (EO 13331). These financial statements have been prepared from the books and records of the Corporation. The Statements of Financial Position, Operations and Changes in Net Position, and Cash Flows have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to Federal governmental corporations and include the Corporation's activities related to providing grants and education awards to eligible participants. The Statement of Budgetary Resources, required by Executive Order, has been prepared in accordance with guidance prescribed in Office of Management and Budget (OMB) Bulletin 01-09, *Form and Content of Agency Financial Statements*, which constitutes generally accepted accounting principles for Federal governmental entities as specified by the AICPA's Statement on Auditing Standards 69 (as amended), *The Meaning of Presents Fairly in Conformity With Generally Accepted Accounting Principles*. The Corporation is not subject to income tax.

The principal financial statements of the Corporation are the:

- Statement of Financial Position;
- Statement of Operations and Changes in Net Position;
- Statement of Cash Flows; and
- Statement of Budgetary Resources.

The notes to the financial statements are considered an integral part of the financial statements.

B. Reporting Entity

The Corporation was created by the National and Community Service Trust Act of 1993 (Public Law 103-82, 42 USC 12651). The Corporation provides grants and other incentives to States, local municipalities, and not-for-profit organizations to help communities meet critical challenges in the areas of education, public safety, human needs, and the environment through volunteer service. The Corporation oversees three national service initiatives:

- **AmeriCorps** is the national service program that annually engages Americans of all ages and backgrounds in full-time and sustained part-time community service and provides education awards in return for such service. AmeriCorps includes the *State, National, Tribes & Territories (State/National)*; *National Civilian Community Corps (NCCC)*; and *Volunteers In Service To America (VISTA)* programs.
- **The National Senior Service Corps** is a network of people age 55 and older who participate in the *Foster Grandparent Program*, the *Senior Companion Program*, and the *Retired and Senior Volunteer Program*. These programs tap the experience, skills, talents, and creativity of America's seniors.
- **Learn and Serve America** supports and promotes service learning in schools, universities, and communities. Through structured service activities that help meet community needs, nearly one million students improve their academic learning, develop personal skills, and practice responsible citizenship.

Together, these initiatives promote the ethic of service and help solve critical community problems in every State, many Indian tribes, and most U.S. territories.

C. Budgets and Budgetary Accounting

The activities of the Corporation are primarily funded through two separate appropriation bills. One is the Labor/Health and Human Services bill, which funds Domestic Volunteer Service Act (DVSA) programs. The DVSA appropriation is available for obligation by the Corporation for one fiscal year only.

The second is the Veterans Affairs, Housing and Urban Development, and Independent Agencies bill, which funds National and Community Service Act (NCSA) programs. The NCSA appropriation is available for obligation by the Corporation over two fiscal years except for Salary and Expense (S&E) funds, which are available for one year; and National Service Trust funds, which are provided on a no-year basis.

Both the DVSA and the NCSA appropriations fund a part of the Corporation's costs for administrative operations.

D. Basis of Accounting

Transactions are recorded in the accounting system on an accrual basis and a budgetary basis. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Appropriations are considered earned for the Corporation's National Service Trust Fund and are recognized as revenue when received in the Trust Fund.

The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds. Budgetary accounting principles are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. Thus, the Statements of Financial Position, Operations and Changes in Net Position, and Cash Flows differ from the Statement of Budgetary Resources and other financial reports submitted pursuant to OMB directives for the purpose of providing information on how budgetary resources were made available and monitoring and controlling the use of the Corporation's budgetary resources.

E. Fund Balance with Treasury

The Corporation does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The Fund Balance with Treasury represents annual, multi-year, and no-year funds, which are maintained in appropriated and trust funds that are available to pay current and future commitments.

Funds maintained in the National Service Trust are restricted for use in paying service awards earned by eligible participants as well as interest forbearance, and are not available for use in the current operations of the Corporation.

The majority of the funds received from individuals and organizations in the form of gifts and donations for the support of service projects are restricted for a particular use.

F. Trust Investments and Related Receivables

By law, the Corporation invests funds, which have been transferred to the Trust, only in interest-bearing Treasury obligations of the United States. These Treasury obligations are referred to as market-based specials, which are similar to government securities sold on the open market, and consist of Treasury notes, bonds, bills and one-day certificates.

The Corporation classifies these investments as held-to-maturity at the time of purchase and periodically reevaluates such classification. Securities are classified as held-to-maturity when the Corporation has the positive intent and ability to hold securities to maturity. Held-to-maturity securities are stated at cost with corresponding premiums or discounts amortized over the life of the investment to interest income. Premiums and discounts are amortized using the effective interest method.

Interest receivable represents amounts earned but not received on investments held at year-end. Prepaid interest is the amount of interest earned on a security since the date of its last interest payment up to the date the security is purchased by the Corporation. Such interest, if any, at year-end is included in the interest receivable balance.

G. Advances to Others

The Corporation advances funds, primarily in response to grantee drawdown requests, to facilitate their authorized national and community service and domestic volunteer service activities. The cash payments to grantees, in excess of amounts earned under the terms of the grant agreements, are accounted for as advances. At the end of the fiscal year, the total amount advanced to grantees is compared with the Corporation-funded amount earned by the grantees. Grantee expenses are determined from reports submitted by the grantees. For those grantees with advances exceeding expenses, the aggregate difference is reported as the advance account balance.

H. Accounts Receivable

Accounts receivable represents amounts due to the Corporation primarily under Federal and non-Federal reimbursable agreements, grantee audit resolution determinations, and outstanding travel advances due from employees. These amounts are reduced by an allowance for uncollectible accounts based on the age of each past due account.

I. Property and Equipment

The Corporation capitalizes property and equipment at historical cost for acquisitions of \$10 thousand or more, with an estimated useful life that extends beyond the year of acquisition. The assets reported include telephone equipment, computer systems equipment, copiers, computer software, furniture, and assets under capital leases. These assets are depreciated (or amortized) on a straight-line basis over estimated useful lives ranging from two to 10 years, using the half-year convention. Normal maintenance and repair costs on capitalized property and equipment are expensed when incurred.

J. Trust Service Award Liability

The Trust service award liability represents unpaid earned, and expected to be earned, education awards and eligible interest forbearance costs, which are expected to be used. These amounts relate to participants who have completed service or are currently enrolled in the program and are expected to earn an award, based on the Corporation's historical experience.

