
**OFFICE OF THE INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE**

**AUDIT OF THE
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE'S
FISCAL YEAR 2000 FINANCIAL STATEMENTS**

**OIG Audit Report Number 01-01
March 1, 2001**

Prepared by:

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

**Under the Corporation for National and Community Service
Purchase Order # 200008020002
GS Contract # GS-23F-8127H
Task Order # 00-01**

This report was issued to Corporation management on March 29, 2001. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than September 25, 2001, and complete its corrective actions by March 29, 2002. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

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



**Audit of the Corporation for National and Community Service's
Fiscal Year 2000 Financial Statements
OIG Audit Report 01-01**

Introduction

In accordance with the Government Corporation Control Act (31 U.S.C. 9101 *et seq.*), the Office of the Inspector General engaged KPMG LLP to audit the Corporation for National and Community Service's fiscal year 2000 financial statements. This report presents the results of the audit. In summary,

KPMG's opinion on the financial statements is unqualified.

Areas of material weaknesses in internal control over financial reporting have been reduced from five in FY 1999 to one in FY 2000. The area that remains materially weak is grants management. In addition, the auditors report that internal controls over the Fund Balance with Treasury and Net Position accounts need improvement.¹

No instances of material non-compliance with laws and regulations were found.

As is our responsibility, CNS OIG participated in the planning of the auditors' 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 a draft of this report to the Corporation for their review and comment. The Corporation's response agrees with most of the audit report's findings and recommendations. It is presented in its entirety as Appendix A.

¹ Other previously reported conditions have been corrected to the extent that we will provide recommendations for further improvement in our final report on this audit, OIG Report 01-02: "Recommended Improvements to the Corporation's Internal Controls - Fiscal Year 2000 Financial Audit Management Letter," to be issued in the third quarter of FY 2001.



2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report

Inspector General
Corporation for National and Community Service:

We have audited the Statement of Financial Position of the Corporation for National and Community Service as of September 30, 2000, and the related Statements of Operations and Changes in Net Position and Cash Flows for the year then ended. The objective of our audit was to express an opinion on the fair presentation of these financial statements. In connection with our audit, we also 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 financial statements.

Summary

As stated in our opinion on the financial statements, we concluded that the Corporation's financial statements as of and for the year ended September 30, 2000, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as reportable conditions:

- **Grants Management** – A comprehensive system of internal controls for grants management is not in place.
- **Fund Balance with Treasury** – Significant differences continue to exist, at the appropriation level, between the Corporation's records and those maintained by the Treasury, primarily as a result of transactions occurring in years prior to fiscal year 2000.
- **Net Position** – Adequate procedures are not in place for ensuring that the components of unexpended appropriations (both obligated and unobligated) are accurately accounted for and reported in the financial statements.

Due to the pervasive nature of the matters comprising the reportable condition related to *Grants Management*, and the significance of grant related financial statement amounts, we consider *Grants Management* to be a material weakness.

Our tests of the Corporation's compliance with certain provisions of applicable laws and regulations disclosed no instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards*.





The following sections discuss our opinion on the Corporation's financial statements, our consideration of the Corporation's internal control over financial reporting, our tests of the Corporation's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the Statement of Financial Position of the Corporation for National and Community Service as of September 30, 2000, and the related Statement of Operations and Changes in Net Position and Statement of Cash Flows for the year then ended.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Corporation for National and Community Service as of September 30, 2000, and the results of its operations, changes in net position, and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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 condition identified as item A, *Grants Management*, below is a material weakness. Items B, *Fund Balance with Treasury*, and C, *Net Position*, are reportable conditions that are not considered material weaknesses. 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 financial statements.

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. Because of inherent limitations in internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

The objective of our audit was not to provide assurance on the Corporation's internal controls over financial reporting. Consequently, we do not provide an opinion on internal control over financial reporting.



A summary of the status of material weaknesses and other reportable conditions included in our prior year *Independent Auditors' Report on Internal Control Over Financial Reporting* is included as Exhibit I. We also noted other matters involving internal control over financial reporting that we will report to the management of the Corporation in our management letter which will be issued as OIG Audit Report 01-02.

A. 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 expends the majority of its appropriated funds on grants, and grant activities result in the most significant components of the Corporation's financial statements. Thus, establishing and maintaining effective controls in the grants management area continues to be an area where significant improvements should be made. The following paragraphs discuss weaknesses noted in internal control over grants management. Taken together, we believe these matters indicate internal control in this area is materially weak.

Oversight of Grantee Financial Status

Monitoring of grantee financial activity is limited by the current systems used to track grant awards. Momentum, the Corporation's financial accounting system, lacks a grants module, and the grants management system currently in use is not integrated with Momentum. The current grants management system does not include sufficient flexibility to produce reports which would be useful in monitoring grantee performance, including reports of 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.

Grantees are required, among other things, to expend funds for allowable costs and provide periodic reports to the Corporation to demonstrate financial compliance with the terms of the respective grant agreements, and to provide information used to estimate outstanding grant advances and payables at year end. Therefore, it is essential that grantees' financial activity is monitored closely and required reporting deadlines are enforced so that financial statement amounts are fairly stated.

Recommendations

- Continue to emphasize the importance of timely receipt and accurate processing of grantee financial reports to all service centers and headquarters grants management and accounting personnel.
- Continue to emphasize the importance of timely receipt and accurate processing of financial reports to all grantees.
- Notify grantees of the appropriate actions the Corporation intends to take to penalize those grantees that consistently miss reporting deadlines. Follow through to demonstrate commitment to attaining improved reporting compliance.



- Continue with the current plans to implement a new grants management system that will interface with or provide compatible data input for the new financial accounting system for all grants. This system should be capable of producing grantee monitoring reports 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 managers.

Grantee Site Visits

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 grants fall below the \$300,000 threshold that triggers the Single Audit Act requirement. Therefore, a combination of an internal program of grantee oversight, including risk-based site visits to review grantee financial management and programmatic compliance and review of Office of Management and Budget (OMB) Circular A-133 audit reports, is required to ensure effective grantee oversight is maintained. Although a risk-based internal grants management program for performing grantee site visits to ensure financial and programmatic compliance has been developed for NCSA grantees, certain site visit monitoring tools, which have been developed for use in achieving the objectives of the NCSA grant monitoring process, have not been consistently used during site visits. As a result, it is difficult to assess what procedures were conducted during site visits.

Further, these monitoring tools also do not specify procedures to assess certain financial and programmatic objectives. For example, there are no specific procedures or instructions included with the monitoring tool to (i) require review of matters such as the adequacy of controls over input of enrollment, end-of term, or other financial status information submitted via the Corporation's Web Based Reporting System (WBRS); or (ii) conduct procedures during site visits to assess whether grantees monitor the accuracy of amounts reported by subgrantees through review of supporting documentation.

