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

**Audit of the  
Corporation for National and Community Service's  
Fiscal Year 1998 Financial Statements**

**Report Number 99-12  
March 24, 1999**

*Prepared by:*  
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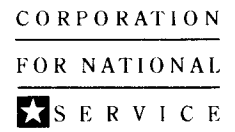
Under Corporation for National and Community Service  
Contract # 98-743-3002  
Task #4

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**This report was issued to Corporation management on April 9, 1999. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than October 6, 1999, and complete its corrective actions by April 9, 2000. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.**

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**Audit of the Corporation for National and Community Service's  
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As required by the Government Corporation Control Act (31 U.S.C. 9101 *et seq.*), the Office of the Inspector General engaged KPMG to audit the fiscal year 1998 financial statements of the Corporation for National and Community Service. The audit, conducted in accordance with government auditing standards, included extensive audit procedures to overcome known material weaknesses and other pervasive systems deficiencies. As a result, KPMG was able to issue an unqualified opinion on the Corporation's Statement of Financial Position at September 30, 1998. However, due to deficiencies in the Corporation's financial systems and management's inability to explain certain adjustments made to the accounting records, KPMG was unable to render an opinion on the Statement of Operations and Changes in Net Position, and the Statement of Cash Flows for the fiscal year.

Although the Corporation has made some progress toward producing auditable financial reports, serious financial management issues remain. KPMG reports that eight areas of the Corporation's financial operations are materially weak: financial management and reporting, the Corporation's general control environment,<sup>1</sup> grants management, financial systems, the National Service Trust, fund balance with Treasury, net position reporting,<sup>2</sup> and the recording and reporting of revenue from reimbursable agreements. Systems, internal controls, record keeping and accounting procedures in these areas were first reported as material weaknesses in 1996.

As described in KPMG's report on Internal Control Over Financial Reporting, the financial management weaknesses reported herein resulted in the need to record material adjustments, ranging from \$1.4 million to \$106 million, to the financial statements. Certain of the adjustments also impact the Corporation's budgetary accounts and reports; for example, an adjustment of \$80 million to unexpended appropriations and a \$106 million reduction of the service award liability in the National Service Trust. The Corporation's initial calculation of the service award liability was made on a very conservative basis, assuming that all members enrolled as of September 30, 1998, had earned awards, and that all awards earned would ultimately be used. Historical experience now

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<sup>1</sup> Control environment factors include commitment to competence, management philosophy and operating style, organizational structure, and assignment of authority and responsibility. The control environment sets the tone of an organization, influences the level of control consciousness, and provides the discipline and structure of an organization.

<sup>2</sup> The report cites the Corporation's failure to properly adjust obligations for expired grants and other expired obligations as well as errors in reporting results of operations. Material adjustments were required to correct the financial statements for both of these conditions.

indicates that not all member slots result in earned awards, and only about 80 percent of earned awards will be used. Calculation of the service award liability on a more realistic basis will provide the Corporation with a better indication of the available Trust Fund surplus which should be considered in the annual budget process.

The report also repeats two areas of non-compliance with laws and regulations: the Corporation's failure to establish an effective system to assess its internal controls and report as required by the Government Corporation Control Act and the Corporation's substantial non-compliance with Federal financial systems requirements.

We participated in the planning of the work and evaluated the nature, timing and extent of the procedures performed, monitored progress throughout the audit, and reviewed the auditors' report and the work papers supporting its conclusions, with which we concur. We provided the Corporation with a copy of the report for review and comment. The Corporation's response is included as Appendix A.

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

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## Independent Auditors' Report

Inspector General  
Corporation for National and Community Service:

We have audited the accompanying fiscal year 1998 financial statements of the Corporation for National and Community Service. Our report expresses an unqualified opinion on the Corporation's Statement of Financial Position as of September 30, 1998, and a disclaimer of opinion on the related Statements of Operations and Changes in Net Position and Cash Flows for the year then ended.

In connection with our audit, we considered the Corporation's internal control over financial reporting and tested the Corporation's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its fiscal year 1998 financial statements.

As a result of our consideration of internal control over financial reporting, we identified the following conditions which we consider to be material weaknesses:

- **Financial Management and Reporting** - The Corporation does not have a Chief Financial Officer or other strong financial management in place to provide the leadership and oversight necessary for effective quality control of accounting and financial reporting activities.
- **General Control Environment** - The Corporation's general control environment is weak and is not conducive to ensuring that an effective system of internal control is maintained to safeguard assets, produce reliable financial reports, and comply with applicable laws and regulations.
- **Grants Management** - Adequate procedures for monitoring grantees' financial activity and compliance with laws and regulations are not in place. In addition, a reliable method for estimating expenses incurred by grantees, and related amounts advanced or payable to grantees, has not been established.
- **Financial Systems** - The Corporation's general ledger system is not adequate to support its financial information needs, including funds control, or to facilitate the preparation of annual financial statements.
- **National Service Trust** - Procedures to obtain and reconcile membership roster information prepared by program sites to corresponding information on file at the Corporation are ineffective. This information is necessary to validate the accuracy and completeness of the data supporting the calculation of the service award liability.
- **Fund Balance with Treasury** - The reconciliation of Corporation records to those maintained by the U.S. Department of the Treasury is not performed in an effective manner and does not adequately support the separate balances related to Appropriations, Gift, and Trust accounts.



- ***Net Position*** - Adequate procedures for ensuring accurate and timely deobligation of expired grant awards and other obligations are not in place, and changes in the components of net position are not reviewed for propriety on a timely basis. In addition, controls have not been established to ensure compliance with appropriation laws.
- ***Revenue from Reimbursable Agreements*** - Procedures are not in place to ensure revenue related to offsetting collections from reimbursable agreements is fairly stated and properly recorded in the general ledger accounts.

We also identified the following reportable condition, which we do not consider to be a material weakness:

- ***Payment of Member Allowances*** - Procedures established to verify that AmeriCorps\*VISTA and AmeriCorps\*NCCC members are accurately paid are not functioning effectively.

Our tests of the Corporation's compliance with certain provisions of applicable laws and regulations disclosed the following matters:

- ***Federal Managers' Financial Integrity Act*** - The Corporation is not compliant with the provisions of the Government Corporation Control Act, which require it to make an annual assessment and report on the effectiveness of its internal control, in a manner consistent with the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA).
- ***Federal Financial Systems*** - The Corporation is in substantial noncompliance with the provisions of OMB Circular A-127, *Federal Financial Systems*, which requires Federal entities to establish and maintain a single, integrated financial management system to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information for decision makers and the public.
- ***Availability of Funds*** - Compliance related to the use of funds only during periods of availability is uncertain due to apparent conflicts between the Corporation's enabling legislation and subsequent appropriation laws.

The results of our audit, our consideration of internal control over financial reporting, and our tests of the Corporation's compliance with certain provisions of applicable laws and regulations are presented in more detail in the remainder of this report.

## **Report on the Financial Statements**

We have audited the accompanying Statement of Financial Position of the Corporation for National and Community Service as of September 30, 1998, and the related Statement of Operations and Changes in Net Position and Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial 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 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 audit provides a reasonable basis for our opinion on the Statement of Financial Position.

We qualified our opinion on the Corporation's September 30, 1997, Statement of Financial Position because management could not provide sufficient evidence to support the recorded balances of grant advances, grants payable, or the components of its net position. Corporation management was able to provide sufficient evidence to support the recorded balances of grant advances, grants payable, and the component balances of its net position as of September 30, 1998, and to make appropriate adjustments to the Statement of Operations for grant expenses. However, other adjustments that would have affected the beginning balances of the components of net position were not determinable.

Additionally, the Corporation's financial system is inadequate to support reported balances of fiscal year 1998 operating revenues and expenses, as evidenced by the following:

- certain accounts required reconstruction subsequent to September 30, 1998, and substantial adjustments related to the classification of transactions were made to the reported account balances. Present management was unable to furnish us with knowledgeable representation of facts and circumstances giving rise to the classification and nature of the adjustments made to the accounting records which enter into the determination of fiscal year 1998 results of operations and cash flows; and
- due to the nature of the financial systems material weaknesses reported in our Report on Internal Control Over Financial Reporting, we were unable to satisfy ourselves that all revenue and expense transactions were recorded and summarized properly for financial statement purposes.