K. Grants Payable

Grants are made to nonprofit organizations, educational institutions, states, municipalities, and other external organizations. Grants become budgetary obligations, but not liabilities, when they are awarded. At the end of each fiscal year, the Corporation reports the total amount of unreimbursed authorized grantee expenses, earned under the terms of grant agreements, as grants payable.

L. Accounts Payable

The Corporation records as liabilities all amounts that are likely to be paid as a direct result of a transaction or event that has already occurred. Accounts payable represents amounts due to both Federal and non-Federal entities for goods and services received by the Corporation, but not paid for at the end of the fiscal year.

M. Actuarial FECA Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for Corporation employees under FECA are administered by the Department of Labor (DOL) and later billed to the Corporation. The Corporation's actuarial liability for workers' compensation includes costs incurred but unbilled as of year-end, as calculated by DOL, and is not funded by current appropriations.

N. Other Liabilities

Other liabilities include amounts owed but not paid at the end of the fiscal year for payroll and benefits; VISTA stipends; and the portion of the liability for Federal Employees' Compensation Act charges incurred and billed but unpaid.

O. Accrued Annual Leave

Annual leave is accrued as a liability based on amounts earned but not used as of the fiscal year-end. Each year, the balance in the accrued annual leave account is adjusted to reflect current year pay rates and leave balances. Annual leave is funded from current appropriations when used. As unused annual leave is used in the future, financing will be obtained from appropriations current at that time. Sick leave and other types of non-vested leave are expensed when used.

P. Advances from Others

Advances from others consist of advances from other government agencies related to interagency agreements the Corporation entered into to provide services to those agencies.

Q. Net Position

Net position is composed of unexpended appropriations and cumulative results of operations. Unexpended appropriations are funds appropriated and warranted to the Corporation that are still available for expenditure as of the end of the fiscal year. Cumulative results of operations represent the net differences between revenues and expenses from the inception of the Corporation.

R. Revenues

Appropriated Capital Used

The Corporation obtains funding for its program and operating expenses through annual and multi-year appropriations. Appropriations are recognized on an accrual basis at the time they are used to pay program or administrative expenses, except for expenses to be funded by future appropriations such as earned but unused annual leave. Appropriations expended for property and equipment are recognized as used when the property is purchased. Funds not used for eligible expenses within the allowed time must be returned to Treasury. Appropriations received for the Corporation's Trust are recognized as revenue when received in the Trust Fund. Trust appropriations do not expire with the passage of time and are retained by the Corporation in the Trust until used for eligible education service award purposes.

Interest

Interest income is recognized when earned. Treasury notes and bonds pay interest semiannually, based on the stated rate of interest. Interest on Treasury bills is paid at maturity. Interest income is adjusted by amortization of premiums and discounts using the effective interest method.

Revenue from Services Provided

The Corporation also receives income from reimbursable service agreements that is recorded as revenue from services provided. Revenue from services provided is recognized when earned, i.e., goods have been delivered or services rendered.

Other Revenue

Other revenue consists of gifts and donations for the support of service projects from individuals and organizations.

S. Retirement Benefits

The Corporation's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by the enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984, elected to join FERS and Social Security or remained in the CSRS.

For employees covered by CSRS, the Corporation contributes 8.51 percent of their gross pay towards retirement. For those employees covered by FERS, the Corporation contributes 11.50 percent of their gross pay towards retirement. Employees are allowed to participate in the Federal Thrift Savings Plan (TSP). For employees under FERS, the Corporation contributes an automatic one percent of basic pay to TSP and matches employee contributions up to an additional 4 percent of pay, for a maximum Corporation contribution amounting to 5 percent of pay. Employees under CSRS may participate in the TSP, but will not receive either the Corporation's automatic or matching contributions. The Corporation made retirement contributions of \$622 thousand and \$668 thousand to the CSRS Plan, and \$6.63 million and \$6.09 million to the FERS and TSP Plans in fiscal years 2005 and 2004, respectively.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. In fiscal 2005 the Corporation improved its estimates for the grant accrual, moving from a projection based on prorating the remaining performance period for grants to a projection based on an actual quarterly draw-down of funds.

NOTE 2 – FUND BALANCE WITH TREASURY

U.S. Government cash is accounted for on an overall consolidated basis by the U.S. Department of Treasury. The Fund Balance with Treasury line on the Statement of Financial Position consists of the following:

- **Appropriated Funds** – Appropriated funds are received through congressional appropriations to provide financing sources for the Corporation's programs on an annual, multi-year, and no-year basis. The funds are warranted by the United States Treasury and apportioned by the Office of Management and Budget.
- **Trust Funds** – Trust Funds are accounts designated by law for receipts earmarked for specific purposes and for the expenditure of these receipts. Funds from the Corporation's Trust Fund may be expended for the purpose of providing an education award or interest forbearance payment and must always be paid directly to a qualified institution (college, university, or other approved educational institution, or a lending institution holding an existing student loan) as designated by the participant, as well as awards under the President's Freedom Scholarship Program.
- **Gift Funds** – Gift Funds are funds received from individuals and organizations as donations in furtherance of the purposes of the national service laws.

| Fund Balance with Treasury as of September 30 (dollars in thousands) | | | | | | |
|---|-------------------------|-----------------------|-------------------------|-------------------------|-----------------------|-------------------------|
| | 2005 | | | 2004 | | |
| Type | Unrestricted | Restricted | Total | Unrestricted | Restricted | Total |
| Appropriated Funds | \$902,793 | \$ – | \$902,793 | \$850,437 | \$ – | \$850,437 |
| Trust Funds | – | 252 | 252 | – | 3,120 | 3,120 |
| Gift Funds | – | 1,051 | 1,051 | 6 | 807 | 813 |
| Total | <u>\$902,793</u> | <u>\$1,303</u> | <u>\$904,096</u> | <u>\$850,443</u> | <u>\$3,927</u> | <u>\$854,370</u> |