Recommendations:

- Implement procedures to ensure consistent use of the site visit monitoring tools that have been developed to aid management in achieving the objectives of the NCSA grantee monitoring process.
- Incorporate additional procedures in NCSA site monitoring tools to ensure that specific financial and programmatic objectives are achieved, such as a requirement to review the adequacy of controls over input of enrollment and end-of-term forms via WBRS that have been established by grantees; the accuracy of amounts reported on Financial Status Reports by comparing to supporting documentation; and the adequacy of procedures in place at the grantee to ensure subgrantees have complied with the terms of their grant agreements.

Oversight of OMB Circular A-133 Reporting

The Corporation is responsible for ensuring that grantees comply with applicable laws and regulations related to the administration of the respective grant award. An important oversight procedure for accomplishing this is to obtain financial and compliance audits of grantees performed under the Single Audit Act, review these reports for indications of internal control or compliance problems, and take appropriate action to follow-up on corrective action plans submitted by grantees in response to reported audit findings. Our audit procedures revealed that efforts are underway to utilize an OMB Circular A-133 Audit Resolution



Database to monitor receipt of grantees' OMB Circular A-133 audit reports, where required, and take appropriate action to ensure resolution of noted instances of internal control weaknesses and noncompliance. However, this tracking system had not been fully implemented as of September 30, 2000. Further, evidence supporting the Corporation's review of OMB Circular A-133 audit reports, and related follow-up on findings, if any, for Corporation grantees expending \$300,000 or more during a fiscal year was not maintained for 8 of 31 grant files we selected for internal control tests.

Recommendation

- Continue with current plans to utilize the OMB Circular A-133 Audit Resolution Database to assist in ensuring that grantee OMB Circular A-133 audit reports are obtained and reviewed, where required, and follow-up on the resolution of identified instances of internal control weaknesses and noncompliance, including ensuring that communication of final management decisions to grantees are performed timely. Ensure proper documentation of the OMB Circular A-133 report reviews is maintained in the grant files for future reference.

Controls over Web Based Reporting System Data Integrity

The Corporation expanded the use of its WBRS in fiscal year 2000. WBRS is currently used to transmit Member enrollment and end-of-term data, as well as Financial Status Reports to the Corporation from the majority of the State Commissions and selected National Direct grantees. Both grantees and their subgrantees have access to WBRS. Recent pre-audit surveys performed by CNS – OIG found weaknesses in WBRS access controls at certain State Commissions.

Controls over the input and transmission of data via WBRS are critical to ensure the integrity of the National Service Trust database, and to the Corporation's ability to rely on the financial data submitted by its grantees as a basis for making grants management decisions. Currently, the Corporation relies on confirmations sent to new AmeriCorps Members upon enrollment to verify the data input into the National Service Trust database via WBRS. However, the confirmations are not required to be returned, and no similar non-automated control is in place to verify the validity of end-of-term data.

Recommendations

- Design additional controls for implementation at the grantee level which consider the paperless environment in which WBRS operates. These controls should include routine review of error listings generated by WBRS by someone other than the person inputting data into the system, a spot check of underlying support for the data submitted via WBRS on a periodic basis, and improved access controls to WBRS at grantee and subgrantee sites, as appropriate.
- Develop and implement procedures at the Corporation level to periodically randomly sample and verify data related to Members included in the National Service Trust database.
- Review the effective operation of these controls as part of the Corporation's grantee monitoring procedures.



Review of Service Organization Controls

The Corporation uses the Department of Health and Human Services (HHS) Payment Management System (PMS) as a service organization to process grantee drawdowns and requests for reimbursements under its NCSA grant award program. The Corporation is also in the process of converting the payment processing for its DVSA grant awards to the PMS. HHS engages an independent auditor to examine and report on the design and operation of controls it has in place to achieve specific control objectives related to the service the PMS provides to user organizations such as the Corporation. Obtaining, reviewing, and considering the results of the service organization auditors' examination should be an integral part of the Corporation's total grants management control environment. The service organization auditors' report also sets forth certain user considerations that are necessary to ensure reliance can be placed on the aspects of the grants management process that the PMS system provides. Although the Corporation received a copy of the service organization auditors' report from HHS, we are uncertain as to the level of review the Corporation performs on this report. For example, the report indicates that users should also obtain a copy of the service organization auditors' report from the organization whose hardware is used to process the PMS data. The Corporation did not obtain this additional report until brought to their attention during the audit.

Recommendations:

- Thoroughly review the results of the independent auditors' report on the design and effectiveness of controls in place at the service organization and take appropriate action to mitigate any reported control deficiencies.
- Consider the recommendations for user organizations and determine whether those relevant to effective Corporation grants management have been incorporated into the control environment at the Corporation.

Timely Closeout of Grants

We noted the user considerations set forth in the report on HHS controls, discussed above, included a recommendation that timely grant closeouts should be performed as the ultimate verification that information processed by the PMS system was accurate. The Corporation admits that it has been delinquent in closing out grants, and is in the process of identifying a vendor to assist them in bringing the closeout process current.

Further, the Corporation recently revised its NCSA grant award document to more clearly specify the grant award period and the related performance period. This action was taken to address the question as to whether the Corporation is in compliance with the availability of funds criteria for NCSA appropriations. Timely grant closeouts is essential to ensuring compliance with the rule on the availability of appropriated funds found at 31 U.S.C. 1502 which stipulates that appropriations available for a limited period may only be used to pay for services that are a bona fide need of the agency during the period of availability of the appropriations.

Recommendations:

- Develop a consistent method for identifying expired NCSA grants and enforce timely administrative closeout of these grants. The closeout process will also provide assurance that amounts reported by PMS to the Corporation during the grant period were valid.



- Complete the procurement of an independent contractor to assist in the closeout of grant awards issued in prior years.

B. 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 has made improvements in its Fund Balance with Treasury reconciliation procedures. As of September 30, 2000, the Corporation had materially reconciled its current year activity in the aggregate, to the activity reported by the Treasury. However, two of the three monthly reconciliations we reviewed were not prepared or reviewed timely during the year. In addition, significant differences continue to exist, at the appropriation level, between the Corporation's records and those maintained by the Treasury, resulting in an aggregate unreconciled difference of approximately \$1.1 million between the Corporation's general ledger balances and those reported by Treasury at September 30, 2000. These differences are primarily the result of transactions occurring in years prior to fiscal year 2000.

Recommendations:

- Continue to investigate and resolve differences resulting from prior year transactions. Once resolved, applicable adjustments should be promptly recorded in the general ledger at the appropriation level and/or reported to the Treasury.
- Document and submit the reconciliations of the (a) Corporation's general ledger to the TFS 6653, *Undisbursed Appropriation Account Ledger*, and (b) differences identified on the TFS 6652, *Statement of Differences*, to the Director of Accounting or other senior management for review and approval no later than 30 days after each month end.

C. 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:

- The Corporation has not reconciled all reported balances of unexpended appropriations in the proprietary accounts to the related budgetary accounts maintained in Momentum. In the September 30, 2000, trial balance, the unexpended appropriations proprietary account (Account 3100) was approximately \$28 million less than the sum of the related budgetary accounts. This situation is primarily the result of incorrect posting logic related to the budgetary accounts maintained in the



legacy accounting system (Federal Success) that were brought forward to Momentum during the fiscal year 1999 conversion.

