

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

**AUDIT OF THE  
CORPORATION FOR NATIONAL AND  
COMMUNITY SERVICE'S  
FISCAL YEAR 2008 FINANCIAL STATEMENTS**

**Audit Report Number 09- 01**



*Corporation for*  
**NATIONAL &  
COMMUNITY  
SERVICE**

Prepared by:

CLIFTON GUNDERSON LLP  
11710 Beltsville Drive  
Calverton, Maryland 20705

This report was issued to Corporation management on November 14, 2008. 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, 2009, and complete its corrective actions by November 14, 2009. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.




## OFFICE OF INSPECTOR GENERAL

November 14, 2008

TO: David Eisner  
Chief Executive Officer

Nicola Goren  
Chief of Staff

FROM: Gerald Walpin   
Inspector General

SUBJECT: Audit of the Corporation for National and Community Service's Fiscal Year 2008  
Financial Statements, Audit Report Number 09-01

We contracted with the independent certified public accounting firm of Clifton Gunderson LLP (Clifton) to audit the financial statements of the Corporation for National and Community Service (Corporation) as of September 30, 2008 and 2007, and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards.

In its audit, Clifton found

- The financial statements were fairly presented, in all material respects, in conformity with generally accepted accounting principles;
- One significant deficiency related to the Corporation's business continuity controls over information technology challenges it experienced during 2008.

Clifton Gunderson is responsible for the attached auditor's report, dated November 14, 2008, and the conclusions expressed therein. The Office of Inspector General does not express an opinion on the Corporation's Financial Statements or Clifton's conclusions about the effectiveness of internal control or compliance with laws and regulations.

Attachment

cc: Frank Trinity, General Counsel  
Kristin McSwain, Chief of Program Operations  
William Anderson, Deputy CFO for Financial Management  
Rocco Gaudio, Deputy CFO for Planning and Program Management  
Sherry Blue, Audit Resolution Coordinator  
Bill Oliver, Engagement Partner, Clifton Gunderson LLP (without attachment)



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## Independent Auditor's Report

To the Inspector General  
Corporation for National and Community Service

We have audited the accompanying Statement of Financial Position of the Corporation for National and Community Service (Corporation) as of September 30, 2008 and 2007, and the related statements of Operations and Changes in Net Position, Budgetary Resources and Cash Flows for the years then ended. 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; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the 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 as of September 30, 2008 and 2007, and the results of its operations and changes in net position, budgetary resources, and cash flows for the years then ended 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 November 14, 2008, on our consideration of Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over financial reporting or compliance. Those reports are an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Message from the Chief Executive Officer and Glossary are presented for additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

*Clifton Gunderson LLP*

Calverton, Maryland  
November 14, 2008

## **FINANCIAL STATEMENTS**

The Corporation's financial statements report the financial position, results of operations, cash flows, and budgetary resources, as required by the Government Corporation Control Act (Act) and the President's February 27, 2004, Executive Order on National and Community Service Programs (EO 13331). The Government Corporation Control Act requires that government corporations submit an annual report to the Congress within 180 days of the fiscal year end. As specified in the Act, the principal financial statements of the Corporation are the:

- Statement of Financial Position, which reports the status of Corporation assets, liabilities, and net position.
- Statement of Operations and Changes in Net Position, which reports the Corporation's revenues and expenses for the year and the changes in net position that occurred during the year.
- Statement of Cash Flows, which shows how changes in the Corporation's financial position and results affected its cash (Fund Balance with Treasury), and breaks the analysis down according to operating, investing, and financing activities.

In addition, under the requirements of Executive Order 13331, the Corporation prepares a Statement of Budgetary Resources (SBR). The SBR provides information about the budgetary resources made available to the Corporation as well as the status of those resources at the end of the fiscal year.

The Corporation's financial statements present comparative information for fiscal 2008 and 2007. For fiscal 2008, the Corporation's financial statements, for the ninth consecutive year, received an unqualified opinion. This opinion recognizes that the Corporation's financial statements are fairly presented, in all material respects, and in conformity with generally accepted accounting principles.

### **Limitations of the Financial Statements**

The principal financial statements have been prepared to report the financial position, results of operations, and cash flows of the Corporation for National and Community Service, as required by the Government Corporation Control Act (31 USC 9106) and by the National and Community Service Act of 1990 (42 USC 12651). In addition, the Corporation reports on its budgetary resources in accordance with Executive Order 13331. The Corporation's financial statements published herein are in addition to the financial reports it uses to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides the resources to do so.

**Corporation for National and Community Service  
Consolidated Statements of Financial Position**

**As of September 30**

*(dollars in thousands)*

<b>ASSETS</b>	<b>2008</b>	<b>2007</b>
Fund Balance with Treasury <i>(Note 2)</i>	\$ 822,989	\$ 886,505
Trust Investments and Related Receivables <i>(Note 3)</i>	483,880	465,391
Advances to Others	59,388	61,975
Accounts Receivable, Net <i>(Note 4)</i>	2,616	3,247
Property and Equipment, Net <i>(Note 5)</i>	3,043	2,107
<b>Total Assets</b>	<b><u>\$ 1,371,916</u></b>	<b><u>\$ 1,419,225</u></b>
<b>LIABILITIES</b>		
Trust Service Award Liability <i>(Note 6)</i>	\$ 303,367	\$ 280,597
Grants Payable	89,456	99,805
Accounts Payable	7,231	6,141
Actuarial FECA Liability <i>(Note 8)</i>	11,638	11,888
Other Liabilities	14,200	13,331
Accrued Annual Leave	3,164	3,165
Advances from Others	290	102
Capital Lease Liability	250	250
<b>Total Liabilities</b>	<b><u>429,596</u></b>	<b><u>415,279</u></b>
Contingencies <i>(Note 14)</i>		
<b>NET POSITION</b>		
Unexpended Appropriations	769,016	828,597
Cumulative Results of Operations	173,304	175,349
<b>Total Net Position</b> <i>(Note 9)</i>	<b><u>942,320</u></b>	<b><u>1,003,946</u></b>
<b>Total Liabilities and Net Position</b>	<b><u>\$ 1,371,916</u></b>	<b><u>\$ 1,419,225</u></b>

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

**Corporation for National and Community Service**  
**Consolidated Statements of Operations and Changes in Net Position**  
**For the Years Ended September 30**