It was impracticable to extend our audit procedures sufficiently to determine the extent to which these matters affected the fiscal year 1998 results of operations and cash flows, and accordingly the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Corporation's Statements of Operations and Changes in Net Position and Cash Flows for the year ended September 30, 1998.

In our opinion, the Statement of Financial Position referred to above, presents fairly, in all material respects, the financial position of the Corporation for National and Community Service at September 30, 1998, in conformity with generally accepted accounting principles.

### **Report on Internal Control Over Financial Reporting**

The management of the Corporation is responsible for establishing and maintaining internal control over financial reporting. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control over financial reporting are to provide management with reasonable, but not absolute, assurance that:

- transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations and government-wide policies identified by the Office of Management and Budget

(OMB) as applicable to the Corporation, that could have a direct and material effect on the financial statements;

- assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and
- transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal control, fraud may nevertheless occur and not be detected. Also, projection of an evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the Corporation's internal control over financial reporting by obtaining an understanding of the Corporation's internal controls, determined whether these internal controls have 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 not to provide assurance on internal control over financial reporting. Accordingly, we do not express such an opinion.

Additionally, an audit of financial statements conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* is not designed to detect whether the Corporation's financial management systems are Year 2000 compliant. Further, we have no responsibility with regard to the Corporation's efforts to make its systems, or any other systems, such as those of the Corporation's vendors, service providers, or any other third parties Year 2000 compliant, or provide assurance on whether the Corporation has addressed or will be able to address all of the affected systems on a timely basis. These are responsibilities of the Corporation's management.

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 and, accordingly, would not necessarily disclose all reportable conditions that are material weaknesses. Reportable conditions are matters coming to our attention that represent significant deficiencies in the design or operation of internal control that could adversely affect the Corporation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Material weaknesses are reportable 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, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted certain matters, described below, involving internal control over financial reporting that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

We believe the reportable conditions identified as items A through H below are material weaknesses. These conditions were first identified and previously reported as material weaknesses in OIG Audit Report 96-38, *Report on the Results of the Auditability Study*, issued in March 1996, and other OIG reports. Item I, payment of member allowances, was also previously reported as a material weakness. It is now classified as a non-material reportable condition. All of these conditions were considered in determining the nature,



timing, and extent of audit procedures to be performed in our audit of the Corporation's 1998 financial statements.

### ***A. Financial Management and Reporting***

The Corporation does not have a Chief Financial Officer or other strong financial management in place to provide the leadership and oversight necessary for effective quality control of accounting and financial reporting activities. The current Chief Operating Officer has assumed the additional responsibilities of the vacant CFO position. Due to the critical financial management issues facing the Corporation and the attendant pressure to correct a multitude of reported material weaknesses, a full time CFO is essential to ensure that appropriate corrective actions are taken and financial management is improved. The appointment of a knowledgeable CFO will also allow the COO to focus her full attention on the operational demands requisite in managing a growing national service program.

Additionally, the Corporation's Accounting Department is operating with less than optimal resources, both in terms of available staff and experience levels. Actions taken during 1998 to shore up its accounting staff have not achieved the desired results and quality control in all areas has continued to suffer. The identification and assignment of competent financial managers, with effective supervisory skills, to those areas they are best qualified to handle is critical to the ability of the Corporation to achieve its financial management goals, including those set forth in its Action Plan submitted to Congress.<sup>1</sup>

Further, the Corporation needs to critically assess the performance of the accounting firm with which it has contracted to provide operational and system support for its financial reporting process. The prevalence of file maintenance, data entry, computation and compilation errors noted throughout our audit indicates a lack of knowledge and inattention to detail which the Corporation can not afford. These errors were not detected and corrected by contracted or regular employees or their supervisors until discovered during the audit or as a consequence of the manual preparation of year-end financial statements. Our observations also indicate that oversight of the contractor's day-to-day performance is inadequate. Responsibility for ensuring the financial statements and related disclosures, supporting schedules, and account analyses are complete, accurate, and fairly presented has not been clearly assigned to, or assumed by, anyone at the Corporation.

These financial management weaknesses resulted in the need to record material adjustments approximating \$4.6 million for fund balance with Treasury, \$27.2 million for grant advances, \$1.5 million for grants payable, \$80 million for unexpended appropriations, \$80 million for cumulative results of operations, \$7.2 million for appropriated capital used, \$106 million for the service award liability, and \$1.4 million for other liabilities, to correct omissions and accounting and mathematical errors made in preparing the Corporation's 1998 financial statements. Many of these adjustments required several attempts by accounting personnel to arrive at the proper correcting entries.

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<sup>1</sup> The House of Representatives Conference Committee Report accompanying HR 105-769 required that the Corporation submit to the House and Senate Committees on Appropriation a detailed Plan for the expenditure of certain funds and provide Plan updates every 60 days on the use of the funds. The Corporation's OIG is to independently review and comment upon the Plan and each update within 30 days of their submission to the Congress. On December 21, 1998, the Corporation submitted to the Congress its "Action Plan," in response to the Conferees' requirements. On January 13, 1999, OIG issued its analysis of the December 21<sup>st</sup> Action Plan (OIG Report Number 99-17).

Moreover, the fair presentation of financial statements in accordance with generally accepted accounting principles includes not only the reporting of materially correct account balances, but also the presentation of those balances in a reasonably classified and summarized (neither too detailed or too condensed) manner, so that the financial statements are informative of matters that may affect their use, understanding, and interpretation. The Corporation's financial statements do not currently provide information related to its many service programs, the administrative costs of those programs, or the separate operations of the National Service Trust.

To improve its financial management and reporting processes, we recommend the Corporation:

1. Identify a qualified candidate to assume the duties of CFO and consider the need for a competent deputy CFO.
2. Evaluate the performance of current financial managers and other accounting staff to ensure that assignment of responsibilities is clear, complete and appropriate considering the staff's experience and capabilities, and that incompatible duties are appropriately segregated.
3. Develop, document, and implement formal policies and procedures to ensure the Corporation's financial statements, including the related financial statement disclosures, are prepared timely and accurately, in accordance with the provisions of the Government Corporation Control Act.
4. Establish formal procedures for the review of all financial reports (budgetary and financial accounting) by knowledgeable financial managers prior to their submission to senior management.
5. Require the completion of a financial disclosure checklist and the documentation of senior management review and approval of the financial statements and related support, prior to issuance.
6. Provide personnel responsible for preparation and review of the financial statements adequate training on current accounting and reporting requirements and hold them accountable for timely and accurate performance of their financial and reporting job responsibilities.
7. Assign responsibility for oversight of contractor performance to a knowledgeable Corporation financial manager.
8. Evaluate the quality of services received from the current contractor, in relation to the costs incurred, to determine whether such accounting and financial reporting functions could be improved by obtaining the services of a different contractor, outsourcing these functions to another federal agency, or performing such functions with Corporation personnel.
9. Enhance the overall presentation of the financial statements, and their usefulness to the reader, by reporting costs, including an allocation of those costs related to administration, for each Corporation service program and separately report the operations of the National Service Trust.

## ***B. General Control Environment***

The general control environment sets the tone of an organization and thereby influences the level of control consciousness and provides the discipline and structure of an organization. Control environment factors include commitment to competence, management philosophy and operating style, organizational structure, and assignment of authority and responsibility. As cited above, the Corporation is operating with less than optimal resources which has contributed to the current weaknesses in the Corporation's general control environment. Without a strong general control environment, internal control weaknesses will continue to permeate the organization, increasing risks and inefficiencies and reducing the reliability of financial data.

Additionally, Corporation management has taken a reactive versus a proactive approach to ensuring that an effective system of internal control is in place, responding only to the extent considered necessary to problem areas identified by the Office of the Inspector General (OIG) and independent auditors. Reliance solely on the work of the OIG and independent auditors to identify and report internal control risks for management's attention is not consistent with the requirements of the Federal Managers' Financial Integrity Act of 1982, and could result in material misstatements of accounting and budgetary reports or instances of material noncompliance with laws and regulations. It also leaves the Corporation vulnerable to the risks of fraud or other irregularities (either intentional or unintentional) that may not be detected or corrected in a timely manner by Corporation employees in the course of performing their assigned duties.