- Certain budgetary accounts included in Momentum require manual intervention on a monthly basis to reverse a system-generated double posting of obligations as payments made on these obligations are entered into the system. As a result, the potential for errors to occur in the preparation of budgetary reports (SF 133s) is increased. In fact, we found that, as a result of these conditions, the Corporation erroneously reported that obligations exceeded available resources (i.e., an Anti-deficiency Act violation) in its year-end SF 133 reports to OMB.

We concluded that the Corporation does not have adequate procedures in place to ensure the accuracy of components of unexpended appropriations. 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.

Recommendations:

- Continue to investigate and resolve the differences in unexpended appropriations between the proprietary and budgetary accounts, including those related to the balances brought forward into Momentum from Federal Success.
- Develop and implement a periodic reconciliation of the reported balance of unexpended appropriations in the proprietary accounts to the related budgetary accounts for each appropriation.
- Send revised year-end SF 133 reports to OMB to correct those previously sent in error.
- Work with the Momentum contractor to correct the double-posting problem related to obligations.

Compliance with Laws and Regulations

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*. 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 status of prior year reportable instances of noncompliance with laws and regulations is presented as Exhibit II.

Responsibilities

Management's Responsibility

The Government Corporation Control Act requires the Corporation to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To meet the Government Corporation Control Act reporting requirements, the Corporation prepares annual financial statements.



Management is responsible for:

- Preparing the financial statements of the Corporation in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting; and
- Complying with laws and regulations.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibility

Our responsibility is to express an opinion on the fiscal year 2000 financial statements of the Corporation. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our fiscal year 2000 audit, we considered the Corporation's internal control over financial reporting by obtaining an understanding of the Corporation's internal controls, determining whether these internal controls have been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982.

As part of obtaining reasonable assurance about whether the Corporation's fiscal year 2000 financial statements are 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 provisions of other laws and regulations. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Corporation.



Distribution

We provided a draft of this report to the Corporation. The Corporation's response to our report 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 1, 2001

**Corporation for National and Community Service
Status of Prior Year Internal Control Findings**

<i>FY1999 Finding</i>	<i>Type</i>	<i>FY2000 Status</i>
<p><i>Financial Management and Reporting</i> - The Corporation's policies and procedures in place during fiscal year 1999 were not effective in ensuring quality control of accounting and financial reporting activities. Additionally, the general ledger system in use for the majority of fiscal year 1999 was not adequate to support the financial information needs of the Corporation, or to facilitate the preparation of annual financial statements.</p>	<p>1999 – Material Weakness 2000 – Management Letter Comment</p>	<p>A new Chief Financial Officer assumed duties in November 1999, and other competent financial management were recruited to shore up the operations of the Office of the Chief Financial Officer. A new financial accounting system was also installed and utilized throughout fiscal year 2000. Although this finding is no longer classified as a material weakness, recommendations for additional improvements in financial management and reporting operations will be included in our management letter which will be issued as OIG Audit Report (01-02).</p>
<p><i>General Control Environment</i> - A comprehensive process for assessing the effectiveness of the Corporation's system of internal control for safeguarding assets, producing reliable financial reports, and complying with applicable laws and regulations, is not in place. Additionally, a comprehensive set of policies and procedures to guide Corporation financial management activities does not exist.</p>	<p>1999 – Material Weakness 2000 – Management Letter Comment</p>	<p>The Corporation's self-assessment process has been enhanced to include on-site verification of assessable unit questionnaires, recommendations for corrective action where needed, and subsequent follow-up. Significant progress has been made in developing and issuing policies and procedures to guide Corporation personnel in the performance of their financial management activities. Although this finding is no longer classified as a material weakness, recommendations for additional improvements which can be made in this area will be included in our management letter which will be issued as OIG Audit Report (01-02).</p>
<p><i>Grants Management</i> - Adequate procedures for monitoring grantees' financial activity and compliance with laws and regulations are not in place.</p>	<p>1999 – Material Weakness 2000 – Material Weakness</p>	<p>Oversight of grantee financial activity continues to require improvement. Further, as the Corporation continues to place increased reliance on electronic transmission and retention of grant related information, the control environment needs to be modified. This finding has been revised to reflect fiscal year 2000 operations, and is repeated as a continuing material weakness for 2000.</p>

**Corporation for National and Community Service
Status of Prior Year Internal Control Findings**

<i>FY1999 Finding</i>	<i>Type</i>	<i>FY2000 Status</i>
<p><i>National Service Trust</i> - 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.</p>	<p>1999 – Reportable Condition</p> <p>2000 – Revised and Combined with Grants Management Material Weakness</p>	<p>The Corporation has implemented a new Web Based Reporting System (WBRS) for submitting Member enrollment, end-of-term and other activity. Alternate controls over completeness and accuracy of information input to WBRS need to be established and monitored as part of the grants management process. This finding has been closed as a separate reportable condition; however, due to the nature of the finding, it has been revised and incorporated as a component of the fiscal year 2000 grants management material weakness described above.</p>
<p><i>Fund Balance with Treasury</i> - The reconciliation of Corporation records to those maintained by the U.S. Department of the Treasury is not performed in an effective manner.</p>	<p>1999 – Material Weakness</p> <p>2000 – Reportable Condition</p>	<p>Significant differences related to fiscal years prior to 2000 continue to exist at the appropriation level between the Corporation’s records and those maintained by the U.S. Treasury. This finding has been revised to reflect progress made to reconcile and maintain recent activity on current basis, and has been reduced to a reportable condition for 2000.</p>
<p><i>Net Position</i> - Adequate procedures for ensuring unexpended appropriations (both obligated and unobligated) are accurately accounted for, and reviewing the propriety of changes in the components of net position are not in place. In addition, controls have not been established to ensure compliance with National Community Service Act (NCSA) appropriation laws.</p>	<p>1999 – Material Weakness</p> <p>2000 – Reportable Condition</p>	<p>The Corporation has continued to experience difficulties in accounting for the components of unexpended appropriations. This finding has been revised to reflect fiscal year 2000 operations, and has been reduced to a reportable condition for 2000.</p>

**Corporation for National and Community Service
Status of Prior Year Internal Control Findings**

<i>FY1999 Finding</i>	<i>Type</i>	<i>FY2000 Status</i>
<p><i>Financial Systems</i> - The Corporation's new financial accounting system lacks effective report generation capabilities to support its financial information needs or to facilitate the preparation of annual financial statements.</p>	<p>1999 – Reportable Condition 2000 – Closed</p>	<p>The use of the new financial accounting system throughout fiscal year 2000 has been effective in improving the Corporation's ability to prepare its annual financial statements. This finding has been closed as a separate reportable condition; however, as reported in the Net Position section of the report on internal controls, the system's posting logic should be corrected in order to prepare accurate budget reports (SF 133s).</p>