*(dollars in thousands)*

<b>REVENUE</b>	<b>2008</b>	<b>2007</b>
Appropriated Capital Used	\$ 748,580	\$ 779,456
Appropriations Transferred to the Trust Fund <i>(Note 10)</i>	138,785	117,720
Interest	17,804	19,563
Revenue from Services Provided	8,111	7,404
Other	<u>776</u>	<u>2,452</u>
<b>Total Revenue</b>	<b>914,056</b>	<b>926,595</b>
<b>EXPENSES</b>		
AmeriCorps	630,424	622,304
SeniorCorps	236,794	240,828
Learn and Serve America	<u>42,436</u>	<u>59,503</u>
Subtotal - Program Expenses	909,654	922,635
Pass-through Grants	163	2,781
Office of the Inspector General	<u>6,284</u>	<u>5,634</u>
<b>Total Expenses <i>(Note 11)</i></b>	<b>916,101</b>	<b>931,050</b>
<b>Net of Revenue Over Expenses</b>	<b><u>(2,045)</u></b>	<b><u>(4,455)</u></b>
<b>NET POSITION</b>		
Net of Revenue over Expenses	(2,045)	(4,455)
Increase/(Decrease) in Unexpended Appropriations, Net <i>(Note 13)</i>	<u>(59,581)</u>	<u>(43,536)</u>
Increase/(Decrease) in Net Position, Net	(61,626)	(47,991)
Net Position, Beginning Balance	<u>1,003,946</u>	<u>1,051,937</u>
<b>Net Position, Ending Balance <i>(Note 9)</i></b>	<b><u>\$ 942,320</u></b>	<b><u>\$ 1,003,946</u></b>

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

**Corporation for National and Community Service**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended September 30**

*(dollars in thousands)*

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>2008</b>	<b>2007</b>
Net of Revenue over Expenses	\$ (2,045)	\$ (4,455)
Adjustments Affecting Cash Flow:		
Appropriated Capital Used	(748,580)	(779,456)
Appropriations Received in Trust	(138,785)	(117,720)
Decrease/(Increase) in Accounts Receivable	631	(1,192)
Decrease/(Increase) in Interest Receivable	(697)	1,179
Decrease/(Increase) in Advances	2,587	(1,928)
Increase/(Decrease) in Accounts Payable and Other Liabilities	2,147	2,277
Increase/(Decrease) in FECA and Annual Leave Liabilities	(249)	(1,220)
Increase/(Decrease) in Capital Lease Liability	-	(77)
Increase/(Decrease) in Trust Liability	22,770	13,654
Increase/(Decrease) in Grants Payable	(10,349)	11,166
Amortization of Premium/Discount on Investments	(4,192)	(48,374)
Depreciation, Amortization, and Loss on Disposition of Assets	1,731	1,051
Total Adjustments	<u>(872,986)</u>	<u>(920,640)</u>
<b>Net Cash Provided/(Used) by Operating Activities</b>	<b><u>(875,031)</u></b>	<b><u>(925,095)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(2,667)	-
Sales of Securities	1,093,279	5,731,950
Purchase of Securities	<u>(1,106,881)</u>	<u>(5,701,817)</u>
<b>Net Cash Provided/(Used) in Investing Activities</b>	<b><u>(16,269)</u></b>	<b><u>30,133</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Appropriations Received, Net of Trust	871,558	884,547
Rescissions and Cancellations	<u>(43,774)</u>	<u>(30,907)</u>
<b>Net Cash Provided by Financing Activities</b>	<b><u>827,784</u></b>	<b><u>853,640</u></b>
<b>Net Increase/(Decrease) in Fund Balance with Treasury</b>	<b>(63,516)</b>	<b>(41,322)</b>
<b>Fund Balance with Treasury, Beginning</b>	<b><u>886,505</u></b>	<b><u>927,827</u></b>
<b>Fund Balance with Treasury, Ending</b>	<b><u>\$ 822,989</u></b>	<b><u>\$ 886,505</u></b>

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



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

*(dollars in thousands)*

<b>BUDGETARY RESOURCES</b>	<b>2008</b>	<b>2007</b>
Unobligated balance, brought forward, October 1	\$ 177,320	\$ 185,878
Recoveries of prior year unpaid obligations	<u>40,444</u>	<u>57,330</u>
	217,764	243,208
Budget authority:		
Appropriation	1,027,007	1,021,546
Spending authority from offsetting collections:		
Collected	9,070	7,302
Change in receivables from Federal sources	(491)	-
Change in unfilled customer orders:		
Advance received	374	-
Without advance from Federal sources	<u>65</u>	<u>-</u>
Total budget authority	1,036,025	1,028,848
Permanently not available	<u>(43,843)</u>	<u>(30,907)</u>
<b>Total budgetary resources</b>	<b><u>\$ 1,209,946</u></b>	<b><u>\$ 1,241,149</u></b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations incurred ( <i>Note 16</i> )	1,064,885	1,063,829
Unobligated balance:		
Apportioned	2,927	-
Unobligated balance not available	<u>142,134</u>	<u>177,320</u>
<b>Total status of budgetary resources</b>	<b><u>\$ 1,209,946</u></b>	<b><u>\$ 1,241,149</u></b>

*(Continued)*

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

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

*(dollars in thousands)*

*(Continued)*

	2008	2007
<b>CHANGE IN OBLIGATED BALANCE</b>		
Obligated balance, net:		
Unpaid obligations, brought forward, October 1	\$ 1,165,718	\$ 1,185,078
Uncollected customer payments from Federal sources, brought forward, October 1	<u>(1,694)</u>	<u>(3,455)</u>
Total unpaid obligated balance, net	1,164,024	1,181,623
Obligations incurred, net	1,064,885	1,063,829
Gross outlays	(1,039,557)	(1,025,858)
Recoveries of prior year unpaid obligations, actual	(40,444)	(57,330)
Change in uncollected customer payments from Federal sources	<u>427</u>	<u>1,760</u>
<b>Total unpaid obligated balance, net, end of period</b>	<b><u>1,149,335</u></b>	<b><u>1,164,024</u></b>
Obligated balance, net, end of period:		
Unpaid obligations	1,150,605	1,165,718
Uncollected customer payments from Federal sources	<u>(1,270)</u>	<u>(1,694)</u>
<b>Total unpaid obligated balance, net, end of period</b>	<b><u>1,149,335</u></b>	<b><u>1,164,024</u></b>
<b>NET OUTLAYS</b>		
Gross outlays	1,039,557	1,025,858
Offsetting collections	(9,444)	(9,062)
Distributed offsetting receipts	<u>(140,450)</u>	<u>(119,014)</u>
<b>Net outlays</b>	<b><u>\$ 889,663</u></b>	<b><u>\$ 897,782</u></b>