Moreover, the Corporation is subject to the reporting requirements of the Government Corporation Control Act which requires management to provide an annual statement on its internal accounting and administrative controls in a manner consistent with FMFIA. The Corporation's first submission of such a statement was made in December 1997, as part of its 1995 *Annual Financial Report*. Although we noted the Corporation has instituted an internal management survey procedure as an initial step in gathering information necessary to fully implement a program for the annual assessment of the effectiveness of its internal control structure, additional improvements are needed to meet the objectives of FMFIA.

We concluded that the Corporation lacks an effective management control environment as evidenced by the volume of material weaknesses and other reportable conditions identified herein, in previous auditability surveys, and other reports issued by its OIG. Although the Corporation has developed a series of Action Plans and is beginning to address control environment and financial management issues, material internal control weaknesses remain which require management's attention.

To improve its general control environment, we recommend the Corporation:

1. Promote an overall strong commitment to competence by implementing an effective performance management system to reward and recognize those employees exhibiting strong competencies and to provide constructive feedback and counseling to, or dismissal of, those employees performing poorly.
2. Dedicate the resources necessary to develop and implement a comprehensive process to evaluate, take positive action to correct and accurately report on its internal accounting and administrative control.
3. Critically evaluate its Action Plan to ensure goals and tasks are appropriately defined and prioritized, timelines are realistic, adequate resources are allocated and deployed to achieve its objectives, and corrective actions are appropriately implemented.

### ***C. Grants Management***

The 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 spends most of its funds on grants. Therefore, grant activities result in the most significant components of the Corporation's financial statements. Grantees are required, among other things, to expend funds for allowable costs and provide periodic reports to the Corporation to demonstrate programmatic and financial compliance with the terms of the respective grant agreements.

The majority of grant funds must be spent to support program members recruited to provide a variety of community service activities. Because the success of member recruitment by grantees varies in terms of numbers and timing, it is difficult for the Corporation to estimate expenses incurred by grantees. Methods used to estimate grantee spending patterns have proved to be unreliable to date. Consequently, it is critical that grantees' financial activity is monitored closely and required reporting deadlines enforced so that related financial statement amounts (grant advances, grants payable, and grant obligations and expenses) are fairly stated.

Our audit procedures revealed grants management procedures to ensure the accurate and timely reporting of grantees' financial activity to the Corporation, and ultimately in the Corporation's financial statements, are not effective. The Corporation does not enforce the requirement that grantees submit their quarterly financial activity reports within 30 days of the end of each quarter. Also, once the grantee financial reports are received, the service centers are not entering the information into the Corporation's system on a timely basis. Both of these weaknesses contributed to the fact that grant expenses incurred were initially underestimated, using a methodology that assumed past spending patterns of the grantees would continue at the same rate for the last quarter of the fiscal year.

Monitoring of grantee financial activity is further hampered by the limitations of the current financial system used to track grant awards. This system is not integrated with the general ledger system and does not include sufficient flexibility to produce reports which would be useful in monitoring grantee performance, including listings to indicate grantees with past due reports and impending grant expiration dates, so that appropriate action could be taken by program managers to contact grantees or close out grants on a timely basis.

The Corporation is also responsible for ensuring that grantees comply with applicable laws and regulations related to the administration of the respective grant awards, including those related to federal cash management requirements. One method for accomplishing this is to rely on financial and compliance audits of grantees performed under the Single Audit Act. Another is to establish an internal program of grantee oversight, including risk-based site visits to review grantee financial management and programmatic compliance. Because the Single Audit Act leaves the identification of major programs which are subject to compliance testing to the judgment of the grantees' independent auditors, there can be no assurance that the Corporation's programs will be selected for review. Further, many of the Corporation's DVSA grants fall below the \$300,000 threshold which triggers the Single Audit Act requirement. Therefore, a combination of an internal grantee monitoring program and review of Single Audit reports is required to ensure effective grantee oversight is maintained.

However, our audit procedures revealed that a routine methodology for obtaining and reviewing grantees' Single Audit reports, where required, and resolving noted instances of noncompliance, has not been

established. Likewise, an internal grants management program for performing grantee site visits on a risk-based and cyclical basis to ensure financial and programmatic compliance is not in place. Considering the size of grants awarded to state commissions and certain not-for-profit organizations, establishing a comprehensive program for oversight of grantees, including monitoring of grantee awards to subgrantees, should be a high priority for the Corporation.

We recommend the Corporation take the following actions to improve its grants management process:

1. Emphasize the importance of timely receipt and accurate processing of grantee financial reports to all service center and headquarters grants management and accounting personnel. Incorporate evaluation of grants management in the annual performance reviews of program managers and service center personnel.
2. Develop appropriate actions to penalize grantees that consistently miss reporting deadlines, and notify all grantees of enforcement actions to be taken. Follow through to demonstrate commitment to attaining improved reporting compliance.
3. Establish an appropriate methodology to estimate spending patterns of grantees to improve the accuracy of amounts recorded as grant advances and grants payable in the financial statements. Consider direct communication with selected larger grantees to refine year end estimates.
4. Establish procedures to obtain and review grantee Single Audit reports, where required, and resolve identified instances of noncompliance.
5. Establish a comprehensive program to monitor the programmatic and financial activity of all grantees to ensure adequate attention is given to compliance issues, which may not be addressed even if a Single Audit has been performed for any specific grantee. Corporation monitoring activities should include site visits performed on a periodic basis, the frequency of which would depend on the level of risk assessed by the program managers, to ascertain whether Corporation administrative and programmatic guidance provided to the grantees has been effectively implemented to provide financial accountability and compliance with the terms of grant agreements.
6. Identify and implement an improved grants management system that could interface with or provide compatible data input for the new financial accounting system, and which could be used to produce grantee monitoring reports, such as listings (by service center) of those grantees with past due financial status reports and impending grant expiration dates, so that appropriate and timely action could be taken by the Corporation's program managers.

#### ***D. Financial Systems***

Limitations of the financial systems currently in use by the Corporation have contributed significantly to the Corporation's inability to compile reliable and meaningful financial reports for management information and annual financial reporting purposes on a timely basis. The current financial management system does not provide the Corporation with an effective means for control of financial activity at the detail fund level, thus requiring the Corporation to manually accumulate and summarize this level of information for financial reporting purposes. Such information is taken from a series of account code "downloads" from the general ledger system which do not provide sufficient detail to facilitate effective account analysis.

To compensate for system inadequacies, numerous detail subsidiary ledgers are maintained separate from the general ledger system, by accounting personnel and staff members in other offices, to track information not readily available from the current financial management system. Reconciliation of these manual and personal computer based records to the general ledger is time consuming and subject to human error. Manual intervention in preparing these detail reports, which are often not subject to review by a second person, and their use in compiling financial reports, also not subject to review, increases the risk of reporting materially incorrect financial statement amounts and decreases their overall reliability.

The Corporation has recognized the shortcomings of its current system, and is in the process of implementing a new financial system designed to address management information needs, and result in improved system integration, enhanced data integrity checks, funds control, and expanded reporting functions. The conversion of financial data from the current system to the new system presents both significant risks and opportunities for the Corporation.

Significant risks include the potential for errors to occur in the completeness, classification, or accuracy of data entered into the new system during the data conversion process; and for other unforeseen circumstances to occur which could delay start up of the new system beyond the expected implementation date of June 1999, or result in failure altogether. The Corporation's February 19, 1999, Action Plan indicates that no period of parallel operation of the old and new systems is contemplated. In fact, the Action Plan indicates that the old system will be shut down five days before the new system is brought on line. This situation increases the risk of data being lost and, therefore, the incomplete processing of financial activity which occurred during the system down time. The longer the delay in achieving the successful start-up of the new system, the greater the risk of financial reporting errors. Our audit revealed that no contingency plan exists to provide for continuity of financial operations in the event of system implementation failure.