**Corporation for National and Community Service
Status of Prior Year Noncompliance with Laws and Regulations**

FY1999 Finding	FY2000 Status
<p>Federal Financial Systems – During the first 10 months of fiscal year 1999, the Corporation utilized a financial management system that was in substantial non-compliance with the provisions of OMB Circular A-127, <i>Federal Financial Systems</i>.</p>	<p>The Corporation’s new accounting system substantially complies with the requirements of OMB Circular A-127, <i>Federal Financial Systems</i>. However, as reported in the Net Position comment included in the section of the report on internal controls, the systems posting logic should be corrected in order to prepare accurate budgetary reports (SF 133s). Additionally, recommendations encouraging continued efforts to establish a financial management system with an electronically integrated grants management module, and improved use of the cost accounting module in Momentum have been included in our management letter, which will be issued as OIG Audit Report (01-02).</p>
<p>Availability of Funds – The Corporation is not in full compliance with appropriation laws related to the use of its National Community Service Act funds only during periods of availability.</p>	<p>The Corporation has taken steps to clarify the period of performance and the grant award period in its NCSA grant documents. This finding is considered closed as an instance of reportable noncompliance with laws and regulations for 2000; however, our grants management material weakness comment discussed in Exhibit I, recommends continued focus on grant closeouts to ensure continued compliance with period of availability criteria in the future.</p>

Corporation for National and Community Service
Statement of Financial Position
As of September 30, 2000
(dollars in thousands)

ASSETS

Fund Balance with Treasury <i>(Note 2)</i>	\$ 812,521
Trust Investments & Related Receivables, Net <i>(Note 3)</i>	331,831
Advances to Others	24,848
Accounts Receivable, Net <i>(Note 4)</i>	3,058
Property & Equipment, Net <i>(Note 5)</i>	1,715
Total Assets	<u>\$ 1,173,973</u>

LIABILITIES

Trust Service Award Liability <i>(Note 6)</i>	\$ 193,035
Grants Payable	39,516
Accounts Payable	9,699
Actuarial FECA Liability <i>(Note 9)</i>	12,265
Other Liabilities	8,064
Accrued Annual Leave	3,011
Commission Post-Service Benefits Liability <i>(Note 7)</i>	1,439
Advances from Others	742
Capital Lease Liability <i>(Note 8)</i>	128
Total Liabilities	<u>\$ 267,899</u>

Commitments & Contingencies *(Notes 8 and 16)*

NET POSITION

Unexpended Appropriations	
Obligated	\$ 645,132
Unobligated	138,692
Cumulative Results of Operations	122,250
Total Net Position <i>(Note 10)</i>	<u>\$ 906,074</u>
 Total Liabilities & Net Position	 <u>\$ 1,173,973</u>

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, 2000

(dollars in thousands)

REVENUES

Appropriated Capital Used, excluding Trust Fund	\$ 611,641
Appropriations Received by Trust Fund	70,000
Interest	21,514
Revenue from Services Provided	6,044
Other	173
Total Revenues	<u>\$ 709,372</u>

EXPENSES

Grants <i>(Note 11)</i>	\$ 467,943
Program & Administrative <i>(Note 12)</i>	157,070
National Service Award <i>(Note 13)</i>	83,971
Total Expenses	<u>\$ 708,984</u>

EXCESS OF REVENUES OVER EXPENSES

\$ 388

NET POSITION

Excess of Revenues over Expenses	\$ 388
Increase in Unexpended Appropriations, Net <i>(Note 14)</i>	41,759
Non-Operating Change - Permanent Rescission of Trust Funds <i>(Note 15)</i>	<u>(81,000)</u>
Decrease in Net Position, Net	(38,853)
Net Position, Beginning Balance	<u>944,927</u>
Net Position, Ending Balance	<u>\$ 906,074</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, 2000
(dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Excess of Revenues over Expenses		\$ 388
Adjustments Affecting Cash Flow:		
Appropriated Capital Used	\$ (611,641)	
Appropriations Received by Trust Fund	(70,000)	
Decrease in Accounts Receivable	3,397	
Decrease in Interest Receivable	499	
Decrease in Advances	3,717	
		(674,028)
Increase in Accounts Payable & Other Liabilities	\$ 292	
Increase in FECA & Annual Leave Liabilities	4,394	
Decrease in Commission Liability	(157)	
Decrease in Capital Lease Liability	(54)	
Increase in Trust Liability	12,604	
Increase in Grants Payable	3,276	
		20,355
Amortization of Premium/Discount	\$ 2,615	
Loss on Treasury bond recall	2,014	
Depreciation & Amortization	1,907	
		6,536
Total Adjustments		(647,137)
Net Cash Used by Operating Activities		\$ (646,749)

(continued)

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

Corporation for National and Community Service
Statement of Cash Flows
For the Year Ended September 30, 2000
(dollars in thousands)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Property and Equipment	\$ (449)	
Sales of Securities	211,869	
Purchase of Securities	<u>(153,138)</u>	
Net Cash Provided by Investing Activities		\$ 58,282

CASH FLOWS FROM FINANCING ACTIVITIES

Appropriations Received	\$ 734,145	
Canceled/Rescinded Appropriations	<u>(91,745)</u>	
Net Cash Provided by Financing Activities		<u>\$ 642,400</u>
Net Cash Provided by Operating, Investing, & Financing Activities		\$ 53,933
Fund Balance with Treasury, Beginning		<u>758,588</u>
Fund Balance with Treasury, Ending		<u><u>\$ 812,521</u></u>

Supplemental Disclosure of Cash Flow Information

Interest Paid	\$ 18
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Supplemental Schedule of Financing & Investing Activity

Equipment Acquired Under Capital Lease Obligations	\$ 25
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The accompanying notes are an integral part of these financial statements.

Corporation for National and Community Service Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

These financial statements have been prepared to report the financial position, results of operations, 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 by the National and Community Service Act of 1990, as amended. These financial statements have been prepared from the books and records of the Corporation 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.

The principal financial statements of the Corporation are the:

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

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

B. Reporting Entity

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

- **AmeriCorps** is the national service program that engages thousands of Americans of all ages and backgrounds in full-time and sustained part-time community service and provides education awards in return for such service.
- **The National Senior Service Corps** is a network of more than 500,000 people age 55 and older who participate in the *Foster Grandparent Program*, the *Senior Companion Program*, and the *Retired and Senior Volunteer Program*. These programs tap the experience, skills, talents, and creativity of America's seniors.
- **Service-Learning** supports and promotes service learning in schools, universities, and communities. Through structured service activities that help meet community needs, more than 750,000 students improve their academic learning, develop personal skills, and practice responsible citizenship.