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

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The Corporation for National and Community Service (Corporation) was created by the National and Community Service Trust Act of 1993 (Public Law 103-82). The Corporation's mission is to improve lives, strengthen communities, and foster civic engagement through service and volunteering. To meet its mission, the Corporation provides grants and other assistance 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's major programs are:

**SENIOR CORPS.** The Senior Corps offers a network of programs that tap the rich experience, skills and talents of older citizens to meet community challenges. Senior Corps comprises the Retired and Senior Volunteer Program, the Foster Grandparent Program, and the Senior Companion Programs.

**AMERICORPS.** AmeriCorps provides opportunities for Americans to make an ongoing, intensive commitment to service through the following programs:

- *State, National, Tribes, and Territories*, (State/National) offers grants supporting a broad range of local service programs that engage thousands of Americans in intensive service to meet critical community needs.
- *Volunteers in Service to America* (VISTA) helps community organizations and public agencies create and expand programs that build capacity and ultimately bring low-income individuals and communities out of poverty.
- *National Civilian Community Corps* (NCCC) strengthens communities while developing leaders through direct, team-based national and community service.

**LEARN AND SERVE AMERICA.** Learn and Serve America supports programs in schools, colleges, and community-based organizations that link community service to educational objectives.

In addition, the Corporation administers the National Service Trust (the Trust), whose purpose is to provide education awards for volunteers under AmeriCorps' State, National, Tribes and Territories; NCCC; and VISTA programs.

#### B. Basis of Accounting and Presentation

The accompanying financial statements report the financial position, results of operations, cash flows, and budgetary resources of the Corporation, as required by the Government Corporation Control Act (31 USC 9106) and Executive Order 13331 ("National Community Service Programs").

The accompanying Consolidated Statements of Financial Position, Operations and Changes in Net Position, and Cash Flows have been prepared from the books and records of the Corporation 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 other assistance to eligible states, local governments, and not-for-profit organizations as well as education awards to eligible national service participants.

The accompanying Combined Statements of Budgetary Resources (SBR) have been prepared from the books and records of the Corporation in accordance with the form and content requirements pertaining to it in the Office of Management and Budget (OMB) Circular No. A-136, "Financial Reporting Requirements" and GAAP. GAAP, as it relates to the SBR, is prescribed by the Federal Accounting Standards Advisory Board, which is the official accounting standard-setting body for the Federal government.

The Corporation's accounting structure reflects both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the actual collection or payment of cash. Federal budgetary accounting recognizes the obligation of appropriations and other funds upon the establishment of a properly documented legal liability, which, in many cases, is different from the recording of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal controls over the use of Federal funds.

### **C. Budgets and Budgetary Accounting**

The activities of the Corporation are primarily funded through the annual Departments of Labor, Health and Human Services, Education and Related Agencies Appropriation Act. For the period covered by these statements, the Corporation was funded by the following trust and appropriated funds:

#### **Trust Funds**

- National Service Trust
- Gifts and Contributions

#### **Appropriated Funds**

- Domestic Volunteer Service Programs, Operating Expenses, a FY 2007 one-year fund
- National and Community Service Programs, Operating Expenses, a FY 2007 two-year fund
- Operating Expenses, a FY 2008 one-year fund (with the exception that funding for operation of the National Civilian Community Corps was available for two years)
- Salaries and Expenses, a one-year fund in both FY 2007 and 2008
- Office of Inspector General, a one-year fund in both FY 2007 and 2008
- VISTA Advance Payment Revolving Fund, a no-year fund.

The Vista Advance Payment Revolving Fund was established on February 15, 2007, by Public Law 110-5. It provides budgetary resources against which the Corporation advances funds for VISTA cost-share agreements. OMB did not establish the VISTA Advance Payment Revolving Fund as a revolving fund, but, as noted above, as a permanent, indefinite appropriated fund.

### **D. Fund Balance with Treasury**

Fund Balance with Treasury (FBWT) represents the Corporation's cash accounts with the Department of the Treasury (the Treasury). The Treasury processes cash receipts and disbursements on behalf of the Corporation and the Corporation's accounting records are reconciled with those of the Treasury on a regular basis. The Corporation's FBWT includes all of its appropriated and trust funds.

Funds maintained in the National Service Trust are restricted to specific purposes, such as paying service awards earned by eligible participants, 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 are restricted for particular uses, such as service projects.

#### **E. Investments and Related Receivables**

By law, the Corporation may invest the funds of the National Service Trust in interest-bearing Treasury securities guaranteed by the United States as to principal and interest. These Treasury securities are referred to as "market-based", since they mirror actual Treasury securities sold on the open market. They consist of Treasury notes, bonds, bills and one-day certificates.

Since they are expected to be held-to-maturity, the Corporation's investments are valued at cost and adjusted for the amortization of premiums and discounts. The premiums and discounts are recognized as adjustments to interest income, 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.

#### **F. Advances to Others**

The Corporation advances funds to non-federal entities, primarily in response to grantee drawdown requests, to facilitate their authorized service activities. The cash payments to grantees, in excess of amounts appropriately expended 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 total Corporation-funded amount of grant expenses properly incurred 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.

#### **G. 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. An allowance for doubtful accounts is established for reporting purposes based on past experience.

#### **H. Property and Equipment**

Effective July 1, 2007, the Corporation instituted a prospective increase in the capitalization threshold for capitalized property and equipment from \$10 thousand to \$50 thousand. Thus, all property and equipment received and accepted by the Corporation on or after July 1, 2007, is subject to the \$50 thousand capitalization threshold. Property and equipment with an estimated useful life that extends beyond the year of acquisition is capitalized at historical cost and is 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. The Corporation has entered into lease agreements for copy machines. These leases vary from 3 to 4 year terms and are deemed to be capital leases. The costs of the copiers have been recorded as property and equipment.