Opportunities include the potential to clean up or eliminate extraneous data (e.g., suspense accounts, balances in inactive accounts and zero balances); add, delete, or expand account classification detail to enhance preparation of management information reports and annual financial reporting; and incorporate improved account inquiry and analysis functions into the new system.

To ensure the Corporation obtains the maximum benefit from its new financial system, and that information or data produced by the system are effectively used in preparing financial reports, we recommend the Corporation:

1. Work with its system implementation team to ensure that new financial system capabilities are thoroughly understood and utilized, are appropriately tailored to its needs, and users are adequately trained.
2. Closely monitor the data conversion process and provide for adequate tests to ensure the accuracy and propriety of beginning balances used to populate the new system.
3. Establish formal procedures for the monthly review of general ledger accounts, trial balances, and account reconciliations and other supporting documentation by the Director of Accounting.
4. Develop a contingency plan as a backup for continuity of financial accounting operations, should the implementation of the new system fail or be delayed beyond its expected completion date.

#### ***E. National Service Trust***

The National Service Trust receives appropriated funds restricted for education and similar awards made under the National and Community Service Act of 1990, as amended. For financial reporting, the Corporation records a service award liability which represents education awards earned by AmeriCorps program members for performing authorized community service activities. The recorded liability for these service awards is based on actual awards earned by participants who have completed service and estimated amounts for participants currently enrolled in the program. The Corporation uses the Trust Fund database to capture the data required to estimate this liability. The integrity of this database and the data capturing processes, as well as the controls over these processes (including those related to the current pilot testing of an internet-based system), are essential elements to ensure that the service award liability is based on accurate and complete information.

The membership roster confirmation process, a key control in ensuring the completeness and accuracy of the database, is currently ineffective as evidenced by significant reconciling differences between roster information prepared at the program sites and corresponding information on file at the Corporation used to calculate the service award liability. Our audit procedures included extensive detail testing, recomputation, and analytical procedures through which we were able to satisfy ourselves that the computed service award liability was materially correct. However, the weaknesses in the current membership roster confirmation process used to update the database increase the risk of errors and irregularities, including fraud, which could result in the calculation of a materially incorrect service award liability and in educational awards being paid to members who have not successfully completed program requirements.

The Corporation's initial calculation of the service award liability was made on a very conservative basis, assuming all members enrolled had earned awards as of September 30, 1998, and that 100 percent of awards earned would ultimately be used. After completion of AmeriCorps' fourth year of operation, improvements made in tracking member enrollment and improved information related to actual use of service awards are available to the Corporation and should be factored into the calculation of the service award liability to ensure it is not overstated. Historical experience now indicates that only about 80 percent of earned awards will actually be used. The service award liability estimate was adjusted downward by \$106 million at September 30, 1998, after considering currently available historical experience.

The computed liability should also consider the time value of money. Calculation of the service award liability on a more realistic basis will provide the Corporation with a better indication of the available Trust Fund surplus which should be considered in the annual budget process.

To improve the accuracy and reliability of the reported service award liability, we recommend the Corporation:

1. Enhance the quarterly membership roster confirmation process by enforcing the requirement for all sites to return, within a reasonably established timeframe, either the corrected roster or a certification that the rosters are correct and complete and that no changes are necessary. Further, it should consider the extent of compliance achieved in the annual performance reviews of personnel responsible for roster confirmation.
2. Develop additional system edit checks to detect data entry and data integrity errors. All errors identified should be promptly investigated and resolved, and necessary changes promptly entered into the database. These quality controls will remain critical whether or not the Corporation moves towards internet-based initial data entry into the database.
3. Revise the assumptions used to calculate the service award liability. Review and adjust assumptions annually to incorporate updated historical experience related to usage, cash payout and the time value of money. These revised assumptions should also be used in corresponding budget formulation.

#### ***F. Fund Balance with Treasury***

Fund Balance with Treasury is the aggregate amount of funds in the Corporation's accounts with the U.S. Department of the Treasury from which it is authorized to make expenditures and pay liabilities. The controls over capturing and reconciling the appropriate information for inclusion in the financial statements are essential to ensure that the related balances are complete and accurate.

The Corporation is not performing Fund Balance with Treasury reconciliation procedures at the appropriation level on a monthly basis, which results in an unduly complicated reconciliation process at year end. Additionally, although the year end procedures materially reconciled the total balance to Treasury records, an aggregate unreconciled difference of approximately \$2.4 million existed between the Corporation's general ledger balances and those reported by Treasury. Further, a subsidiary ledger maintained for the National Service Trust Fund is not reconciled to and did not agree with the general ledger balance maintained for this fund.

The current ineffective reconciliation procedures increase the risk that data in the general ledger is inaccurate or incomplete. In addition, the risk of an undetected misappropriation of cash is increased and effective cash management is hindered. For example, the Corporation did not physically transfer \$52 million of appropriations specifically earmarked for the National Service Trust Fund, into the Trust Fund administered by the Treasury, until fiscal year 1998. However, the Corporation instructed the Treasury to purchase securities with these funds prior to the actual transfer. An effective Fund Balance with Treasury reconciliation process, at the appropriation level, could have identified this error, as well as other errors, so that differences could be resolved between the Corporation's fund balances and the balances per Treasury, and misstatements in the financial statements prevented.



We recommend that the monthly Fund Balance with Treasury reconciliation:

1. Include a reconciliation to subsidiary ledgers.
2. Be performed at the appropriation level to help the Corporation isolate variances to a few specific accounts. All reconciling differences should be promptly investigated and resolved.
3. Be documented and submitted to the Director of Accounting for review and approval no later than 30 days after each month end.

**G. Net Position**

The results of the Corporation's operations are reported in the various components of its net position as of each fiscal year end. Because the Corporation receives significant annual appropriations from Congress, the status of unexpended appropriations, as well as the cumulative results of operations related to the National Service Trust, are important disclosures for the users of the financial statements. Our audit revealed the following matters affecting the reported component balances of net position that require management attention.

- Our analysis of the unexpended appropriations component of net position revealed significant balances of unliquidated obligations dating back several years. Such obligations included purchase orders (POs), travel orders (TOs), miscellaneous orders (MOs), and grant awards. Underlying support for a significant portion of POs, TOs, and MOs selected for testing could not be provided by the Corporation. Tests of a sample of obligated grant awards related to prior periods revealed that expired grants are not deobligated on a timely basis, if at all. A material adjustment of \$48 million was recorded to reclassify unsupported or expired obligations to unobligated unexpended appropriations.
- In addition, our analysis of cumulative results of operations indicated that financial activity had been recorded in this financial statement line item in error, during both the current and prior years, which required another material adjustment of \$80 million to correct.
- Once appropriations have been obligated as a result of NCSA grant awards, the Corporation considers the funds available for allowable grant costs until expended. If unexpended grant funds remain unspent at the end of any funding period, carryovers are computed and subsequent funding period costs are charged first to the carryover balances, followed by charges to any new grant award funds. This practice could be in violation of restrictions on the period of availability of appropriations made to the Corporation in its appropriation laws.

We concluded that the Corporation does not have adequate procedures in place to ensure the accurate and timely deobligation of expired grants and other obligations or to routinely analyze the entries recorded in the components of net position for propriety; nor does it have controls in place to ensure compliance with appropriation laws. As a result, the risk of material misstatements reported in the financial statements is increased, and inappropriate management decisions which rely on reported balances of available appropriations could occur.

We recommend the following with respect to accounting for activity reported in net position:

1. Expand the review of unliquidated obligations as of September 30, 1998, currently underway, to determine the propriety of all outstanding balances before this data is converted to the new financial system.
2. Establish a routine procedure to ensure obligations are properly deobligated when final payments are made and grant award periods expire.
3. Perform a quarterly analysis of changes in net position balances to detect unusual activity and make appropriate corrections.
4. Consult with OMB and legal counsel to obtain clarification of the period of availability of grant funds. Once resolved, grants management procedures should be modified to include specific procedures to check for continued availability of funding before grantee carryovers are approved.