NOTE 3 – TRUST INVESTMENTS AND RELATED RECEIVABLES

The composition of Trust Investments and Related Receivables at September 30 is as follows:

| Trust Investments and Related Receivables as of September 30 (dollars in thousands) | | |
|--|-------------------------|-------------------------|
| | 2005 | 2004 |
| Investments, Carrying Value | \$400,074 | \$334,575 |
| Investment and Interest Receivable | 4,671 | 3,338 |
| Total | <u>\$404,745</u> | <u>\$337,913</u> |

| Amortized Cost and Fair Value of Investment Securities as of September 30 (dollars in thousands) | | | | | | | | |
|---|-------------------------|--------------------|-------------------------|-------------------------|-------------------------|---------------------|---------------------|-------------------------|
| Securities | 2005 | | | | 2004 | | | |
| | Amortized Cost | Unrealized Gains | Unrealized (Losses) | Fair Value | Amortized Cost | Unrealized Gains | Unrealized (Losses) | Fair Value |
| Notes | \$370,896 | \$ - | (\$6,324) | \$364,572 | \$292,655 | \$ 27 | \$ - | \$292,682 |
| Bills | 29,178 | 63 | - | 29,241 | 34,274 | 68 | - | 34,342 |
| Bonds | - | - | - | - | 7,646 | 198 | - | 7,844 |
| Total | <u>\$400,074</u> | <u>\$63</u> | <u>(\$6,324)</u> | <u>\$393,813</u> | <u>\$334,575</u> | <u>\$293</u> | <u>\$ -</u> | <u>\$334,868</u> |

At September 30, 2005, the notes held at year-end had an interest rate range of 1.63% to 7.00% and an outstanding maturity period of approximately one day to five years. The bills held at year-end had an interest rate range of 2.51% to 3.37% and were all due to mature within 47 days. The par values of these bills range from \$1.3 million to \$4 million.

As required by the Strengthen AmeriCorps Program Act, beginning in fiscal 2003 the Corporation has set aside in reserve a portion of the funds appropriated to the Trust in the event that its estimates used to calculate obligational amounts for education awards prove to be too low. As of September 30, 2005, \$32.8 million of the Corporation's investment account has been set aside for this reserve.

Investments held at September 30 mature according to the following schedule:

| Maturation of Securities Held as of September 30 (dollars in thousands) | | | | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Held-to-Maturity Securities | 2005 | | 2004 | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in 1 year or less | \$156,960 | \$156,005 | \$161,584 | \$161,931 |
| Due after 1 year up to 5 years | 243,114 | 237,808 | 172,991 | 172,937 |
| Total | <u>\$400,074</u> | <u>\$393,813</u> | <u>\$334,575</u> | <u>\$334,868</u> |

NOTE 4 – ACCOUNTS RECEIVABLE, NET

| Accounts Receivable as of September 30 (dollars in thousands) | | |
|--|-----------------------|-----------------------|
| | 2005 | 2004 |
| Accounts receivable | \$4,240 | \$3,284 |
| Less: allowance for loss on receivables | 1,053 | 648 |
| Accounts Receivable, Net | <u>\$3,187</u> | <u>\$2,636</u> |

NOTE 5 – PROPERTY AND EQUIPMENT, NET

| General Property and Equipment as of September 30 (dollars in thousands) | | | | | | | |
|---|----------------------|-----------------------|--------------------------------|---------------------|-----------------------|--------------------------------|---------------------|
| 2005 | | | | 2004 | | | |
| Major Class | Service Life (Years) | Cost | Less: Accumulated Depreciation | Net Book Value | Cost | Less: Accumulated Depreciation | Net Book Value |
| Equipment | 3-10 | \$2,191 | \$1,593 | \$598 | \$2,916 | \$2,017 | \$899 |
| Capital leases | 3-5 | 435 | 51 | 384 | 92 | 29 | 63 |
| ADP software | 2 | 5,042 | 5,042 | – | 5,042 | 5,042 | – |
| Total | | <u>\$7,668</u> | <u>\$6,686</u> | <u>\$982</u> | <u>\$8,050</u> | <u>\$7,088</u> | <u>\$962</u> |

NOTE 6 – SERVICE AWARD LIABILITY – NATIONAL SERVICE TRUST

Individuals who successfully complete terms of service in AmeriCorps programs earn education awards, which can be used to make payments on qualified student loans or for educational expenses at qualified educational institutions. The awards, which are available for use for a period of up to seven years after the benefit has been earned, are paid from the National Service Trust. The Trust also pays forbearance interest on qualified student loans during the period members perform community service as well as awards under the President's Freedom Scholarship Program. The award liability components related to education awards and interest forbearance have been adjusted, based on historical experience, to reflect the fact that some eligible participants may not use these benefits. The service award liability was composed of the following as of September 30:

| Service Award Liability as of September 30 (dollars in thousands) | | |
|--|-------------------------|-------------------------|
| | 2005 | 2004 |
| Education awards | \$921,086 | \$814,176 |
| Interest forbearance | 30,038 | 26,957 |
| Presidential Freedom Scholarship Program | 20,999 | 17,499 |
| Total estimated service award liability | 972,123 | 858,632 |
| Less: cumulative awards paid | 712,062 | 621,135 |
| Total | <u>\$260,061</u> | <u>\$237,497</u> |

The net service award liability as of September 30, 2005, increased by approximately \$22.6 million from the net service award liability as of September 30, 2004. This change was largely due to new member enrollments and an increase in the number of members still serving during the year.

NOTE 7 – CAPITAL AND OPERATING LEASES

A. Capital Leases

The Corporation has entered into lease agreements for copy machines. These leases vary from 3 to 5 year terms and are deemed to be capital leases. The costs of the copiers have been recorded as property and equipment (also see Note 5). The following is a schedule by year of the future minimum payments under these leases:

| Capital Leases Future Minimum Due as of September 30 <i>(dollars in thousands)</i> | | |
|--|---------------------|--------------------|
| | 2005 | 2004 |
| Fiscal Year 2005 | \$ – | \$26 |
| Fiscal Year 2006 | 117 | 25 |
| Fiscal Year 2007 | 109 | 15 |
| Fiscal Year 2008 | 109 | 7 |
| Fiscal Year 2009 | 109 | 5 |
| Fiscal Year 2010 | <u>73</u> | <u>–</u> |
| Total future minimum lease payments | 517 | 78 |
| Less: amounts representing interest | 115 | 12 |
| Total | <u>\$402</u> | <u>\$66</u> |