#### **I. Trust Service Award Liability**

The Trust Service Award Liability represents unpaid earned, and expected to be earned, education awards and eligible student loan 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.

#### **J. 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 grantee expenses, which are properly payable under the terms of grant agreements, as grants payable.

#### **K. 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 entities for goods and services received by the Corporation, but not paid for at the end of the fiscal year.

#### **L. Actuarial FECA Liability**

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees, NCCC and VISTA members 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 and members under FECA are determined and paid 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. The Corporation reimburses DOL for FECA claims out of current appropriations upon receipt of a bill from DOL.

#### **M. Other Liabilities**

Other liabilities include amounts owed but not paid at the end of the fiscal year for payroll and benefits and VISTA stipends. Also included as other liabilities is the amount of claims for benefits for Corporation employees under FECA that have been paid by DOL and billed to the Corporation but have not yet been reimbursed to DOL.

#### **N. 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 also expensed when used.

#### **O. Advances from Others**

Advances from others consist of advances from other Federal agencies and the public related to interagency and cost share agreements into which the Corporation entered to provide services.

#### **P. Net Position**

Net position is comprised of the Corporation's unexpended appropriations and its cumulative results of operations. Unexpended appropriations is the balance of appropriated authority granted to the Corporation against which no outlays have been made. Cumulative results of operations represent the net differences between revenues and expenses from the inception of the Corporation.

## **Q. Revenues**

### ***Appropriated Capital Used***

The Corporation recognizes its use of appropriated capital as revenue at the time it is expended to pay program or administrative expenses. Appropriations expended for property and equipment are recognized as used when the property is purchased. Appropriated capital not expended within five fiscal years after it became available for obligation is cancelled. Unpaid obligations recorded against cancelled appropriated capital are paid from currently available appropriated funds as payments become due. 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 semi-annually, 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 Corporation operations or service projects from individuals and organizations.

## **R. 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 7.0 percent of their basic pay. For those employees covered by FERS, the Corporation contributes 11.2 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 \$473 and \$506 thousand to the CSRS, and \$8.2 and \$8.1 million to FERS and TSP in fiscal years 2008 and 2007, respectively.

## **S. Income Taxes**

As a Federal entity, the Corporation is exempt from all income taxes imposed by any governing body, whether it be a Federal, State, commonwealth, local, or foreign government.

#### T. Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make certain estimates. These estimates affect the reported amounts of 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.

#### U. Reclassification

Certain prior year amounts have been reclassified to conform to current year presentation.

#### 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.
- **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 student loan interest forbearance payment. Trust Fund payments are made 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. The Trust also pays 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, 2008			
<i>(dollars in thousands)</i>			
Type	Unrestricted	Restricted	Total
Appropriated Funds	821,954	\$ -	\$ 821,954
Trust Funds		\$ 227	227
Gift Funds	-	808	808
<b>Total</b>	<b>\$ 821,954</b>	<b>\$ 1,035</b>	<b>\$ 822,989</b>

Fund Balance with Treasury as of September 30, 2007			
<i>(dollars in thousands)</i>			
Type	Unrestricted	Restricted	Total
Appropriated Funds	\$ 885,823	\$ -	\$ 885,823
Trust Funds	-	148	148
Gift Funds	-	534	534
<b>Total</b>	<b>\$ 885,823</b>	<b>\$ 682</b>	<b>\$ 886,505</b>



**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)		
	2008	2007
Investments, Carrying Value	\$ 479,634	\$ 461,842
Investment and Interest Receivable	4,246	3,549
<b>Total</b>	<b>\$ 483,880</b>	<b>\$ 465,391</b>

Amortized Cost and Fair Value of Investment Securities as of September 30, 2008 (dollars in thousands)				
Securities	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Fair Value
Notes	\$ 399,353	\$ 6,609	\$ -	\$ 405,962
Bills	80,281	108	-	80,389
Bonds	-	-	-	-
<b>Total</b>	<b>\$ 479,634</b>	<b>\$ 6,717</b>	<b>\$ -</b>	<b>\$ 486,351</b>

Amortized Cost and Fair Value of Investment Securities as of September 30, 2007 (dollars in thousands)				
Securities	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Fair Value
Notes	\$ 427,428	\$ 2,307	\$ -	\$ 429,735
Bills	34,414	1	-	34,415
Bonds	-	-	-	-
<b>Total</b>	<b>\$ 461,842</b>	<b>\$ 2,308</b>	<b>\$ -</b>	<b>\$ 464,150</b>

At September 30, 2008, the notes held at year-end had an interest rate range of 3.0% to 6.0% and an outstanding maturity period of approximately one day to five years. The bills held at year-end had an interest rate range of 2.99% to 4.79% and were all due to mature within 18 days. The par values of these bills range from \$1.0 million to \$20.0 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 in the Trust for use in the event that its estimates used to calculate obligational amounts for education awards prove to be too low. As of September 30, 2008, \$46.7 million of the Corporation's investment account has been set aside for this reserve.

**NOTE 3 – TRUST INVESTMENTS AND RELATED RECEIVABLES – CONTINUED**

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

Maturation of Securities Held as of September 30 (dollars in thousands)				
	2008		2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Held-to-Maturity Securities				
Due in 1 year or less	\$ 357,731	\$ 359,913	\$ 245,945	\$ 246,090
Due after 1 year up to 5 years	121,903	126,438	215,897	218,060
<b>Total</b>	<b>\$ 479,634</b>	<b>\$ 486,351</b>	<b>\$ 461,842</b>	<b>\$ 464,150</b>

**NOTE 4 – ACCOUNTS RECEIVABLE, NET**

Accounts Receivable as of September 30 (dollars in thousands)		
	2008	2007
Accounts receivable	\$ 2,925	\$ 3,726
Less: allowance for loss on receivables	309	479
<b>Accounts Receivable, Net</b>	<b>\$ 2,616</b>	<b>\$ 3,247</b>

**NOTE 5 – PROPERTY AND EQUIPMENT, NET**

General Property and Equipment as of September 30, 2008 (dollars in thousands)				
Major Class	Service Life (Years)	Cost	Less: Accumulated Depreciation	Net Book Value
Equipment	3 - 10	\$ 3,084	\$ 1,541	\$ 1,543
Capital leases	3 - 5	416	291	125
ADP software	2	8,774	7,399	1,375
<b>Total</b>		<b>\$ 12,274</b>	<b>\$ 9,231</b>	<b>\$ 3,043</b>