#### ***H. Revenue from Reimbursable Agreements***

The Corporation enters into various reimbursable agreements with not-for-profit organizations which sponsor VISTA members. Stipends and other support provided to VISTA members are initially paid by the Corporation, which subsequently bills the respective organizations for their share of the support payments. Our audit revealed that receipts from these offsetting collections had been recorded once “automatically” by the system as appropriated capital used and, again manually via journal entry, as “other revenue” when the Corporation sent invoices to the organizations, thus double counting revenue for financial statement purposes. A material adjustment of \$51 million was made to correct for the cumulative effect of this error in 1998.

We recommend that the Corporation take the following actions to improve accounting for reimbursable agreement revenue:

1. Program the new financial accounting system to automatically post reimbursable agreement revenue to the proper general ledger account.
2. Train accounting personnel to recognize and record revenue transactions in the proper general ledger accounts.
3. Establish procedures for supervisory review and approval of all journal entries to record reimbursable agreement revenue activity.
4. Analyze revenue accounts on a monthly basis to identify and correct errors.

## ***I. Payment of Member Allowances***

The Corporation's internal controls over payment of AmeriCorps member allowances are not functioning effectively to detect and prevent errors and irregularities which could result in incorrect payments to members in the Corporation's VISTA and NCCC programs, and related misstatements in financial statement amounts. Our conclusion is based on the following:

- The Corporation pays AmeriCorps\*VISTA members based on receipt of sponsor verification rosters that detail any changes in the membership at their sites. The reports are required to be submitted to the Corporation within three business days to allow for timely processing of payroll. Verification reports are not always received timely or maintained on file in the State Offices to support the propriety of payments made to VISTA members. Additionally, VISTA member files do not contain adequate documentation to support payroll deductions.
- The Corporation uses the VISTA Management System (VMS) to pay VISTA members their subsistence amounts and stipends. In March 1996, the OIG reported that the payroll processing function was extremely vulnerable to a high risk of fraud because, among other things, its current processing environment placed undue reliance on one individual. However, we were informed that, as a result of time constraints, the VMS administrator has not been able to train another employee to perform his responsibilities or document in detail the procedures associated with managing VMS. Therefore, the condition cited in 1996 persists.
- The Corporation pays AmeriCorps\*NCCC members based on E-mail exception reports. If Headquarters does not receive a report, full payroll is processed for all NCCC members. During the four pay periods reviewed, the Corporation overpaid nine members by one day each and four members by two days each. Additionally, the supervisor of the Headquarters employee who enters payroll information does not review the E-mail exception reports on a test basis to ensure accuracy of payroll input.

We recommend that the Corporation take the following actions to improve internal control over payment of member allowances:

1. Establish a uniform record retention policy for sponsor verification rosters to be maintained at State Offices. In addition, State Offices should be required to follow up with project sponsors if verification rosters are not submitted to ensure the accuracy of the member allowances. As an alternative, consideration should be given to accepting a member allowance certification from each State Office as opposed to receiving copies of the sponsor verification rosters at Headquarters.
2. Identify and train at least one additional person to perform critical VISTA payroll functions. Document related policies and procedures.
3. Enforce the requirement that NCCC campuses submit an E-mail report that either positively confirms that all members should be paid in full for the respective period or identifies exceptions. Headquarters personnel should follow-up on reports not received before processing payroll. A more detailed supervisory review procedure to ensure the accuracy of the payroll information entered by Headquarters personnel should also be established.

## Report on Compliance with Laws and Regulations

The management of the Corporation is responsible for complying with laws and regulations applicable to the entity. As part of obtaining reasonable assurance about whether the Corporation's financial statements were free of material misstatement, we performed tests of the Corporation's 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, and certain other laws and regulations. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit. Accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, disclosed instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards*.

- The Corporation is subject to the reporting requirements of the Government Corporation Control Act, which requires management to provide an annual statement on its internal accounting and administrative controls in a manner consistent with the requirements of the Federal Managers' Financial Integrity Act (FMFIA). Although some initial steps have been taken to survey key members of Corporation management to obtain relevant information to prepare the annual FMFIA statement, the Corporation's efforts have fallen short of establishing a comprehensive system to annually assess the effectiveness of its system of internal control in achieving the objectives of reliable financial reporting and compliance with laws and regulations. Additionally, the required annual statement has not been submitted on a timely basis.
- The Corporation is in substantial noncompliance with OMB Circular A-127, Federal Financial Systems, which requires Federal entities to establish and maintain a single, integrated financial management system to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information for decision makers and the public.
- We cannot determine whether the Corporation is in compliance with appropriation laws related to the use of National and Community Service Act (NCSA) funds only during periods of availability, due to apparent conflicts between the Corporation's enabling legislation and subsequent appropriation laws. As discussed in our Report on Internal Control Over Financial Reporting, the Corporation considers NCSA appropriated funds available for allowable grant costs until expended. If unexpended grant funds remain unspent at the end of any funding period, carryovers are computed and subsequent funding period costs are charged first to the carryover balances, followed by charges to any new grant award funds. Annual appropriation laws related to NCSA grants limit the availability of funds to annual and two-year periods. Resolution of this matter will require legal interpretation and consultation with OMB.

The results of our tests of compliance with the laws and regulations, as described above, disclosed no other instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

We also noted other matters involving internal control over financial reporting and compliance with laws and regulations that we do not consider to be reportable conditions or material noncompliance, that we will report separately (OIG Report 99-24).

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

As required by the Government Corporation Control Act, 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, and the Corporation for National and Community Service and its Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 24, 1999

**Corporation for National and Community Service**

**Financial Statements**

**September 30, 1998**

**Corporation for National and Community Service**  
**Statement of Financial Position**  
**September 30, 1998**  
(Dollars in Thousands)

**Assets**

Fund balance with Treasury (Note 2)	\$ 694,320
Trust investments and interest receivable (Note 3)	357,517
Accounts receivable, net (Note 4)	2,706
Advances (Note 1g)	19,496
Prepayment (Note 1h)	2,800
Property and Equipment, net (Note 5)	<u>999</u>
Total Assets	<u><u>\$1,077,838</u></u>

**Liabilities and Net Position**

**Liabilities**

Accounts payable and accrued liabilities (Note 1j)	\$ 17,994
Trust service award liability (Note 6)	161,449
Commission post-service benefits liability (Note 7)	1,758
Capital lease liability (Note 8)	150
Grants payable (Note 1k)	40,661
Accrued annual leave	2,613
Accrued FECA liability	<u>5,714</u>
Total Liabilities	<u><u>230,339</u></u>

**Net Position** (Note 10)

Unexpended appropriations	
Unobligated	205,813
Obligated	454,520
Cumulative results of operations	<u>187,166</u>
Total Net Position	<u><u>847,499</u></u>

**Commitments** (Note 9)

Total Liabilities and Net Position	<u><u>\$1,077,838</u></u>
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The accompanying notes are an integral part of these financial statements.

**Corporation for National and Community Service**  
**Statement of Operations and Changes in Net Position**  
**For the Year Ended September 30, 1998**  
(Dollars in Thousands)

**Revenues**

Appropriated capital used	\$ 613,836
Appropriations received by Trust Fund	122,509
Other revenues (Note 11)	<u>29,456</u>
Total Revenues	<u>765,801</u>

**Expenses**

Grants expense (Note 12)	491,498
Other program and administrative expense (Note 13)	132,902
National service award expense (Note 14)	<u>68,976</u>
Total Expenses	<u>693,376</u>

**Excess of Revenues Over Expenses** \$ 72,425

Net position, beginning balance as previously reported	\$ 677,929
Prior restatement to grant expense accrual (Notes 17)	64,815
Prior period adjustments (Note 16a)	<u>(135,684)</u>
Net position, beginning balance as adjusted	607,060
Excess of revenues over expenses	72,425
Increase in unexpended appropriations, net (Note 15)	<u>168,014</u>
Net Position, Ending Balance	\$ <u><u>847,499</u></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, 1998**  
(Dollars in Thousands)

**Cash Flows from Operating Activities**

Cash provided by:	
Collections from inter-agency agreements	\$ 9,390
Interest received on investments	21,071
Collections from pass-through grants	1,119
Other	<u>438</u>
Total cash provided by operating activities	<u>32,018</u>
Cash used for:	
Cash paid to suppliers and employees	(129,805)
Grants	(421,018)
Service Awards	(44,584)
Disbursements for pass-through grants	(880)
Interest paid	(32)
Other	<u>(287)</u>
Total cash used in operating activities	<u>(596,606)</u>
Net Cash Used in Operating Activities	<u>(564,588)</u>