B. Operating Leases

The Corporation leases office space through the General Services Administration (GSA). GSA charges the Corporation a Standard Level Users Charge that approximates commercial rental rates for similar properties. NCCC also leases housing facilities for its campuses. Additionally, the Corporation leases motor vehicles on an annual basis through GSA under an Interagency Fleet Management Service agreement for the National Civilian Community Corps. Commitments of the Corporation for future rental payments under operating leases at September 30 are as follows:

| Estimated Operating Lease Commitments as of September 30 <i>(dollars in thousands)</i> | | | | | | | | |
|--|-------------------------|-----------------------|---------------------|------------------------|-------------------------|-----------------------|-----------------------|------------------------|
| | 2005 | | | | 2004 | | | |
| Fiscal Year | Facilities Space | Vehicles | Other | Total | Facilities Space | Vehicles | Other | Total |
| 2005 | \$ – | \$ – | \$ – | \$ – | \$ 6,408 | \$1,111 | \$ 196 | \$ 7,715 |
| 2006 | 8,597 | 1,053 | 169 | 9,819 | 6,614 | 1,151 | 203 | 7,968 |
| 2007 | 9,166 | 1,091 | 175 | 10,432 | 6,827 | 1,190 | 211 | 8,228 |
| 2008 | 9,338 | 1,131 | 182 | 10,651 | 7,047 | 1,231 | 219 | 8,497 |
| 2009 | 9,515 | 1,173 | 188 | 10,876 | 7,274 | 1,274 | 227 | 8,775 |
| 2010 | 9,697 | 1,216 | 195 | 11,108 | – | – | – | – |
| Total | <u>\$46,313</u> | <u>\$5,664</u> | <u>\$909</u> | <u>\$52,886</u> | <u>\$34,170</u> | <u>\$5,957</u> | <u>\$1,056</u> | <u>\$41,183</u> |

NOTE 8 – WORKERS' COMPENSATION

The Corporation's actuarial liability for future workers' compensation benefits (FECA) was \$12.3 million and \$12.4 million as of September 30, 2005 and 2004, respectively. The amount includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The actuarial liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds.

NOTE 9 – NET POSITION

The reported net position consists of unexpended appropriations and cumulative results of operations (cumulative results of operations represents the differences between revenues and expenses since the Corporation's inception). Component balances are separately maintained for the Gift Fund, Trust Fund and Appropriated Fund.

| Net Position by Fund Balance Components <i>(dollars in thousands)</i> | | | | |
|---|-----------------------|-------------------------|--------------------------|-------------------------|
| As of September 30, 2005 | | | | |
| | Gift Fund | Trust Fund | Appropriated Fund | Total |
| Unexpended appropriations | \$ – | \$ – | \$864,400 | \$864,400 |
| Cumulative results of operations | 1,011 | 144,950 | (18,621) | 127,340 |
| Total Net Position | <u>\$1,011</u> | <u>\$144,950</u> | <u>\$845,779</u> | <u>\$991,740</u> |

| Net Position by Fund Balance Components <i>(dollars in thousands)</i> | | | | |
|---|---------------------|-------------------------|--------------------------|-------------------------|
| As of September 30, 2004 | | | | |
| | Gift Fund | Trust Fund | Appropriated Fund | Total |
| Unexpended appropriations | \$ – | \$ – | \$789,055 | \$789,055 |
| Cumulative results of operations | 867 | 103,551 | (19,413) | 85,005 |
| Total Net Position | <u>\$867</u> | <u>\$103,551</u> | <u>\$769,642</u> | <u>\$874,060</u> |

NOTE 10 – APPROPRIATIONS RECEIVED BY THE TRUST FUND

Under the 2005 Consolidated Appropriations Act (Public Law 108-447) the Trust received \$142.8 million (\$144 million less \$1.2 million Trust portion of the rescission to NCSA pursuant to the Act).

Fiscal 2004 appropriations received by the Trust Fund were \$205.4 million, composed of a \$130 million Trust appropriation (less \$767 thousand Trust portion of the rescission to NCSA pursuant to the Miscellaneous Appropriations and Offsets Act of 2004); a \$63.1 million deficiency appropriation included in the 2003 Emergency Wartime Supplemental Appropriation Act (P.L. 108-11) which was received in fiscal 2004; and \$13.1 million transferred from program funds pursuant to the 2004 Consolidated Appropriations Act (P.L. 108-199).

The Trust portion of the NCSA rescissions was transferred back to NCSA, reducing the net amount of appropriations received by the Trust Fund during each fiscal year.

NOTE 11 – EXPENSES

Using an appropriate cost accounting methodology, the Corporation's expenses have been allocated among its major programs:

AmeriCorps includes *State, National, Tribes & Territories* (State/National); *National Civilian Community Corps* (NCCC); and *Volunteers In Service To America* (VISTA) programs. The State/National sub-program includes grant expenses, as well as direct and allocated personnel and administrative costs including AmeriCorps recruitment and Trust operations. The NCCC sub-program includes direct and allocated personnel and administrative costs including AmeriCorps recruitment and Trust operations. The VISTA sub-program includes grant expenses, as well as direct and allocated personnel and administrative costs including AmeriCorps recruitment and Trust operations.

The National Senior Service Corps (NSSC) includes the *Foster Grandparent Program* (FGP); *Senior Companion Program* (SCP); and the *Retired and Senior Volunteer Program* (RSVP). The NSSC responsibility segment includes grant expenses, as well as direct and allocated personnel and administrative costs for RSVP, FGP, and SCP. Costs for each sub-program are reported on separately in the table.

Learn and Serve America includes grant expenses, as well as direct and allocated personnel and administrative costs, and Trust operations, for the Learn and Serve America Program, the President's Student Service Challenge, and National Service Leader Schools. The President's Freedom Scholarships are included in the National Service Award expense component.

Other Program Costs

The National Service Award expense component consists of the Corporation's estimated expense for education awards based on the increase in its service award liability during the year, interest forbearance costs on qualified student loans during the period members perform community service, as well as disbursements for the Presidential Freedom Scholarship Program. No indirect costs have been allocated to the National Service Award expense component.

The Corporation's annual appropriation includes various Congressionally Earmarked Grants. In addition, the Corporation has reimbursable agreements with state agencies whereby the Corporation awards and administers grants to a list of grantees selected and funded by the State. No indirect costs have been allocated to these grants.

The Office of Inspector General (OIG) receives a separate appropriation. No indirect costs have been allocated to the OIG.