**NOTE 5 – PROPERTY AND EQUIPMENT, NET – CONTINUED**

General Property and Equipment as of September 30, 2007					
<i>(dollars in thousands)</i>					
Major Class	Service Life (Years)	Cost	Less:		Net Book Value
			Accumulated Depreciation		
Equipment	3 - 10	\$ 2,917	\$ 1,326		\$ 1,591
Capital leases	3 - 5	416	208		208
ADP software	2	6,274	5,966		308
<b>Total</b>		<b>\$ 9,607</b>	<b>\$ 7,500</b>		<b>\$ 2,107</b>

**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			
<i>(dollars in thousands)</i>			
	2008	2007	
Education awards	\$ 1,335,254	\$ 1,179,887	
Interest forbearance	42,707	37,264	
President's Freedom Scholarship Program	<u>22,527</u>	<u>22,527</u>	
Total estimated Service Award Liability	1,400,488	1,239,678	
Less: cumulative awards paid	1,097,121	959,081	
<b>Total</b>	<b>\$ 303,367</b>	<b>\$ 280,597</b>	

The net Service Award Liability as of September 30, 2008, increased by approximately \$22.8 million from the net Service Award Liability as of September 30, 2007. This change was largely due to new member enrollments and an increase in the number of members still serving during the year. Past Corporation appropriations made amounts from the Trust available for \$1,000 scholarships for high school students known as Presidential Freedom Scholarships. To fund each scholarship, a local community or corporate source matched the \$500 portion of the scholarship provided by the Corporation. The program was discontinued in fiscal 2007; however, because students have up to seven years to use the scholarship, some payments will continue to be made over the next several years.

**NOTE 7—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>									
2008					2007				
Fiscal Year	Facilities			Total	Facilities				Total
	Space	Vehicles	Other		Space	Vehicles	Other	Total	
2008	\$ —	\$ —	\$ —	-	8,155	581	124	-	8,860
2009	8,351	543	139	9,033	8,395	598	95	-	9,088
2010	8,602	562	122	9,286	8,642	615	89	-	9,346
2011	8,860	581	126	9,567	8,896	633	92	-	9,621
2012	9,125	602	122	9,849	9,158	652	96	-	9,906
2013	9,399	623	114	10,136	-	-	-	-	-
<b>Total</b>	<b>\$ 44,337</b>	<b>\$ 2,911</b>	<b>\$ 623</b>	<b>\$ 47,871</b>	<b>\$ 43,246</b>	<b>\$ 3,079</b>	<b>\$ 496</b>	<b>\$ -</b>	<b>46,821</b>

**NOTE 8 – ACTUARIAL FECA LIABILITY**

The Corporation’s actuarial liability for future workers’ compensation benefits under FECA was \$11,638 million and \$11.888 million as of September 30, 2008 and 2007, 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**

Net position consists of unexpended appropriations and cumulative results of operations. Component balances are separately maintained for the Gift Fund, Trust Fund and Appropriated Funds.

<b>Net Position by Fund Balance Components</b>				
<b>As of September 30, 2008</b>				
	<i>(dollars in thousands)</i>			
	Gift Fund	Trust Fund	Appropriated Funds	Total
Unexpended appropriations	\$ -	\$ -	\$ 769,016	\$ 769,016
Cumulative results of operations	801	180,771	(8,268)	173,304
<b>Total Net Position</b>	<b>\$ 801</b>	<b>\$ 180,771</b>	<b>\$ 760,748</b>	<b>\$ 942,320</b>

<b>Net Position by Fund Balance Components</b>				
<b>As of September 30, 2007</b>				
	<i>(dollars in thousands)</i>			
	Gift Fund	Trust Fund	Appropriated Funds	Total
Total unexpended appropriations	\$ -	\$ -	\$ 828,597	\$ 828,597
Cumulative results of operations	570	184,949	(10,170)	175,349
<b>Total Net Position</b>	<b>\$ 570</b>	<b>\$ 184,949</b>	<b>\$ 818,427</b>	<b>\$ 1,003,946</b>

**NOTE 10 - APPROPRIATIONS RECEIVED BY THE NATIONAL SERVICE TRUST**

For fiscal year 2008 the National Service Trust received \$122.530 million under the Consolidated Appropriations Act, 2008 (Public Law 110-161). For fiscal year 2007 the National Service Trust received \$117.720 million under the Revised Continuing Appropriations Resolution, 2007 (Public Law 110-5). The Acts also authorized the Corporation to transfer additional amounts from subtitle C program funds to the National Service Trust if necessary to support the activities of national service participants. The Corporation transferred \$16.246 million to the National Service Fund under this provision in fiscal 2008, bringing total appropriations received by the Trust in 2008 to \$138.785 million; no funds were transferred in fiscal 2007.

**NOTE 11 - EXPENSES**

Using an appropriate cost accounting methodology, the Corporation's expenses have been allocated among its major programs, at the sub-program level. Costs for each sub-program are reported on separately:

**AmeriCorps** includes the *State, National, Tribes, and 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.

**Learn and Serve America** includes grant expenses, as well as direct and allocated personnel and administrative costs, 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**

*National Service Award Expense* – 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 President's Freedom Scholarship Program (see Note 12). No indirect costs have been allocated to the National Service Award expense component.

*Pass-through Grants* – 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 pass-through grants.