**Cash Flows from Investing Activities**

Purchase of property and equipment	(112)
Receipts from sales/maturities of investments	165,390
Purchase of investments	<u>(287,586)</u>
Net Cash Used in Investing Activities	<u>(122,308)</u>

**Cash Flows from Financing Activities**

Appropriations received	685,104
Cancelled appropriations and funds returned	<u>(18,003)</u>
Net Cash Provided by Financing Activities	<u>667,101</u>

<b>Decrease in cash before adjustments</b>	(19,795)
Prior period adjustment (Note 16b)	11,457
Other	<u>(4,456)</u>
<b>Net decrease in cash</b>	(12,794)
<b>Fund Balance with Treasury and Cash, Beginning Balance</b>	<u>707,114</u>
<b>Fund Balance with Treasury and Cash, Ending Balance</b>	<u>\$ 694,320</u>

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

**Corporation for National and Community Service**  
**Statement of Cash Flows, continued**  
**For the Year Ended September 30, 1998**  
(Dollars in Thousands)

**Reconciliation of the excess of revenues over expenses  
to net cash used in operating activities**

Excess of revenues over expenses	\$ 72,425
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**Adjustments to reconcile the excess of revenues over expenses  
to net cash used in operating activities**

Appropriated capital used	(736,345)
Depreciation and amortization	308
Bad debts	198
Prior period adjustments	122,326
Other	38,757
(Increase) decrease in:	
Interest receivable	(1,533)
Accounts receivable	(22)
Advances	2,085
Prepayment	(2,800)
Increase (decrease) in:	
Accounts payable and accrued liabilities	2,057
Trust service award liability	(30,804)
Commission post service benefits liability	(225)
Grants payable	(32,894)
Accrued annual leave	45
Accrued FECA liability	<u>1,834</u>
Net cash used in operating activities	<u><u>\$ (564,588)</u></u>

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

**Corporation for National and Community Service**  
**Notes to Financial Statements**  
**September 30, 1998**  
(Dollars in Thousands)

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**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, and cash flows of the Corporation for National and Community Service (the Corporation), as required by Section 9106 of the Government Corporation Control Act and the National and Community Service Trust Act of 1993. The Corporation's financial statements for FY 1998 are presented in accordance with generally accepted accounting principles and include the Corporation's activities related to providing grants and education awards to eligible recipients. The Corporation is not subject to income tax.

*b. Reporting Entity*

The Corporation for National and Community Service was created by the National and Community Service Trust Act of 1993 (Public Law 103-82). The Corporation provides grants and other incentives to states, local municipalities and not-for-profit organizations to expand national and community service volunteer activities. The Corporation maintains the National Service Trust (the Trust), a fund within the Corporation, to provide resources for education and similar awards made under National and Community Service Programs, including Volunteers in Service to America (VISTA), AmeriCorps, and National Civilian Community Corps (NCCC) programs.

*c. Basis of Accounting*

The Corporation's financial statements are prepared using the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The Corporation also uses budgetary accounting to facilitate compliance with legal constraints and controls over the use of Federal funds.

**Corporation for National and Community Service**  
**Notes to Financial Statements**  
**September 30, 1998**  
(Dollars in Thousands)

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*d. 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 recipients, and are not available for use in current operations of the Corporation.

*e. Trust Investments and Interest Receivable*

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 interest rates on these securities range from 4.89 percent to 14.25 percent.

The Corporation classifies these investments as held-to-maturity at the time of purchase, and periodically re-evaluates 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. Purchased 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. Accounts Receivable*

Accounts receivable represent amounts due to the Corporation primarily from Federal and non-Federal reimbursable agreements, grantee audit resolution determinations and repayments of advances due from employees. Amounts are shown net of an allowance for doubtful accounts of \$199, which was estimated based on historical experience.

**Corporation for National and Community Service**  
**Notes to Financial Statements**  
**September 30, 1998**  
(Dollars in Thousands)

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*g. Advances*

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 expended 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. Prepayment*

During 1998, the Corporation made a deposit with the General Services Administration (GSA) in connection with a fiscal year 1997 interagency agreement for acquiring a new financial management and accounting system. The Corporation has also entered into a cross-servicing agreement with the Department of Interior (DOI) for acquisition, implementation and maintenance of the new financial management system. Because GSA, the Corporation's fiscal agent, has not issued any payments to DOI as of September 30, 1998, the entire amount deposited with GSA is shown as a prepayment.

*i. Property and Equipment*

The Corporation capitalizes property and equipment at historical cost for acquisitions of \$10 or more, with an estimated useful life of two or more years. The assets reported include telephone equipment, computer systems equipment, copiers, computer software and systems furniture, including assets under capital leases. These assets are depreciated (or amortized) on a straight-line basis, using the half-year convention, over estimated useful lives in a range from two to 10 years.

*j. Accounts Payable and Accrued Liabilities*

Accounts payable represent 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. They also represent advance funds received under cost sharing agreements for which expenses were not incurred by the end of the fiscal year.

Accrued liabilities represent amounts owed but not paid at the end of the fiscal year for goods and services received, for payroll and benefits, and the liability for volunteer stipends payable.

**Corporation for National and Community Service**  
**Notes to Financial Statements**  
**September 30, 1998**  
(Dollars in Thousands)

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*k. Grants Payable*

Grants are made to non-profit organizations, education institutions, and other external organizations. Grants become 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. 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.

*m. Commission Post-Service Benefits Liability*

The Commission post-service benefits liability represents unpaid earned education awards incurred by the Commission on National and Community Service (the Commission), which has been managed by the Corporation since 1994. This liability, more fully discussed in Note 7, is funded by the Corporation.

*n. Net Position*

Net position includes unobligated and obligated unexpended appropriations, and cumulative results of operations. The cumulative results of operations represent the net differences between revenues and expenses from the inception of the Corporation.

*o. Revenues*

The Corporation obtains funding for its program and operating expenses through annual and multi-year appropriations, which are recognized as revenue when used for eligible expenses incurred. 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.

**Corporation for National and Community Service**  
**Notes to Financial Statements**  
**September 30, 1998**  
(Dollars in Thousands)

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Other revenues consist primarily of interest income, which is recognized when earned. Treasury notes and bonds pay interest semiannually, based on the stated rate of interest. Interest earned on Treasury bills is recognized at maturity. Interest income is adjusted by amortization of premiums and discounts using the effective interest method. The Corporation also receives income from reimbursable service agreements, as well as gifts and donations for the support of service projects from individuals and organizations.

*p. Retirement Benefits*

The Corporation's employees are eligible to participate in one of two retirement plans. Employees hired before January 1, 1984 are covered by the Civil Service Retirement System (CSRS) unless they elected to join the Federal Employees Retirement System (FERS) and Social Security during the election period. Employees hired after December 31, 1983, are covered by FERS and Social Security. For employees covered by the CSRS, the Corporation contributes approximately 8.51 percent of their gross pay to the Plan. For those employees covered by FERS, the Corporation contributes to the Plan approximately 11.40 percent of their gross pay. Employees are allowed to participate in the Federal Thrift Savings Plan (TSP). For employees under FERS, the Corporation contributes an automatic 1 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 the Corporation's automatic (1%) and matching contributions.

For fiscal year 1998, the Corporation made retirement contributions of \$983 to the CSRS Plan, and \$2,469 in contributions to FERS and the TSP Plans.

*q. Use of Estimates*

The preparation of financial statements, in accordance with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

**Corporation for National and Community Service**  
**Notes to Financial Statements**  
**September 30, 1998**  
(Dollars in Thousands)

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*r. Accrued Annual Leave*

Annual leave is accrued as a liability as it is earned. The accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current year pay rates. To the extent that the current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future appropriations. Sick leave and other types of nonvested leave are charged to expense as the leave is used.

*s. Accrued 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 accrued \$5,714 of workers' compensation costs as of September 30, 1998. This amount includes unpaid costs and an estimated unfunded liability for unbilled costs incurred as of year-end, as calculated by DOL.