The largest component of total expense is grant funds expended.

| Components of Grant Funds Expended for the years ended September 30 <i>(dollars in thousands)</i> | | |
|---|-------------------------|-------------------------|
| | 2005 | 2004 |
| Domestic Volunteer Service Act Programs | \$231,722 | \$250,490 |
| National and Community Service Act Programs | 268,771 | 213,386 |
| Earmarked Grants | | |
| Congressionally Earmarked Grants | \$11,485 | \$17,210 |
| DVSA State Grants | <u>980</u> | <u>1,202</u> |
| Total Earmarked Grants | 12,465 | 18,412 |
| Total Grants Expense | <u>\$512,958</u> | <u>\$482,288</u> |

| Expenses by Major Responsibility Segment for the years ended September 30 <i>(dollars in thousands)</i> | | |
|---|-------------------------|-------------------------|
| | 2005 | 2004 |
| AmeriCorps | | |
| State, National, Tribes & Territories (State/National) | \$343,905 | \$294,255 |
| National Civilian Community Corps (NCCC) | 35,706 | 33,056 |
| Volunteers In Service To America (VISTA) | <u>114,635</u> | <u>127,660</u> |
| Subtotal | \$494,246 | \$454,971 |
| National Senior Service Corps | | |
| Retired and Senior Volunteer Program (RSVP) | 62,090 | 66,312 |
| Foster Grandparent Program (FGP) | 120,476 | 122,797 |
| Senior Companion Program (SCP) | <u>\$ 50,719</u> | <u>\$ 51,666</u> |
| Subtotal | 233,285 | 240,775 |
| Learn and Serve America | 54,695 | 45,155 |
| Total Earmarked Grants | 12,465 | 18,412 |
| Office of Inspector General (OIG) | 6,029 | 5,017 |
| Total Expenses | <u>\$800,720</u> | <u>\$764,330</u> |

Expenses by Type and Subprogram for the year ended September 30, 2005
(dollars in thousands)

| Type | National Senior Service Corps | | | | | | | | | | OIG | Total |
|--|-------------------------------|------------------------|-------------------------|------------------------|-------------------------|-------------------------------|------------------------|------------------------|-----------------------|-----------------------|-------------------------|-------|
| | AmeriCorps | | | | | National Senior Service Corps | | | | | | |
| | State/ National | NCCC | VISTA | RSVP | FGP | SCP | Learn & Serve | Earmarked Grants | | | | |
| Grant and Related Expense | | | | | | | | | | | | |
| Grant funds expended | \$222,812 | \$ - | \$ 19,024 | \$56,478 | \$109,985 | \$46,235 | \$45,959 | \$12,465 | \$ - | \$ - | \$512,958 | |
| VISTA & NCCC stipends & benefits | - | 7,353 | 61,066 | - | - | - | - | - | - | - | 68,419 | |
| Service award expense | 94,021 | 5,160 | 10,822 | - | - | - | 3,500 | - | - | - | 113,503 | |
| Total Grant and Related Expense | <u>316,833</u> | <u>12,513</u> | <u>90,912</u> | <u>56,478</u> | <u>109,985</u> | <u>46,235</u> | <u>49,459</u> | <u>12,465</u> | <u>-</u> | <u>-</u> | <u>694,880</u> | |
| Administrative Expense | | | | | | | | | | | | |
| Federal employee salaries & benefits | 14,694 | 10,508 | 11,607 | 3,469 | 6,741 | 2,833 | 2,907 | - | 2,380 | - | 55,139 | |
| Travel & transportation | 778 | 2,758 | 4,331 | 201 | 384 | 167 | 136 | - | 94 | - | 8,849 | |
| Rent, communications, & utilities | 1,558 | 1,440 | 538 | 255 | 495 | 207 | 185 | - | 19 | - | 4,697 | |
| Program analysis & evaluation | 942 | 856 | 856 | 262 | 508 | 214 | 642 | - | - | - | 4,280 | |
| Printing & reproduction | 122 | 115 | 31 | 13 | 25 | 12 | 10 | - | 2 | - | 330 | |
| Other services | 6,282 | 5,916 | 5,677 | 993 | 1,531 | 712 | 1,015 | - | 3,547 | - | 25,673 | |
| Supplies & materials | 266 | 710 | 246 | 70 | 134 | 56 | 73 | - | 28 | - | 1,583 | |
| Depreciation & amortization | 172 | 4 | 40 | 29 | 57 | 24 | 23 | - | - | - | 349 | |
| Bad debt | 224 | 5 | 53 | 38 | 74 | 32 | 30 | - | - | - | 456 | |
| Other | 2,034 | 881 | 344 | 282 | 542 | 227 | 215 | - | (41) | - | 4,484 | |
| Total Administrative Expense | <u>27,072</u> | <u>23,193</u> | <u>23,723</u> | <u>5,612</u> | <u>10,491</u> | <u>4,484</u> | <u>5,236</u> | <u>-</u> | <u>6,029</u> | <u>-</u> | <u>105,840</u> | |
| Total Expenses by Type | <u>\$343,905</u> | <u>\$35,706</u> | <u>\$114,635</u> | <u>\$62,090</u> | <u>\$120,476</u> | <u>\$50,719</u> | <u>\$54,695</u> | <u>\$12,465</u> | <u>\$6,029</u> | <u>\$6,029</u> | <u>\$800,720</u> | |

Expenses by Type and Subprogram for the year ended September 30, 2004
(dollars in thousands)