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

**NOTE 11 – EXPENSES – CONTINUED**

<b>Components of Grant Funds Expended for the years ended September 30</b>		
<i>(dollars in thousands)</i>		
	2008	2007
Domestic Volunteer Service Act Programs	\$ 248,385	\$ 249,634
National and Community Service Act Programs	316,158	347,085
Pass-through Grants	163	2,781
<b>Total Grant Funds Expended</b>	<b><u>\$ 564,706</u></b>	<b><u>\$ 599,500</u></b>

<b>Expenses by Major Responsibility Segment for the years ended September 30</b>		
<i>(dollars in thousands)</i>		
	2008	2007
<b>AmeriCorps</b>		
State, National, Tribes & Territories (State/Nation	\$ 459,584	\$ 461,509
National Civilian Community Corps (NCCC)	39,334	37,188
Volunteers In Service To America (VISTA)	<u>131,506</u>	<u>123,607</u>
Subtotal	\$ 630,424	\$ 622,304
<b>National Senior Service Corps</b>		
Retired and Senior Volunteer Program (RSVP)	66,284	66,286
Foster Grandparent Program (FGP)	119,396	123,293
Senior Companion Program (SCP)	<u>51,114</u>	<u>\$ 51,249</u>
Subtotal	236,794	240,828
Learn and Serve America	42,436	59,503
Pass-through Grants	163	2,781
Office of Inspector General (OIG)	6,284	5,634
<b>Total Expenses</b>	<b><u>\$ 916,101</u></b>	<b><u>\$ 931,050</u></b>

**Expenses by Type and Subprogram for the year ended September 30, 2008**

*(dollars in thousands)*

Type	AmeriCorps			National Senior Service Corps			Learn & Serve	Pass-through		Total
	State/National	NCCC	VISTA	RSVP	FGP	SCP		Grants	OIG	
<b>Grant and Related Expense</b>										
Grant funds expended	\$ 278,649	\$ -	\$ 29,062	\$ 60,763	\$ 111,231	\$ 47,329	\$ 37,509	\$ 163	\$ -	\$ 564,706
VISTA & NCCC stipends & benefits	57	5,645	53,097	-	-	-	-	-	-	58,799
Service award expense	141,623	3,851	15,316	-	-	-	-	-	-	160,790
<b>Total Grant and Related Expense</b>	<b>420,329</b>	<b>9,496</b>	<b>97,475</b>	<b>60,763</b>	<b>111,231</b>	<b>47,329</b>	<b>37,509</b>	<b>163</b>	<b>-</b>	<b>784,295</b>
<b>Administrative Expense</b>										
Federal employee salaries & benefits	26,339	13,637	21,994	3,104	5,677	2,415	3,423	-	3,632	80,221
Travel & transportation	967	3,734	4,692	113	201	86	109	-	137	10,039
Rent, communications, & utilities	3,716	2,459	888	453	829	353	263	-	360	9,321
Program analysis & evaluation	1,049	954	954	307	553	237	715	-	-	4,769
Printing & reproduction	57	83	77	43	31	13	5	-	-	309
Other services and expenses	5,589	7,121	4,892	1,311	523	532	292	-	2,069	22,329
Supplies & materials	618	1,838	362	63	117	50	41	-	86	3,175
Depreciation, amortization, loss on disposition of asset	970	13	181	134	246	104	83	-	-	1,731
Bad debt	(50)	(1)	(9)	(7)	(12)	(5)	(4)	-	-	(88)
<b>Total Administrative Expense</b>	<b>39,255</b>	<b>29,838</b>	<b>34,031</b>	<b>5,521</b>	<b>8,165</b>	<b>3,785</b>	<b>4,927</b>	<b>-</b>	<b>6,284</b>	<b>131,806</b>
<b>Total Expenses by Type</b>	<b>\$ 459,584</b>	<b>\$ 39,334</b>	<b>\$ 131,506</b>	<b>\$ 66,284</b>	<b>\$ 119,396</b>	<b>\$ 51,114</b>	<b>\$ 42,436</b>	<b>\$ 163</b>	<b>\$ 6,284</b>	<b>\$ 916,101</b>

**Expenses by Type and Subprogram for the year ended September 30, 2007**

*(dollars in thousands)*

Type	AmeriCorps			National Senior Service Corps			Learn & Serve	Pass-through		Total
	State/National	NCCC	VISTA	RSVP	FGP	SCP		Grants	OIG	
<b>Grant and Related Expense</b>										
Grant funds expended	\$ 295,095	\$ -	\$ 27,268	\$ 60,933	\$ 114,075	\$ 47,358	\$ 51,990	\$ 2,781	\$ -	\$ 599,500
VISTA & NCCC stipends & benefits	-	10,201	57,283	-	-	-	-	-	-	67,484
Service award expense	127,982	3,576	14,130	-	-	-	1,627	-	-	147,315
<b>Total Grant and Related Expense</b>	<b>423,077</b>	<b>13,777</b>	<b>98,681</b>	<b>60,933</b>	<b>114,075</b>	<b>47,358</b>	<b>53,617</b>	<b>2,781</b>	<b>-</b>	<b>814,299</b>
<b>Administrative Expense</b>										
Federal employee salaries & benefits	22,459	9,823	9,949	2,962	5,567	2,303	3,667	-	2,999	59,729
Travel & transportation	1,343	4,140	4,475	161	289	123	180	-	124	10,835
Rent, communications, & utilities	4,202	2,879	967	510	954	396	405	-	391	10,704
Program analysis & evaluation	853	775	775	245	456	190	581	-	-	3,875
Printing & reproduction	94	112	101	11	19	8	9	-	1	355
Other services and expenses	8,477	4,687	8,191	1,299	1,623	744	913	-	2,074	28,008
Supplies & materials	307	983	349	69	130	53	48	-	45	1,984
Depreciation, amortization, loss on disposition of asset	581	10	99	80	150	62	69	-	-	1,051
Bad debt	116	2	20	16	30	12	14	-	-	210
<b>Total Administrative Expense</b>	<b>38,432</b>	<b>23,411</b>	<b>24,926</b>	<b>5,353</b>	<b>9,218</b>	<b>3,891</b>	<b>5,886</b>	<b>-</b>	<b>5,634</b>	<b>116,751</b>
<b>Total Expenses by Type</b>	<b>\$ 461,509</b>	<b>\$ 37,188</b>	<b>\$ 123,607</b>	<b>\$ 66,286</b>	<b>\$ 123,293</b>	<b>\$ 51,249</b>	<b>\$ 59,503</b>	<b>\$ 2,781</b>	<b>\$ 5,634</b>	<b>\$ 931,050</b>



**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, 2008 and 2007 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>		
	2008	2007
Estimated education awards	\$ 155,347	\$ 140,902
Estimated interest forbearance	5,443	4,786
President's Freedom Scholarship Program	-	1,627
<b>National Service Award Expense</b>	<b>\$ 160,790</b>	<b>\$ 147,315</b>