**Note 2. Fund Balance with Treasury**

The composition of the Fund balance with Treasury by type and classification as of September 30, 1998, is as follows:

<u>Type</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Appropriated funds	\$ 693,567	\$ --	\$ 693,567
Trust funds	--	491	491
Gift funds	<u>11</u>	<u>251</u>	<u>262</u>
Total	<u>\$ 693,578</u>	<u>\$ 742</u>	<u>\$ 694,320</u>



**Corporation for National and Community Service**  
**Notes to Financial Statements**  
**September 30, 1998**  
(Dollars in Thousands)

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**Note 3. Trust Investments and Interest Receivable**

The composition of Trust investments and interest receivable at September 30, 1998, is as follows:

Investments, carrying value	\$ 352,408
Interest receivable	<u>5,109</u>
Total	<u>\$ 357,517</u>

Amortized cost and fair value of investment securities at September 30, 1998 are:

<u>Held-to-Maturity Securities</u>	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized (Losses)</u>	<u>Fair Market Value</u>
Notes	\$296,496	\$13,693	\$ --	\$310,189
Bills	11,585	269	--	11,854
Bonds	<u>44,327</u>	<u>932</u>	<u>(131)</u>	<u>45,128</u>
Total	<u>\$352,408</u>	<u>\$14,894</u>	<u>\$ (131)</u>	<u>\$367,171</u>

The notes held at year-end had an interest rate range of 5.25% to 8.75% and a maturity range from about 120 days to almost 7 years, while the bonds were between 8.25% to 14.25% and a maturity period of 7 years. The bills held at year-end had an interest rate range of 4.89% to 5.13% and were due to mature within about 90 days. The par values of these investments were in a range from \$225 to \$23,699.

Investments held at September 30, 1998, mature according to the following schedule:

<u>Held-to-Maturity Securities</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in 1 year or less	\$ 56,301	\$ 57,304
Due after 1 year up to 5 years	172,023	179,031
Due after 5 years up to 10 years	<u>124,084</u>	<u>130,836</u>
Total	<u>\$352,408</u>	<u>\$367,171</u>

**Corporation for National and Community Service**  
**Notes to Financial Statements**  
**September 30, 1998**  
(Dollars in Thousands)

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**Note 4. Accounts Receivable, Net**

The following schedule shows accounts receivable at September 30, 1998:

Accounts receivable	\$ 2,905
Less: Allowance for loss on receivables	<u>199</u>
Accounts receivable, net	\$ <u>2,706</u>

**Note 5. Property and Equipment, Net**

Shown below is the composition of Property and Equipment as of September 30, 1998:

Equipment and furniture	\$1,469
Equipment – Capitalized Leases (see Note 8)	270
ADP Software	<u>120</u>
Total	1,859
Less: Accumulated depreciation	851
Accumulated amortization	<u>9</u>
Net property and equipment	\$ <u>999</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 cost of attendance at qualified educational institutions. The awards, which can be used for a period of up to seven years, are paid from the National Service Trust. The Trust also pays forbearance interest on qualified student loans during the period members perform community service. 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.

**Corporation for National and Community Service**

**Notes to Financial Statements**

**September 30, 1998**

(Dollars in Thousands)

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The service award liability was comprised of the following as of September 30, 1998:

Education awards	\$ 258,652
Interest forbearance	7,334
Citizen's scholarship award	<u>1,238</u>
Total service award liability	267,224
Less: Cumulative awards paid	<u>105,775</u>
Net service award liability	\$ <u>161,449</u>

**Note 7. Post-Service Benefits Liability - Commission on National and Community Service**

The Commission on National and Community Service (Commission) was merged into the Corporation for National and Community Service during fiscal year 1994. With this merger, the Corporation became responsible for all Commission liabilities, including those for post-service benefits.

Post-service benefits liabilities from Commission operations differ from those originating within the Corporation in three significant respects: 1) the grantee, rather than an agency of the Federal government, is responsible for making post-service award payments; 2) the portion of these awards which is funded by the Federal government is specified in each grant agreement, with any remaining amount funded by the grantee; 3) the post-service period during which an award is available for use is established by each program grantee, rather than set at seven years for all awardees.

The post-service benefits liability associated with the Commission is estimated based on a review of its grants that authorize post-service benefits. Amounts shown below represent the aggregate maximum liability under the assumption that all funds obligated for post-service benefits remain payable to grantees for this purpose until they are drawn down or the period of award availability has expired.

Commission post-service benefits liability at September 30, 1998 is determined as follows:

Beginning post-service benefits liability	\$ 1,983
Less: Drawdowns and adjustments for grantee certifications	<u>105</u>
Potential education awards	1,878
Less: Award expirations	<u>120</u>
Ending post-service benefits liability	\$ <u>1,758</u>

**Corporation for National and Community Service**  
**Notes to Financial Statements**  
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**Note 8. Capital Lease Liability**

The Corporation has entered into lease agreements for copy machines and systems workstation furniture. These leases vary from 3 to 5 year terms and are deemed to be capital leases. The costs of the copiers and systems workstation furniture have been recorded as property and equipment (see Note 5).

The following is a schedule, by year, of the future minimum payments under these leases, together with the present value of the net minimum payments as of September 30, 1998:

Future minimum payments due:

Fiscal year 1999	\$ 72
Fiscal year 2000	65
Fiscal year 2001	<u>38</u>
Total future minimum lease payments	175
Less: Imputed interest	<u>25</u>
Total present value of minimum payments	\$ <u>150</u>

**Note 9. Other Lease Commitments**

The Corporation leases office space through the General Services Administration (GSA). GSA's lease agreement with the building owner has a 10-year term. However, GSA is authorized to reassign the Corporation to other space if and when GSA determines that reassignment would promote and enforce efficient space utilization. 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.

**Note 10. Net Position**

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

**Corporation for National and Community Service**  
**Notes to Financial Statements**  
**September 30, 1998**  
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Following is a summary of the fund balances by component as of September 30, 1998:

	<u>Gift</u> <u>Fund</u>	<u>Trust</u> <u>Fund</u>	<u>Appropriated</u> <u>Fund</u>	<u>Total</u>
Unexpended appropriations	\$ --	\$ --	\$660,333	\$660,333
Cumulative results of operations	<u>262</u>	<u>196,559</u>	<u>(9,655)</u>	<u>187,166</u>
Net position	\$ <u>262</u>	\$ <u>196,559</u>	<u>\$650,678</u>	<u>\$847,499</u>

**Note 11. Other Revenues**

Other revenues consist of the following for the year ended September 30, 1998:

Revenue from services provided	\$ 7,885
Trust interest income	21,381
Other revenue and financing sources	<u>190</u>
Total other revenues	\$ <u>29,456</u>

**Note 12. Grants Expense**

The components of grant expense for the year ended September 30, 1998, were as follows:

Domestic Volunteer Service Act (DVSA)	\$ 184,127
National and Community Service Act (NCSA)	306,491
DVSA State Pass-through Grants	<u>880</u>
Total grants expense	\$ <u>491,498</u>

**Note 13. Other Program and Administrative Expense**

The costs of operating the Corporation's Volunteers in Service to America (VISTA), National Civilian Community Corps (NCCC), grant programs and providing administrative support for Trust Fund operations are included in administrative expense.

**Corporation for National and Community Service**  
**Notes to Financial Statements**  
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Components of other program and administrative expense for the year ended September 30, 1998, are presented below:

Personnel services and benefits	\$ 91,868
Travel and transportation	6,306
Rent, communications, and utilities	7,105
Program analysis and evaluation	4,423
Printing and reproduction	904
Other services	17,275
Supplies and materials	2,460
Unfunded FECA expense	1,834
Depreciation	308
Annual leave expense	45
Bad debts	198
Miscellaneous	<u>176</u>
Total other program and administrative expense	<u>\$ 132,902</u>

**Note 14. 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 recognizes the expense for national service awards based on the increase in the total service award liability (see Note 6) during the year. The total service award liability at September 30, 1998 and 1997, has been adjusted to reflect the extent that earned awards are not always used.