| Type | National Senior Service Corps | | | | | | | | | | Total | |
|--|-------------------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|---------------------|----------------|------------------|----------------|--|
| | State/ National | NCCC | VISTA | RSVP | FGP | SCP | Learn & Serve | Earmarked Grants | OIG | | | |
| Grant and Related Expense | | | | | | | | | | | | |
| Grant funds expended | \$175,981 | \$ - | \$ 28,836 | \$60,667 | \$113,334 | \$47,653 | \$37,405 | \$18,412 | \$ - | \$ - | \$482,288 | |
| VISTA & NCCC stipends & benefits | - | 7,960 | 62,488 | - | - | - | - | - | - | - | 70,448 | |
| Service award expense | 89,674 | 3,382 | 15,775 | - | - | - | 3,299 | - | - | - | 112,130 | |
| Total Grant and Related Expense | 265,655 | 11,342 | 107,099 | 60,667 | 113,334 | 47,653 | 40,704 | 18,412 | - | - | 664,866 | |
| Administrative Expense | | | | | | | | | | | | |
| Federal employee salaries & benefits | 17,716 | 9,903 | 7,185 | 3,198 | 5,973 | 2,506 | 2,959 | - | 2,337 | - | 51,777 | |
| Travel & transportation | 822 | 2,933 | 5,564 | 197 | 341 | 138 | 130 | - | 76 | - | 10,201 | |
| Rent, communications, & utilities | 2,230 | 2,011 | 784 | 421 | 787 | 331 | 242 | - | 265 | - | 7,071 | |
| Program analysis & evaluation | 552 | 501 | 501 | 159 | 294 | 124 | 376 | - | - | - | 2,507 | |
| Printing & reproduction | 58 | 101 | 41 | 31 | 37 | 10 | 9 | - | - | - | 287 | |
| Other services | 6,323 | 5,403 | 5,944 | 1,441 | 1,663 | 755 | 576 | - | 2,296 | - | 24,401 | |
| Supplies & materials | 297 | 711 | 354 | 81 | 154 | 64 | 54 | - | 43 | - | 1,758 | |
| Depreciation & amortization | 305 | 24 | 113 | 64 | 120 | 50 | 41 | - | - | - | 717 | |
| Bad debt | 154 | 4 | 49 | 33 | 61 | 26 | 20 | - | - | - | 347 | |
| Other | 143 | 123 | 26 | 20 | 33 | 9 | 44 | - | - | - | 398 | |
| Total Administrative Expense | 28,600 | 21,714 | 20,561 | 5,645 | 9,463 | 4,013 | 4,451 | - | 5,017 | - | 99,464 | |
| Total Expenses by Type | \$294,255 | \$33,056 | \$127,660 | \$66,312 | \$122,797 | \$51,666 | \$45,155 | \$18,412 | \$5,017 | \$764,330 | | |

NOTE 12 – NATIONAL SERVICE AWARD EXPENSE

Members participating in the Trust programs are eligible to earn a service award to pay for qualified education expenses. The Trust also pays interest forbearance costs on qualified student loans during the period members perform community service. The Corporation estimates the expense for national service awards based on the increase in its cumulative service award liability during the year (see Note 6). The total service award liability as of September 30, 2005 and 2004, respectively, has been adjusted to reflect the fact that earned awards are not always used.

| National Service Award Expense for the years ended September 30 <i>(dollars in thousands)</i> | | |
|---|-------------------------|-------------------------|
| | 2005 | 2004 |
| Estimated education awards | \$106,922 | \$106,245 |
| Estimated interest forbearance | 3,081 | 2,586 |
| President's Freedom Scholarship Program | 3,500 | 3,299 |
| National Service Award Expense | <u>\$113,503</u> | <u>\$112,130</u> |

NOTE 13 – INCREASE/(DECREASE) IN UNEXPENDED APPROPRIATIONS, NET

| Increase/(Decrease) in Unexpended Appropriations, Net as of September 30 <i>(dollars in thousands)</i> | | |
|--|-------------------------|--------------------------|
| | 2005 | 2004 |
| Increases: | | |
| Appropriations received, net of trust | \$ 934,482 | \$ 940,918 |
| Prior year deficiency appropriation | – | 63,055 |
| Total Increases | <u>934,482</u> | <u>1,003,973</u> |
| Decreases: | | |
| Appropriated capital used, net of trust | (678,753) | (644,171) |
| Appropriations received by trust | (142,848) | (205,389) |
| Rescinded appropriations, net of trust | (7,475) | (5,553) |
| Canceled appropriations | <u>(30,062)</u> | <u>(25,158)</u> |
| Total Decreases | <u>(859,138)</u> | <u>(880,271)</u> |
| Increase/(Decrease) in Unexpended Appropriations, Net | <u>\$ 75,344</u> | <u>\$ 123,702</u> |

NOTE 14 – CONTINGENCIES

Contingencies

The Corporation is a party to various routine administrative proceedings, legal actions, and claims brought by or against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against the Corporation. In the opinion of the Corporation's management and legal counsel, there are no proceedings, actions, or claims outstanding or threatened that would materially impact the financial statements of the Corporation.

Judgment Fund

Certain legal matters to which the Corporation is named a party may be administered and, in some instances, litigated and paid by other Federal agencies. Generally, amounts paid in excess of \$2.5 thousand for Federal Tort Claims Act settlements or awards pertaining to these litigations are funded from a special appropriation called the Judgment Fund. Although the ultimate disposition of any potential Judgment Fund proceedings cannot be determined, management does not expect that any liability or expense that might ensue would be material to the Corporation's financial statements.



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Office of Inspector General
Corporation for National and Community Service

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS**

We have audited the financial statements of the Corporation for National and Community Service (Corporation) as of and for the year ended September 30, 2005, and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance that the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Providing an opinion on compliance with those provisions was not, however, an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the United States Congress, the President, the Director of the Office of Management and Budget, the Comptroller General of the United States, the Corporation, and the Inspector General. It is not intended for, and should not be used by, anyone other than these specific parties.

COTTON & COMPANY LLP

Alan Rosenthal, CPA
Partner

October 28, 2005
Alexandria, Virginia



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Office of Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the financial statements of the Corporation for National and Community Service (Corporation) as of and for the years ended September 30, 2005, and September 30, 2004, and have issued our report thereon dated October 28, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing the Fiscal Year 2005 audit, we considered the Corporation's internal control over financial reporting by obtaining an understanding of the Corporation's internal control, determining if internal control had been placed in operation, assessing control risk, and performing tests of controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards*. The objective of our audit was not to provide assurance on the Corporation's internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls over financial reporting that, in our judgment, could adversely affect the Corporation's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

We noted two matters, described in Exhibit 1, involving internal control over financial reporting and its operation that we consider to be reportable conditions. We do not consider these reportable conditions to be material weaknesses. The status of one prior-year reportable condition is in Exhibit 2.

We also noted other matters involving internal control and its operation that we will report to the Corporation management in our management letter, which will be issued as OIG Audit Report 06-02.

We have provided a draft of this report to the Corporation. The Corporation's response to our report is included as Appendix A.