**NOTE 13 – CHANGE IN UNEXPENDED APPROPRIATIONS, NET**

Unexpended Appropriations, Net as of September 30		
<i>(dollars in thousands)</i>		
	2008	2007
Unexpended Appropriations, Beginning Balance	\$ 828,597	\$ 872,133
<b>Increases:</b>		
Appropriations Received, Net of Trust	871,558	884,547
<b>Decreases:</b>		
Appropriated Capital Used	(748,580)	(779,456)
Appropriations Transferred to Trust (net of rescissions)	(122,539)	(117,720)
Program Funds Transferred to Trust	(16,246)	-
Rescissions and Cancellations	<u>(43,774)</u>	<u>(30,907)</u>
Total Decreases	(931,139)	(928,083)
<b>Change in Unexpended Appropriations</b>	<b>(59,581)</b>	<b>(43,536)</b>
<b>Unexpended Appropriations, Ending Balance</b>	<b>\$ 769,016</b>	<b>\$ 828,597</b>

**NOTE 14 - 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.

Certain legal matters to which the Corporation is 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 Treasury Judgment Fund (TJF). Although the ultimate disposition of any potential TJF 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.

**NOTE 15 - UNDELIVERED ORDERS AT FISCAL YEAR-END**

The Corporation's undelivered orders at September 30, 2008 and 2007 were \$804,283 thousand and \$837,042 thousand, respectively.

**NOTE 16 - APPORTIONMENT CATEGORIES OF INCURRED OBLIGATIONS**

An apportionment is a distribution by OMB of amounts available for obligation. OMB apportions Corporation funds on a quarterly basis. Obligations incurred during fiscals 2008 and 2007 were:

Consolidated Obligations Incurred				
<i>(dollars in thousands)</i>				
Fiscal Year	Direct	Reimbursable	Total	
Fiscal 2008	\$ 1,057,252	\$ 7,633	\$ 1,064,885	
Fiscal 2007	\$ 1,059,318	\$ 4,511	\$ 1,063,829	

**Independent Auditor's Report on Compliance and Other Matters**

To the Inspector General  
Corporation for National and Community Service

We have audited the financial statements of the Corporation for National and Community Service (Corporation) as of and for the year ended September 30, 2008, and have issued our report thereon dated November 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The management of the Corporation is responsible for complying with laws and regulations applicable to the Corporation. As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatements, we performed tests of the Corporation's compliance with certain provisions of laws and regulations, non-compliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 07-04, as amended. We limited our tests of compliance to those provisions and we did not test compliance with all laws and regulations applicable to the Corporation. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests of compliance with laws and regulations described in the preceding paragraph disclosed no instances of reportable noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin 07-04, as amended.

\*\*\*\*\*

This report is intended solely for the information and use of the management of the Corporation, the Office of Inspector General, GAO, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

*Clifton Gunderson LLP*

Calverton, Maryland  
November 14, 2008

## Independent Auditor's Report on Internal Control

To the Inspector General of the  
Corporation for National and Community Service

We have audited the financial statements of the Corporation for National and Community Service (Corporation) as of and for the year ended September 30, 2008, and have issued our report thereon dated November 14, 2008. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audit, we considered the Corporation's internal control over financial reporting by obtaining an understanding of relevant internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and to comply with OMB Bulletin No. 07-04, as amended, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act* (FMFIA) (31 U.S.C. 3512), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider collectively to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or reliably report financial data in accordance with generally accepted accounting principles such that, there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we do not believe that the significant deficiency described below is a material weakness.

## **Significant Deficiency**

### **CONTINUITY OF OPERATIONS**

Losing the capability to process and retrieve information maintained on CNCS's computer systems can significantly impact CNCS's ability to initiate, authorize, record, process, or report reliable financial data. The purpose of service continuity controls is to ensure that, when unexpected events occur, critical operations continue without interruption or are promptly resumed. To achieve this objective CNCS should have (1) procedures in place to minimize the risk of unplanned interruptions and (2) a plan to recover critical operations should interruptions occur. These plans should consider activities performed at CNCS's general support facilities, as well as the activities performed by users of specific applications. To determine whether the disaster recovery plans will work as intended, CNCS should establish and periodically test the capability to perform its functions in disaster simulation exercises. The following weaknesses noted below describe deficiencies in business continuity controls at CNCS.

#### **1. Application Development and Change Control:**

Significant interface interoperability and unavailability issues in FY 2008 impacted the Corporation's ability to operate. Federal Information Processing Standards Publication 199, *Standards for Security Categorization of Federal Information and Information Systems*, states that a loss of *availability* is the disruption of access to or use of information or an information system and defines security categories for information systems based on potential impact on organizations or individuals should there be a breach of security – that is, a loss of confidentiality, integrity (including authenticity and non-repudiation), or availability. By authorizing an information system for operation, an organizational official accepts *responsibility* for the security of the system and is *accountable* for any adverse impacts that may occur if the system is breached thereby compromising the confidentiality, integrity, or availability of the information being processed, stored, or transmitted. The events, noted below, led to the system outages, disrupted system availability and created an unstable computer operating environment. In order to stabilize the computer environment, management limited system availability to its customers and employees with prescheduled blackouts to its mission critical applications. These issues resulted in major system outages totaling over 20 days, within a six-month time-span beginning February 2, 2008. The financially significant systems impacted included the general ledger system, the central database for National Service Trust and participants, and the grants management system.

In January 2008, there were two major contracted system projects implemented within days of each other. Both projects were being managed by separate areas within the Corporation; the Project Management Office (PMO) managed one project and the Office of the Chief Financial Officer (CFO) managed the other. The PMO managed the implementation of the AmeriCorps Portal (a self-service, on-line AmeriCorps program support system) and the CFO managed the implementation of the general ledger system upgrade. These projects relied heavily on the functions, support and testing of Information Technology (IT) systems and components. Concurrent migration of both projects did not allow adequate time to

perform testing to identify potential load and interface issues. There was also insufficient communication among key stakeholders (PMO, Office of Information Technology (OIT), and the CFO) during the phases of implementation for the AmeriCorps Portal.