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

C. Budgets and Budgetary Accounting

The activities of the Corporation are primarily funded through two separate appropriation bills. One is the Labor/Health and Human Services bill, which funds Domestic Volunteer Service Act (DVSA) programs. The DVSA appropriation is available for obligation by the Corporation for one fiscal year only, e.g., from October 1, 1999, through September 30, 2000. The second is the Veterans Affairs, Housing and Urban Development, and Independent Agencies bill, which funds National Community Service Act (NCSA) programs. The NCSA appropriation is available for obligation by the Corporation over two fiscal years, e.g., from October 1, 1999, through September 30, 2001.

Corporation for National and Community Service Notes to the Financial Statements

Both the DVSA and the NCSA appropriations fund a part of the Corporation's costs for administrative operations. In addition, part of the NCSA appropriations are provided for the National Service Trust (the Trust), a fund within the Corporation used to provide education awards to eligible participants. The Trust provides awards for AmeriCorps members under AmeriCorps*State and National, AmeriCorps*NCCC, and AmeriCorps*VISTA as well as for the AmeriCorps Education Award Program, where sponsoring organizations are responsible for providing member subsistence and other costs, and the Corporation provides an education award and a small amount for administrative costs.

D. Basis of Accounting

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

The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds. Budgetary accounting principles are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. Thus, the financial statements differ from other financial reports submitted pursuant to Office of Management and Budget directives for the purpose of monitoring and controlling the use of the Corporation's budgetary resources.

E. Fund Balance with Treasury

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

Funds maintained in the National Service Trust are restricted for use in paying service awards earned by eligible recipients, and are not available for use in the current operations of the Corporation. The majority of the funds received from individuals and organizations in the form of gifts and donations for the support of service projects are restricted for a particular use.

F. Trust Investments and Related Receivables

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

The Corporation classifies these investments as held-to-maturity at the time of purchase and periodically 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.

Corporation for National and Community Service Notes to the Financial Statements

G. Advances to Others

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

H. Accounts Receivable

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

I. Property and Equipment

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

Normal maintenance and repair costs on capitalized property and equipment are expensed when incurred.

J. Trust Service Award Liability

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

K. Grants Payable

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

L. Accounts Payable

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

M. Actuarial FECA Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for Corporation employees under FECA are administered by the Department of Labor (DOL)

Corporation for National and Community Service Notes to the Financial Statements

and later billed to the Corporation. The Corporation's actuarial liability for workers' compensation includes costs incurred but unbilled as of year-end, as calculated by DOL, and is not funded by current appropriations.

N. Other Liabilities

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

O. Accrued Annual Leave

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

P. Commission Post-Service Benefits Liability

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

Q. Advances from Others

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

R. Net Position

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

S. Revenues

Appropriated Capital

The Corporation obtains funding for its program and operating expenses through annual and multi-year appropriations. Appropriations are recognized as an accrual-based financing source at the time they are used to pay program or administrative expenses, except for expenses to be funded by future appropriations such as earned but unused annual leave. Appropriations expended for property and equipment are recognized as a financing source when the property is purchased. Funds not used for eligible expenses within the allowed time must be returned to Treasury.

Appropriations received for the Corporation's Trust are recognized as revenue when received in the Trust Fund. Trust appropriations do not expire with the passage of time and are retained by the Corporation in the Trust until used for eligible education service award purposes.

Corporation for National and Community Service Notes to the Financial Statements

Interest

Interest income 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.

Revenue from Services Provided

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

Other Revenue

Other revenue consists of gifts and donations for the support of service projects from individuals and organizations plus gains on dispositions of investments.

T. Retirement Benefits

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

For employees covered by CSRS, the Corporation contributes 8.51 percent of their gross pay to the Plan. For those employees covered by FERS, the Corporation contributes to the Plan 11.50 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 either the Corporation's automatic or matching contributions.

The Corporation made retirement contributions of \$993 thousand to the CSRS Plan, and \$4,580 thousand in contributions to the FERS and TSP Plans in fiscal year 2000.

U. Use of Estimates

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

Corporation for National and Community Service
Notes to the Financial Statements

NOTE 2 – FUND BALANCE WITH TREASURY

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

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

Fund Balance with Treasury as of September 30, 2000 <i>(dollars in thousands)</i>			
Type	Unrestricted	Restricted	Total
Appropriated Funds	\$811,232	\$ 0	\$811,232
Trust Funds	0	1,191	1,191
Gift Funds	11	87	98
Total	<u>\$811,243</u>	<u>\$1,278</u>	<u>\$812,521</u>

All fund balances have been reconciled to Treasury records for the fourth quarter fiscal 2000.

NOTE 3 – TRUST INVESTMENTS AND RELATED RECEIVABLES, NET

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

Trust Investments and Interest Receivable as of September 30, 2000 <i>(dollars in thousands)</i>	
Investments, carrying value	\$306,146
Matured Investment Receivable	20,967
Interest Receivable	4,718
Total	<u>\$331,831</u>

The receivable amount at year-end includes two investments that matured on Saturday, September 30, 2000, but were not redeemed by Treasury until the first business day of fiscal 2001.

Corporation for National and Community Service
Notes to the Financial Statements

Amortized Cost and Fair Value of Investment Securities as of September 30, 2000 <i>(dollars in thousands)</i>				
Securities	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Fair Value
Notes	\$261,815	\$ 0	\$(1,368)	\$260,447
Bills	26,717	415	0	27,132
Bonds	17,614	0	(217)	17,397
Total	<u>\$306,146</u>	<u>\$415</u>	<u>\$(1,585)</u>	<u>\$304,976</u>

At September 30, 2000, the notes held at year-end had an interest rate range of 5.25% to 8.00% and a maturity period from about 31 days to almost five and a half years. Interest rates on bonds ranged between 10.75% to 14.25% and had a maturity period from about one and a half years to almost five years. The bills held at year-end had an interest rate range of 5.71% to 6.15% and were all due to mature within 120 days. The par values of these investments range from \$404 thousand to \$27,917 thousand.

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

Maturation of Securities Held as of September 30, 2000 <i>(dollars in thousands)</i>		
Held-to-Maturity Securities	Amortized Cost	Fair Value
Due in 1 year or less	\$ 77,852	\$ 78,016
Due after 1 year up to 5 years	209,473	208,193
Due after 5 years up to 10 years	18,821	18,767
Total	<u>\$306,146</u>	<u>\$304,976</u>

NOTE 4 – ACCOUNTS RECEIVABLE, NET

Accounts Receivable as of September 30, 2000 <i>(dollars in thousands)</i>	
Accounts receivable	\$3,352
Less: allowance for loss on receivables	294
Accounts Receivable, Net	<u>\$3,058</u>

**Corporation for National and Community Service
Notes to the Financial Statements**

NOTE 5 – PROPERTY AND EQUIPMENT, NET

General Property and Equipment as of September 30 <i>(dollars in thousands)</i>				
Major Class	Service Life (Years)	Cost	Less: Accumulated Depreciation	Net Book Value
Equipment and furniture	3-10	\$2,080	\$1,362	\$ 718
Capital leases	3-5	280	145	135
ADP software	2	3,182	2,320	862
Total		<u>\$5,542</u>	<u>\$3,827</u>	<u>\$1,715</u>