This report is intended solely for the information and use of the United States Congress, the President, the Director of the Office of Management and Budget, the Comptroller General of the United States, the Corporation, and the Inspector General. It is not intended for, and should not be used by, anyone other than these specific parties.

COTTON & COMPANY LLP

A handwritten signature in black ink, appearing to read "Alan Rosenthal", with a long, sweeping horizontal stroke extending to the right.

Alan Rosenthal, CPA
Partner

October 28, 2005
Alexandria, Virginia

Exhibit 1
Corporation for National and Community Service
Reportable Condition
September 30, 2005

Grants Management

The Corporation for National and Community Service (Corporation) awards National and Community Service Act (NCSA) and Domestic Volunteer Service Act (DVSA) grants to State and local governments, institutions of higher education, and other not-for-profit organizations. The Corporation expends the majority of its appropriated funds on grants, and grant activities result in the most significant components of the Corporation's financial statements. It is critical that the Corporation monitor grantee activity closely to ensure that grantees are complying with applicable laws and regulations related to administration of the respective grant awards. Grantees are required to expend funds for allowable costs and provide periodic reports to the Corporation to demonstrate programmatic financial compliance with the terms of their respective grant agreements. The Corporation conducts grantee site visits, as part of its grant monitoring program, to ensure that grantees are complying with their grant agreements, and that State commissions are performing their duties as prescribed.

The following weaknesses were noted in the Corporation's internal control over grants management.

Improvement Needed In Monitoring Grantee Activities

The Corporation has established formal grantee monitoring procedures that include periodic site visits to grantees; a process for obtaining, reviewing, and issuing management decisions on audit findings reported by the OIG as well as non-federal auditors in OMB Circular A-133 single audit reports; training conferences for grantee personnel; open lines of communication between program managers and grantees; and a grant closeout process. For DVSA grants, the Corporation utilizes the Senior Corps Compliance Monitoring Handbook. For NCSA grants, the State Commission Administrative Standards Visit (SASV) is the primary tool for monitoring State commission grantees. The Corporation also has a separate monitoring tool for AmeriCorps National Direct grantees.

While it was noted that the various program and grant offices have taken steps to implement the recommendations on monitoring issues made in the prior year's internal control report, the Corporation's monitoring activities require further improvements in order to provide adequate controls over grantees' activities. The prior year's reportable condition noted a number of instances wherein the Corporation was not adhering to its own policies that require performing timely site visits and other monitoring efforts, and ensuring that grantees submit all required programmatic and fiscal reports on a timely basis. The previous year's recommendations included a re-evaluation of policies and procedures for conducting monitoring visits and continued implementation of a risk-assessment approach to selecting grantees for monitoring visits.

During the past fiscal year program and grant offices have continued to implement risk-assessment of grantees. However, there continues to be a lack of documentation to support how risk assessment rankings are determined. For example, grantees with similar conditions received different risk assessment rankings. Further, a number of the State commissions that were identified as being high risk did not receive site visits. Additionally, we were not provided with supporting documentation as to why some State commissions identified as low-risk did receive site visits. It is conceivable that some commissions might not receive formal monitoring with sufficient frequency to assure the Corporation that the commissions are operating efficiently and effectively. For those Commissions that did receive monitoring visits, we found that submission of corrective action plans and resolution of findings did not occur on a timely basis in accordance with the Corporation's policies and procedures.

A sampling of National Directs, Senior Corps and Learn & Serve monitoring site visits found that the Corporation was often late in sending follow-up letters to grantees subsequent to a visit. Of the 32 monitoring letters sampled, 8 were mailed later than the standard 30 days, ranging from 9 to 152 days late. We also noted other discrepancies, such as no evidence of follow-up with grantees to obtain corrective action plans; action plans submitted late; inadequate documentation to support Corporation staff conclusions about monitoring report findings; and numerous late or missing submissions of Progress and Financial Status Reports.

We also found that documentation noting resolution of OMB Circular A-133 audits was incomplete. Corporation policy requires the use of the database to record the resolution process for all A-133 audits of grantees with monetary, internal control or compliance findings. We found inconsistent use of the database as well as incomplete and erroneous data. Additionally, it was noted that there were unresolved findings regarding questioned costs. Accordingly, the current state of the database does not allow for informed management decisions. Once data is input into the Audit Resolution database, the Corporation has six months to issue its management decision and an additional six months to complete final actions. By not having documentation of timely audit resolution performance, the Corporation cannot ensure that grantees with findings have properly resolved those issues. Grantees with known and unknown deficiencies can potentially continue to receive Corporation funding.

Recommendations

We acknowledge that, during FY2005, the Corporation put into place various preliminary activities designed to address grant monitoring deficiencies noted in previous years. However, we were unable to verify the effectiveness of these new activities because the results of the Corporation's efforts will be reflected in future time periods. As a result, several of the recommendations made in the FY2004 audit remain open and are repeated here as follows.

- The Corporation should re-evaluate the risk assessment tool for necessary improvements. The assessment work sheet should produce a rating based on consistently implemented criteria. Risk assessment work sheets need to include reasons why and how conclusions were reached. Documentation to support each risk conclusion must be maintained to prevent the loss of institutional knowledge.
- The Corporation should maintain a site visit and monitoring schedule resulting from the risk-based site visit selection process and monitor progress in completing those site visits in a timely manner.
- The Corporation should develop monitoring policies to document the determination as to what constitutes an acceptable substantive review of grantees, in lieu of performing site visits. These activities should include desk reviews, technical assistance, training, OIG reviews and audits, grantee audits, and other relevant monitoring activities performed by grant managers, program offices, the OIG, and external contractors.
- The Director of Grants Oversight and Monitoring should implement consistent risk assessment and site monitoring policies and procedures across all Corporation programs and coordinate all monitoring efforts.

Additionally, we recommend that the Corporation:

- Develop a methodology to coordinate all monitoring procedures performed by program and grant offices, as well as State offices, in order to ensure that all grantees receive adequate and timely monitoring and that the results of monitoring activities are sufficiently documented.

- Strengthen and document its controls to ensure that all site visit follow-up requirements are completed within the prescribed timelines.
- Implement procedures to ensure that all data in the Corporation's Audit Resolution Database is accurate, timely, and supported by documentary evidence.
- Fully document its procedures to ensure that grantees submit all required reports on a timely basis.