National service award expense accrued for the fiscal year ended September 30, 1998, is determined as follows:

Awards earned as of 9/30/98	\$ 197,212
Estimated awards to be earned	61,440
Estimated interest forbearance	7,334
Citizen's scholarship award	<u>1,238</u>
Total service award liability as of 9/30/98	267,224
Total service award liability as of 9/30/97	<u>(198,248)</u>
National service award expense	<u>\$ 68,976</u>

**Corporation for National and Community Service**  
**Notes to Financial Statements**  
**September 30, 1998**  
(Dollars in Thousands)

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**Note 15. Increase in Unexpended Appropriations, Net**

Increases:	
Appropriations received, net of Trust	\$ 615,104
Correction from reimbursable agreements	43,844
Correction of prior year appropriations	23,863
Correction of unfunded FECA expense	3,880
Adjustment for prior year grant disbursements	11,457
Adjustment for prior year pass through grants	1,350
Adjustment for prior year HUD interagency agreement revenue	2,257
Correction of prior year OPAC expense	314
Other unidentified amount	<u>97,784</u>
Total increases	<u>799,853</u>
Decreases:	
Appropriated capital used, net of Trust	(613,836)
Cancelled appropriations	<u>(18,003)</u>
Total decreases	<u>(631,839)</u>
Increase in unexpended appropriations, net	<u>\$ 168,014</u>

**Note 16. Prior Period Adjustments**

- a. The Corporation's prior period adjustments consist of the following for the year ended September 30, 1998:

Correction of Trust expense	\$ (55,254)
Correction of Trust revenue	52,509
Adjustment for reimbursable revenue	43,844
Correction for prior year appropriations	23,863
Correction of unfunded FECA expense	3,880
Correction for pass-through grants	675
Other unidentified amount	66,229
Capital equipment and lease acquired in FY97	<u>(62)</u>
Total prior period adjustments	<u>\$ 135,684</u>

**Corporation for National and Community Service**  
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**September 30, 1998**  
(Dollars in Thousands)

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*b.* Prior period adjustment to Fund Balance with Treasury

In FY 1995, the Corporation recorded a \$12,400 reduction to Fund Balance with Treasury. The \$12,400 represented unidentified differences between cash balances maintained on the Corporation's general ledger and the balances maintained at Treasury, as of September 30, 1995. This year the Corporation determined that \$11,457 of the suspense balance was due to erroneous reporting of disbursements to Treasury that were also reported to Treasury by the Department of Health and Human Services, which makes grant payments on the Corporation's behalf through its Payment Management System. The \$11,457 adjustment reduced the suspense account balance, thereby increasing the beginning cash balance, and removed the effect of overstating FY 1995 expenses from the current year Statement of Financial Position.

**Note 17. Prior Period Restatement to Grant Expense Accrual**

The Statement of Financial Position for the year ended September 30, 1997, was restated subsequent to the audit report issued October 8, 1998, associated with that statement. The change was based on a review of grant inception-to-date reported grantee expenses compared with the Corporation's disbursements to each grantee for the same period. For grants with disbursements exceeding grantee expenses, an advance is recorded and for grants with grantee expenses exceeding Corporation disbursements, a grants payable is recorded. The overall change in net position was determined for this restatement as follows:

Advances to grantees – Restated	\$ 49,567	
As reported	<u>21,505</u>	
Increase		28,062
 Grants payable – Restated	 36,801	
As Reported	<u>73,554</u>	
Decrease		<u>36,753</u>
Increase to net position		<u>\$ 64,815</u>



**Appendix A**


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**Corporation Response**

CORPORATION  
FOR NATIONAL  
 SERVICE

April 6, 1999

MEMORANDUM FOR LUISE JORDAN, INSPECTOR GENERAL

From: Wendy Zenker   
Chief Operating Officer

Subject: Comments on Draft Report, 99-12, Audit of the Corporation for National Service's Fiscal Year 1998 Financial Statements

We have reviewed the draft audit report, received April 1, 1999, on the Corporation's fiscal year 1998 financial statements. We are pleased that the auditors were able to issue an unqualified opinion on the Statement of Financial Position. While our goal is to receive an unqualified opinion on all financial statements, we believe that an unqualified opinion on the Statement of Financial Position represents very important progress for the Corporation, and puts the Corporation in a position to achieve our goal for fiscal year 1999.

We also recognize that there is still much to do to improve financial operations and internal controls and we are working diligently towards that end. The Corporation's comprehensive Action Plan reflects our plans and accomplishments. We will revise the plan after we have had a chance to thoroughly consider the recommendations in the audit report.

There are several initiatives underway that will significantly contribute to improved financial operations. These include the nomination and confirmation of a very qualified individual to serve as Chief Financial Officer, the successful implementation of the new financial management system later this year, and achievement of the goals and objectives included in the Corporation's Action Plan to improve financial management, including management control self-assessments.

- The Corporation's Chief Financial Officer is a Presidentially-appointed, Senate confirmed position. The White House is currently vetting an outstanding candidate for this position and we hope that there will be an announcement shortly on this matter.
- We are in the midst of an aggressive schedule to implement a new financial management system that is Year 2000 compliant. We are cross-servicing with the Department of Interior's National Business Center and contracting with American Management Systems (AMS) to install the new system, "Momentum." The system is a state-of-the-art commercial package that is compliant with Federal financial systems



requirements published by the Joint Financial Management Improvement Program. We plan to implement Momentum in July 1999, a slightly revised schedule due to workload and conversion requirements.

- The Corporation is making good progress correcting the material weaknesses identified in the FY 1997 financial statement audit. The Corporation's detailed Action Plan, organized around the six material weaknesses identified in the FY 1997 audit, also includes goals related to Information Technology, Year 2000 computer compliance, and Procurement Management. On a bi-monthly basis, the Corporation is reporting to the Congress on our progress in meeting the individual tasks identified in the Plan. As of the February 19, 1999 progress report, the Corporation had completed 69 of the 177 tasks included in the Plan. As noted above, the Plan will be revised to address items included in the FY 1998 financial statement audit after we have had an opportunity to thoroughly review the Inspector General's recommendations.
- The Corporation conducted its first management control self-assessments for FY 1998 on a pilot basis. The results of these assessments were shared with the Chief Executive Officer and senior staff. The Corporation has already revised and issued its plan for FY 1999. Thus, by October 31, 1999, a total of 22 of 31 Corporation offices will have assessed their management controls. The offices identified for FY 1999 will receive training and guidance to assist them with their reviews and the preparation of their self-assessments.

With respect to the Inspector General's comments regarding the calculation of the Service award liability in the National Service Trust, please note that since FY 1996, the amounts appropriated by the Congress to the Trust have been less than the annual amount required to provide an award for all members. Since FY 1998, our budget requests have considered factors such as attrition. Our budget request for FY 2000 considers attrition and, using four years of experience, probable usage of the award by members. It also includes the need for a prudent amount in the Trust in case certain assumptions prove inaccurate.

The Corporation initially used the same methodology to calculate the FY 1998 liability as it did for the FY 1997 financial statement liability. It was a conservative estimate, but one that we believed to be appropriate for financial statement purposes and that used the same methodology with which the auditors had concurred in the FY 1997 audit. The restated liability estimate included in the financial statements now, at the auditor's suggestion, does not include certain known costs that must be included in the budget estimate. For example, the liability estimate now does not include those members that started service in 1998, but who will not have completed 15 percent of their service by September 30, 1998, nor does it include the members who had yet to begin service by that date in programs funded with FY 1998 appropriations.

The Corporation will continue to monitor the earning and use of the education award by members, and does, and will, consider these factors in developing future budget estimates and in preparing future financial statements.

Overall, the Corporation has made good progress towards its goal of an unqualified audit opinion on a full set of financial statements. We have gone from being unauditible, to a qualified opinion on the FY 1997 Statement of Financial Position, to an unqualified opinion on the FY 1998 Statement of Financial Position. This reflects steady progress and our continuing strong commitment to achieve the goals that we have set in our Action Plan.

As suggested, we have separately identified specific items in the audit report that we believe need clarification. Our comments are brief due to the expedited timeframe for response. Nonetheless, we appreciate the opportunity to comment on the draft report.