NOTE 6 – SERVICE AWARD LIABILITY – NATIONAL SERVICE TRUST

Individuals who successfully complete terms of service in AmeriCorps programs earn education awards, which can be used to make payments on qualified student loans or for the 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 as well as awards under the President’s Student Service Scholarship program. The award liability components related to education awards and interest forbearance have been adjusted, based on historical experience, to reflect the fact that some eligible participants may not use these benefits. The service award liability was composed of the following as of September 30, 2000:

Service Award Liability as of September 30, 2000 <i>(dollars in thousands)</i>	
Education awards	\$407,591
Interest forbearance	12,826
President’s Student Service Scholarships	<u>5,571</u>
Total service award liability	425,988
Less: cumulative awards paid	232,953
Net Service Award Liability	<u>\$193,035</u>

**Corporation for National and Community Service
Notes to the Financial Statements**

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 the former Commission’s operations differ from those originating within the Corporation in three significant respects:

- the grantee, rather than an agency of the Federal government, is responsible for making post-service award payments;
- 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; and
- the post-service period during which an award is available for use was established by each program grantee, rather than set at seven years for all awardees.

The post-service benefits liability associated with the former 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 as of September 30, 2000 <i>(dollars in thousands)</i>	
Estimated liability as of September 30, 1999	\$1,596
Less: drawdowns and adjustments	<u>61</u>
Potential education awards	1,535
Less: award expirations	96
Commission Post-Service Benefits Liability as of September 30, 2000	<u>\$1,439</u>

**Corporation for National and Community Service
Notes to the Financial Statements**

NOTE 8 – CAPITAL AND OPERATING LEASES

A. Capital Leases

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

Capital Leases Future Minimum Payments Due as of September 30, 2000 <i>(dollars in thousands)</i>	
Fiscal Year 2001	\$ 75
Fiscal Year 2002	37
Fiscal Year 2003	32
Fiscal Year 2004	<u>2</u>
Total future minimum lease payments	146
Less: amounts representing interest	18
Capital Lease Liability as of September 30, 2000	<u>\$128</u>

B. Operating Leases

The Corporation leases office space through the General Services Administration (GSA). GSA charges the Corporation a Standard Level Users Charge that approximates commercial rental rates for similar properties. Additionally, the Corporation leases motor vehicles on an annual basis through GSA under an Interagency Fleet Management Service agreement for the National Civilian Community Corps. Commitments of the Corporation for future rental payments under operating leases at September 30, 2000, are as follows:

Estimated Operating Lease Commitments as of September 30, 2000 <i>(dollars in thousands)</i>				
Fiscal Year	Office Space	Vehicles	Other	Total
2001	\$ 4,101	\$ 957	\$ 189	\$ 5,247
2002	4,249	996	189	5,434
2003	4,403	1,035	189	5,627
2004	4,562	1,077	194	5,833
2005	4,727	1,120	187	6,034
Total	<u>\$22,042</u>	<u>\$5,185</u>	<u>\$948</u>	<u>\$28,175</u>

Corporation for National and Community Service
Notes to the Financial Statements

NOTE 9 – WORKERS’ COMPENSATION

The Corporation’s liability for future workers’ compensation benefits (FECA) was \$12,265 thousand as of September 30, 2000. The amount includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The actuarial liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget’s economic assumptions for 10-year Treasury notes and bonds.

NOTE 10 – NET POSITION

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

Net Position by Fund Balance Components as of September 30, 2000 <i>(dollars in thousands)</i>				
	Gift Fund	Trust Fund	Appropriated Fund	Total
Unexpended appropriations	\$ 0	\$ 0	\$ 783,824	\$ 783,824
Cumulative results of operations	67	140,023	(17,840)	122,250
Total Net Position	<u>\$ 67</u>	<u>\$ 140,023</u>	<u>\$ 765,984</u>	<u>\$ 906,074</u>

NOTE 11 – GRANTS EXPENSE

Grants Expense Components for the year ended September 30, 2000 <i>(dollars in thousands)</i>	
Domestic Volunteer Service Act Programs	192,012
National and Community Service Act Programs	267,712
Points of Light Foundation	7,471
DVSA State Pass-Through Grants	748
Total Grants Expense	<u>\$467,943</u>

**Corporation for National and Community Service
Notes to the Financial Statements**

NOTE 12 – 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 program and administrative expense.

Program and Administrative Expense for the year ended September 30, 2000 <i>(dollars in thousands)</i>	
Federal employee salaries and benefits	\$ 52,482
Volunteer stipends and healthcare	56,522
Travel and transportation	7,359
Rent, communications, and utilities	6,479
Program analysis and evaluation	4,754
Printing and reproduction	1,168
Other services	20,385
Supplies and materials	2,098
Loss on Treasury bond recall	2,014
Depreciation and amortization	1,907
Bad debt	22
Office of the Inspector General	1,535
Other	345
Total Program and Administrative Expense	<u>\$157,070</u>

NOTE 13 – NATIONAL SERVICE AWARD EXPENSE

Members participating in the Trust programs are eligible to earn a service award to pay for qualified education expenses. The Trust also pays interest forbearance costs on qualified student loans during the period members perform community service. The Corporation estimates the expense for national service awards based on the increase in its service award liability during the year (see Note 6). The total service award liability as of September 30, 2000 has been adjusted to reflect the extent that earned awards are not always used.

National Service Award Expense for the year ended September 30, 2000 <i>(dollars in thousands)</i>	
Awards earned as of September 30, 2000	\$375,010
Estimated awards to be earned	32,581
Estimated interest forbearance	12,826
President’s Student Service Scholarships	<u>5,571</u>
Total service award liability as of September 30, 2000	425,988
Total service award liability as of September 30, 1999	342,017
National Service Award Expense	<u>\$ 83,971</u>

**Corporation for National and Community Service
Notes to the Financial Statements**

NOTE 14 – INCREASE IN UNEXPENDED APPROPRIATIONS, NET

Increase in Unexpended Appropriations, Net as of September 30, 2000 <i>(dollars in thousands)</i>	
Increases:	
Appropriations received, net of Trust	\$ 664,145
OIG Supplemental Appropriation	<u>1,000</u>
Total Increases	665,145
Decreases:	
Appropriated capital used, net of Trust	(611,641)
Rescinded appropriations (non-Trust)	(2,630)
Canceled appropriations	<u>(9,115)</u>
Total Decreases	(623,386)
Increase in Unexpended Appropriations, Net	<u>\$ 41,759</u>

NOTE 15 – TRUST FUND RESCISSION

In fiscal 2000, \$81 million of amounts previously appropriated under the National and Community Service Act of 1990 (Act) and transferred to the National Service Trust were rescinded. One million of the \$81 million was provided to the OIG in a supplemental appropriation for use in its current operations. The rescissions permanently reduced the amount available under subtitle D of title I of the Act (42 U.S.C. 12601 et seq.) for the disbursement of education awards. A similar rescission was enacted in fiscal 2001 and is described in Note 17 below.