Personnel and Payroll Processing

The Corporation's Office of Human Capital (OHC) uses the services of the United States Department of Agriculture's National Finance Center (NFC) to process and disburse payroll. Among other things, the OHC is responsible for the authorized and accurate input of employee personnel data into the NFC system. It is also responsible for maintaining the integrity of the data and verifying and validating the bi-weekly payroll information that is transmitted to NFC for processing. OHC must also verify the output from NFC to ensure that its processing was error free.

Improvement Needed to Strengthen Internal Controls

During our testing of internal controls, we observed several deficiencies involving OHC's handling and monitoring of payroll data. We also found problems in operational controls that resulted in inaccurate data in the accounting system.

New employee information and changes to current employee data are initiated by OHC using the Standard Form 52 (SF-52). The form is created by the requester, authorized by a supervisor, and reviewed by the budget office before being sent to OHC for approval. The data from the approved SF-52 is then entered into the NFC payroll system and the output is an SF-50, Notice of Personnel Action. The information contained in the SF-50 must be compared to the input form SF-52 to ensure there are no discrepancies. These duties should be segregated to prevent one OHC employee from controlling the entire process. During our review of internal controls we found that the same OHC employee was entering the SF-52 data and then reviewing and signing the forms as the authorizing OHC official. We also noted that the OHC employee signing the SF-50 form had not been delegated the authority to do so. We further found that a significant number of forms were missing required signatures. It was also noted that there were no supervisory reviews conducted of data input and output of payroll-related documents. This is necessary to ensure that payroll and related benefit costs were accurate and represented valid payments to current employees and volunteers of the Corporation. As a result of this lack of oversight, we found that:

- Employee retirement and health care insurance deductions that did not agree to prescribed amounts, resulting in incorrect amounts being deducted from employee pay. Explanations of these discrepancies were requested from NFC.
- From a sample of VISTA member payments, some members were overpaid because of incorrect locality pay rates.

Finally, there was a significant delay in the reconciliation performed by the budget office on NFC data; consequently, errors in pay and deductions may not be detected in a timely manner. Corporation employees prepare time sheets that are manually verified by a supervisor and certified by a designated department timekeeper. The timekeeper enters the data into a time collection system called STAR-WEB that interfaces with the NFC system. Corporation policy mandates that time sheets be signed by the employee and the supervisor and bear the timekeeper's initials so that each individual acknowledges responsibility for accuracy and completeness. Of 45 time sheets that we tested, approximately 27 percent were missing required

signatures. In addition, we determined that one designated department timekeeper signed and verified her own time sheet.

The cumulative effect of the noted control weaknesses could result in the financial statements being misstated due to errors or fraudulent activities occurring and not being detected on a timely basis.

Recommendations

We recommend that the Corporation strengthen controls over payroll and timekeeping procedures to ensure that policies and procedures are adhered to regarding segregation of duties, supervisory reviews, and quality assurance of data integrity.

Exhibit 2
Status of Prior-Year Reportable Conditions
September 30, 2005

| FY 2004 Finding | Type | FY 2005 Status |
|----------------------------------|--|--|
| Monitoring of Grantee Activities | 2002: Reportable Condition 2003: Reportable Condition 2004: Reportable Condition | Monitoring of grantee activities continues to require improvement. |

APPENDIX A

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE RESPONSE



November 9, 2005

Carol Bates
Acting Inspector General
Corporation for National and
Community Service
Suite 830
Washington, D.C. 20525

Dear Ms. Bates:

Thank you for the opportunity to comment on the draft report on the audit of the Corporation's fiscal 2005 financial statements. This marks the sixth consecutive year the Corporation has achieved an unqualified opinion and demonstrates the Corporation's commitment to sound fiscal management. While I am pleased with these overall results I recognize that the Corporation still has a significant amount of work to undertake during the next year to improve its monitoring of grantees.

To improve our monitoring of grantees, during fiscal 2005 the Corporation developed a Corporation-wide monitoring plan based on risk assessments, using program-specific criteria, and frequency-based monitoring requirements, as applicable by program. The Corporation also implemented monthly status reports to track the volume of planned and conducted monitoring activities across all programs. These reports will be enhanced in fiscal 2006. In addition, to ensure stronger oversight and management across programs, the Corporation established an Award Oversight and Monitoring Coordinating Council comprised of senior staff. The Council's mission is to ensure that the Corporation exercises uniformly excellent financial, administrative, and programmatic award oversight across its programs and supports awardees success through effective compliance monitoring, training, and technical assistance.

In addition, to further strengthen oversight and monitoring activities across all of its programs, the Corporation hired a new Director for Award Oversight and Monitoring in June 2005. In addition to serving as Chair of the Award Oversight and Monitoring Coordinating Council, the new director provides leadership to and coordinates with all Corporation programs to ensure the Corporation's grantees manage Corporation funds in accordance with applicable laws, regulations, standards, and agreements.

As a result of these various initiatives, during fiscal 2005 the Corporation's program offices increased monitoring activity and were more accountable for results. The audit makes several recommendations to help the Corporation further improve its performance in this area. The Corporation agrees with these recommendations and will implement them over the course of the next year.

This year's audit also identified internal control weaknesses related to the processing of personnel and payroll data by the Office of Human Capital's (OHC) Position Management, Staffing and Compensation unit as a reportable condition. The report cited the need for better segregation of duties and supervisory review of payroll data. During fiscal 2005 the Corporation's new Chief Human Capital Officer recognized the need to formalize and better document its policies and procedures over position management, staffing and compensation. At



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the end of fiscal 2005, OHC began implementing standard operating procedures covering all areas identified in the report. The procedures are designed to ensure that all personnel actions are properly authorized, reviewed, and approved prior to data being entered into the National Finance Center, and that there is a proper segregation of duties throughout the operations of the Office. The Corporation believes these procedures will fully resolve this finding.

Finally, I would like to express my appreciation for the efforts that your staff and the staff of Cotton & Company made on the fiscal 2005 audit. The past three years have seen the Federal government move to compressed timeframes for preparing and issuing audited financial statements. The completion of the audit within these timeframes could not have been done without the close cooperation of both staffs. This was especially true this year as we worked towards continued improvement in the overall presentation of the financial statements.

Sincerely,

A handwritten signature in black ink, appearing to read "David Eisner". The signature is fluid and cursive, with a large initial "D" and "E".

David Eisner

Chief Executive Officer