During this same period, OIT was heavily involved in addressing infrastructure support shortfalls resulting from the failed contract due to the bankruptcy of its infrastructure support contractor. There were two-thirds fewer resources available in OIT to support day-to-day operations and functions. This left very limited resources available to focus coordination and testing efforts for the system projects to ensure they did not result in any system degradation and unavailability issues. Lack of resources, communication, and the timing of the migration to the upgraded general ledger system and Portal implementation resulted in significant problems including lack of interface interoperability, unavailability and delays in processing.

CNCS had a SWAT team monitoring the system and is now in the process of developing and implementing remediation controls. CNCS upgraded the database to be compatible with the version used by the third party processor and ensure a more stable operating environment. CNCS also had an independent consultant review their controls and make recommendations to correct the weaknesses noted.

**Recommendations:** We recommend that the Corporation do the following:

1. Management should establish a central mechanism for coordinating and managing resources required for projects that rely on IT resources.
2. Management should consider the financial and operational impact when planning multiple system projects occurring concurrently (i.e. staffing, system load, system testing and system availability).
3. Management should effectively communicate with key stakeholders who are responsible for supporting systems to be sure that there is adequate time and resources to test.
4. For all system projects, Management should follow the documented Corporation System Development Life Cycle process.

## **2. Continuity of Operations Plan and Testing:**

Losing the capability to process and retrieve information maintained electronically can significantly affect CNCS's ability to accomplish its mission. OMB Circular A-130 Appendix III, *Security of Federal Automated Information Resources*, states that: "Experience has shown that recovery plans that are periodically tested are substantially more viable than those that are not. Moreover, untested plans may actually create a false sense of security." CNCS participated in the Federal Emergency Management Agency (FEMA)'s exercise to test the continuity of the executive branch through testing the continuation of National Essential Functions (NEFs). However, the test was not designed to test the preparedness of CNCS to operate in the case of a CNCS specific disruption. CNCS' COOP also requires an annual COOP exercise to train and test personnel, plans and capabilities. For this reason, CNCS should follow best Federal business practices and its own procedures to minimize the risk of unplanned interruptions. CNCS should also schedule the annual testing of its plan to recover critical operations should interruptions occur. These plans should consider the activities performed at general support facilities, such as data processing centers and telecommunications facilities, as well as the activities performed by users of specific

applications. To determine whether recovery plans will work as intended, they should be tested periodically in disaster simulation exercises. The following matters were noted during our audit:

- The Corporation's Continuity of Operation Plan (COOP), was not maintained in accordance with the Corporation's policies and procedures (ISP-P-11-0705). Below are issues we noted:
  - The COOP is not updated annually in accordance with the Corporation policy. The last COOP update was in July 2006.
  - The COOP is not updated with test results or lessons learned from test exercises.
- The Corporation has documented its Continuity of Operations Plan (COOP). However, the plan has not been tested to execute the scripted responses to emergencies (Levels 1 through 4) to validate the effectiveness of the COOP and the preparedness of the Corporation to carry out its mission in the case of an emergency.
- In place of testing the COOP, the Corporation placed reliance on the evaluation of its COOP as part of the Federal Emergency Management Agency (FEMA) initiated Eagle Horizon exercise, dated May 8, 2008. However, the evaluation conducted by a third party Federal agency, did not include tests of Levels of Emergency (1 through 4) identified in the COOP. The result of the Eagle Horizon exercise was not used to update the COOP.
- The Corporation determined that the most critical function to be tested was the Corporation's ability to communicate through BlackBerry devices in the event of a disaster. However, no business impact analysis was performed in support of this decision, and the COOP was not updated to include this level of testing.
- In lieu of testing the documented COOP, the Corporation performed two exercises that were specific to the BlackBerry devices. The two exercises tested the Corporation's ability to communicate with employees using this device during a disaster. The Corporation did not document test results or lessons learned from the tests performed. Neither of the BlackBerry exercise responses were scripted within the current COOP. In addition, these exercises are not consistent with the Levels of Emergency (1 through 4).

***Recommendations:***

1. Management should maintain the COOP and ensure that it is updated at least annually, or if major changes occur.
2. Management should perform testing in accordance with the documented Corporation COOP and Federal standards.
3. Management should document test results or lessons learned from the tests performed in order to identify gaps to be used for future updates to the plan.
4. Management should update its business impact analysis to include the communications through BlackBerry devices.
5. Management should add the results of the BlackBerry exercise to the COOP.

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In addition, we noted other matters involving internal control and its operation that we will report to the Corporation management in a separate management letter.

**Agency Comments and Our Evaluation**

In commenting on the draft of this report (attached exhibit), Corporation management did not concur with the facts and conclusions in our report, but stated that our recommendations “are either in line with what we already have in place or can be readily adopted through improved documentation”. We did not perform audit procedures on the Corporation’s written response to the significant deficiencies and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of the Corporation, the Office of Inspector General, OMB, the Government Accountability Office and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

*Clifton Henderson LLP*

Calverton, Maryland  
November 14, 2008



**APPENDIX**

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**CORPORATION RESPONSE TO REPORT**



## MEMORANDUM

**Date:** November 12, 2008

**To:** Gerald Walpin, Inspector General

**From:** David Eisner, Chief Executive Officer 

**Subject:** Draft report on the results of OIG's audit of the Corporation's Fiscal Year 2008 Financial Statements

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Thank you for the opportunity to comment on the draft report on the audit of the Corporation's fiscal 2008 financial statements. The Corporation received an unqualified opinion for the ninth year in a row and had no reported instance of noncompliance with laws and regulations. These results reflect the Corporation's commitment to sound financial management and the hard work by staff over the past year to improve operations.

Beginning in January 2008, we experienced significant challenges in our information systems when we upgraded our agency's core financial system and concurrently rolled out an improved version of the AmeriCorps member portal. We took immediate action to identify and correct the source of the problem and instituted additional short- and long-term remedial actions. At all times, our general ledger system continued to process required transactions, as evidenced by transaction logs for fiscal 2008, and there is no record of any financial adjustments necessitated by the system challenges.

We note that the draft report contains numerous significant inaccuracies and omissions relating to testing that was performed, organizational structure, applicable continuity of operations procedures, and disaster recovery protocols. Our staff will communicate separately with your office on these concerns to inform your audit work moving forward. Nevertheless, we are heartened that the auditors' recommendations, relating to our information systems and continuity of operations, are either in line with what we have already put in place or can be readily adopted through improved documentation.