NOTE 16 – CONTINGENCIES

Contingencies

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

Judgment Fund

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

NOTE 17 – SUBSEQUENT EVENT

In October 2000, \$30 million of amounts previously appropriated under the National and Community Service Act of 1990 (Act) and transferred to the National Service Trust were rescinded. This action, pursuant to Public Law 106-377, permanently reduces the amount available under subtitle D of title I of the Act (42 U.S.C. 12601 et seq.) for the disbursement of education awards.

APPENDIX A

CORPORATION FOR NATIONAL SERVICE RESPONSE

March 21, 2001

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

Dear Ms. Jordan:

The Corporation has reviewed the draft *Independent Auditors' Report*, prepared by KPMG, on the Corporation's fiscal 2000 financial statements and is extremely pleased that the Corporation has received its first-ever unqualified opinion on its financial statements. This achievement resulted from the hard work and dedication of Corporation staff and a commitment to strong management control and accountability for the Corporation's financial resources. The Corporation has put in place a top flight management team, invested in and implemented state-of-the-art systems, engaged its bipartisan Board of Directors in active oversight, and performed the hard work to correct past problems and position the Corporation to manage its program and grant portfolio efficiently and effectively.

The Corporation is also pleased that the report recognizes its many improvements in internal control. Operational areas deemed to be materially weak have been reduced from *five* in fiscal 1999 to *one* in fiscal 2000 and testing of compliance with laws and regulations disclosed no instances of noncompliance. However, the Corporation's efforts will not stop here. While the Corporation is proud of these accomplishments, more needs to be done. To this end, the Corporation's priority continues to be meeting the goals and objectives of the comprehensive Action Plan established in fiscal 1999. In addition to providing the Corporation's blueprint for correcting material weaknesses, the Action Plan includes other objectives and tasks related to a broader management agenda.

The draft report cites one area of the Corporation's operations as a material weakness and two areas as reportable conditions. The Corporation's comments on the related findings and recommendations follow. As suggested, we have separately transmitted revisions to the draft report to correct errors and clarify facts.

GRANTS MANAGEMENT

To resolve the grants management material weakness the Corporation will continue to focus on three areas: designing and implementing a single grants management system that will interface with *Momentum*; continuing to close out expired grants; and implementing a comprehensive OMB Circular A-133 (*Audits of States, Local Governments, and Non-Profit Organizations*) policy.

In fiscal 2000 the Corporation began work on a long-range project to reengineer its grant processes and to build an information system to manage those processes. In fiscal 2001, the Congress provided special funding to support the design and implementation of this system. Throughout the fall, many Corporation employees spent

hundreds of hours with the system's designers to reengineer and consolidate processes and document a new system to reflect those improved processes. That design work was completed in December 2000.

The system will be built in ORACLE and will share many of the same tables of the Corporation's System for Programs, Agreements, and National Service Participants. When completed, the Corporation will have an integrated grants management system that provides comprehensive financial management information for all grants and cooperative agreements. The design meets the Grants Financial System Requirements of the Joint Financial Management Improvement Program (JFMIP) and the requirements of the Government Paperwork Elimination Act and the Federal Financial Assistance Management Improvement Act. The Corporation has also provided the design documentation, including functional hierarchies, entity diagrams, and initial mock-ups of all forms and reports, to the Office of the Inspector General for comment.

Once fully implemented, potential grantees will be able to apply for Corporation grants using a common electronic standard form 424 on the Internet. The Corporation will also be able to perform peer review of grant proposals over the Internet. All employees of the Corporation will be able to perform their role-based grant functions in one system. Both financial and progress reporting will be done over the Internet. The system will be linked to the Corporation's *Momentum* financial management system so that all financial data will be in sync. Much of the current labor intensive tracking and notifying-affected-parties requirements will be automated. All of the Corporation's grant activity (including tracking OMB Circular A-133 audit reports), with appropriate audit trails, will be done in one place.

In January 2001 the Corporation issued a task order to a contractor to build the system. Construction, testing, and training associated with the new system is expected to take 14 to 18 months. The first of those months will be devoted to a detailed design review to make sure that what is captured in the design documents meets the Corporation's requirements.

Plans are also moving forward to close out expired AmeriCorps grants and send the files to the Federal Records Center. To expedite this process, the Corporation will contract with a qualified vendor to perform grant file review, grant award reconciliation, and an analysis of financial and related reports to determine that all requirements have been met. The Corporation expects that a contractor will begin work on the close-out project by the end of April 2001.

The Corporation also plans to consolidate its grant and program files in a central archive for grants issued from the Corporation's headquarters. Files for grants issued by the Corporation's five service centers will remain at the location servicing the grant. In the longer term, the Corporation believes that the archive will not be needed. As discussed above, the Corporation is building a new grant management system that will handle all aspects of the grant process from accepting applications, to peer review, to award and eventual close-out. The Corporation estimates that within five years the entire grant process will be paperless eliminating the need for an archive.

Oversight of Grantee Financial Status

The audit report states that the Corporation's financial management system lacks "sufficient flexibility to produce reports which would be useful in monitoring grantee performance, including reports of grantees with past due reports and impending grant expiration dates." The Corporation agrees that the current grants management system does not interface with *Momentum* and is not efficient. As discussed above, the Corporation has a major project underway to replace the system. However, the systems and processes currently in use by the Corporation do allow adequate monitoring of grants. For DVSA grants awarded through *Momentum*, the system allows grants staff to produce reports showing overdue Financial Status Reports. For NCSA grants, the Corporation produces and uses many different reports from Grantsbase, including:

- Aggregate expenditures through the SF-269 Financial Status Reports by grant.
- List of grantees which have (or have not) submitted a bi-annual or quarterly SF-269 Financial Status Report.
- End dates of grants within a set time period (for closeout).
- Aggregate funding by grantee/state/grant type.
- Amendments for increased funding or no-cost extensions in a particular time period.
- Number of programs uploaded to SPAN/WBRS and dates.
- Tracking by date of all awards.

Grant officers also review Financial Status Reports on a regular basis and are now trained to directly access the new internet-based Department of Health and Human Services (HHS) Payment Management System. The HHS Payment Management System data exactly summarizes award amounts, drawdowns, and expenditures based on the SF-272. Grant officers for NCSA programs generally will not issue a new grant award unless the grantee is current with Financial Status Reports. In addition, a grantee's account at HHS can be frozen if other remedies are not effective. Moreover, grantees are made aware of their reporting responsibilities and deadlines, as well as the potential consequences of non-compliance, as part of the grant award process.

Finally, development of the new integrated grants management system is on schedule. The system will be web-based and incorporate all phases of grant-making: applying, awarding, monitoring, reporting, and close-out. Individual staff members will be able to track grant-making processes and many edit checks will be built into the system to cut down dramatically on errors in financial reporting. The system will also have a series of automatic notifications for upcoming and overdue financial and program reports. The new system will interface with *Momentum*, the AmeriCorps Web-based Reporting System (WBRS), and the HHS Payment Management System.

Grantee Site Visits

As noted in the audit report, the Corporation has established a risk-based monitoring process for conducting site visits and developed site visit monitoring tools that are used as needed for specific grantees. Program and grants officers determine the capacity and risk factors for grantees and determine what specific site visit tools will be

used on monitoring visits. Thus, depending on the need and depth of review required, utilization of the monitoring tools may vary for each site visit. The Corporation agrees that the review of subgrantee reporting documentation should be considered when performing site visits. The NCSA grant and program offices have developed a joint, one-page template for site visits. This template includes procedures for reviewing reporting documentation and also serves as the basis for the use of other financial monitoring tools, including a "Financial Controls Assessment" and the "Financial System Survey."

In addition, the Corporation, in conjunction with the governor-appointed State Commissions, has implemented a State Commission Administrative Standards Review program as the Corporation's primary tool for monitoring the State Commissions that administer the AmeriCorps*State program. Under the program, a review team spends five days on site assessing a Commission in five statute-based areas: 1) proper grant processes; 2) monitoring of service programs; 3) member record keeping; 4) filing of Corporation reports; and 5) financial management. In addition, the Commissions' planning and assessment processes, personnel management, systems for training and technical assistance, as well as service promotion within states are evaluated. As part of the review process, Corporation staff also conduct site visits to selected program sites receiving funding from Commissions to ensure that the Commissions are conducting proper program oversight. To date Corporation staff have reviewed 15 State Commissions and an additional 14 reviews will be conducted in fiscal 2001.

The standards reviews help Commissions identify areas where their administrative and management practices may need improvement. Once these areas are identified, State Commissions are instructed to obtain technical assistance and training to correct any deficiencies and must establish policies and procedures to remedy the problems. The Commission then establishes a work plan for developing and implementing any changes in policies and procedures that are necessary. State Commissions are required to report on any corrective actions, and the Corporation monitors the State Commission to ensure that all deficiencies are corrected. Corporation staff perform site visits as needed to check on the status of these items.

Finally, the Corporation will continue to rely on the judgement of independent auditors, such as KPMG, who perform OMB Circular A-133 audits to assess the risks at the grantees they audit and determine the level and extent of compliance testing that should be performed at a particular grantee.

Oversight of OMB Circular A-133 Reporting

The Corporation believes its current OMB Circular A-133 audit monitoring processes are sufficient but will be even better once the new grants management system is fully implemented. In fiscal 2000, grant staff reviewed OMB Circular A-133 audit reports via the Federal Audit Clearinghouse for all grantees meeting the \$300,000 threshold for an OMB Circular A-133 audit for both NCSA and DVSA grants. This review is done annually and is documented in the grant file.

In cases in which the OMB Circular A-133 audit has not been completed, grants staff may hold up the award or issue a partial award pending completion of the audit. When an audit identifies reportable findings, grant staff coordinate with the auditee's oversight or cognizant agency to determine if the organization has taken corrective action. If the Corporation has oversight responsibility, grants staff will follow-up and track the audit through the Corporation's OMB Circular A-133 audit tracking system.

Controls Over Web Based Reporting System Data Integrity

The Corporation recognizes that as it upgrades its systems, modernizes its grant processes, and moves into a "paperless" operating environment, it must consider the impact on its internal control environment. To that end, the Corporation will consider KPMG's recommendation to develop and implement procedures to randomly sample and verify data related to members included in the Trust. The Corporation will also update the State Commission Administrative Standards to specifically incorporate testing of Commission controls over WBRs data and system access as part of the review.

Review of Service Organization Controls

The Corporation acknowledges the importance of considering the controls of its service organizations and reviews every report deemed to be relevant to the Corporation's control environment, including "SAS 70" audits. In the draft report, KPMG cites the Corporation for not obtaining the auditors' report from the Center for Information Technology (CIT), whose hardware is used to process the Payment Management System data, until "brought to their attention during the audit."

The Corporation believes that this statement is misleading. Each year, the Corporation obtains and reviews the SAS 70 audit reports for the service organizations it utilizes as soon as they are available. The Corporation had been in contact with HHS for several months attempting to obtain the SAS 70 audit reports. In the example cited by KPMG, the Payment Management System audit report was made available to the Corporation on February 12. KPMG requested the related CIT report on February 27, 15 days later. This is not a sufficient time lapse to conclude that the Corporation was negligent in obtaining and reviewing the report. In fact, as of the date of this letter, the Corporation's Office of Information Technology has reviewed the SAS 70 reports and concluded that the Corporation's current procedures provide adequate access security. The reports are also currently under review by the Corporation's accounting and grant offices.

Timely Close-out of Grants

The Corporation agrees that grant close-outs are important and has established procedures to close-out its backlog of expired grants. To facilitate this effort revised written policies and procedures were put in place in July 2000. The grants office has closed approximately 400 expired NCSA grants and created a database to generate information on all expired grants. By late April, the Corporation will have a contract in

place to assist with the close-out of the remaining expired NCSA grants over the next two years and get the Corporation current on closing-out its grant portfolio.

The grant staff also trained grantees on the close-out requirements and processes at the Corporation conference in June 2000 and through a series of conference calls to groups of grantee staff. In addition, Corporation program and grants officers have received training on close-out responsibilities and procedures. Finally, the Corporation just completed a web site that grantees can access to download required documents and related information on close-out.

FUND BALANCE WITH TREASURY

During fiscal 2000 the Corporation began reconciling its Fund Balance with Treasury at the appropriation level on a monthly basis. Prior to the implementation of the *Momentum* financial management system, this was not practical. The reconciliation work is reviewed and approved by the Director of Accounting or other supervisory personnel.

The draft report cites as a reportable condition that two of the 12 monthly reconciliations were not prepared and reviewed in a timely manner and that differences exist at the appropriation level between the Corporation's records and Treasury's. As for the timeliness of the reviews, during fiscal 2000 (and continuing in fiscal 2001) the Chief Financial Officer or Deputy Chief Financial Officer regularly met (*usually on a weekly basis*) with the cash reconciliation team to review the results of the reconciliation and determine what additional actions were necessary to resolve any differences.

Moreover, during fiscal 2000 the aggregate unreconciled difference of \$3.4 million at September 30, 1999, cited in the fiscal 1999 audit report, was reduced to \$1.1 million as of September 30, 2000. The remaining differences between Treasury and the Corporation are a result of prior years' activity – before strong financial management controls were put in place. The only significant unreconciled differences remaining relate to activity reported to Treasury by the Department of Health and Human Services on behalf of the Corporation for grants issued prior to fiscal 1999.

For fiscal 2000, the Corporation reconciled all Fund Balance With Treasury transactions with Treasury records. The Corporation is continuing these efforts in fiscal 2001 and believes this initiative will resolve all significant prior period differences by the end of the year. For its on-going processing activity the Corporation will require the cash reporting and reconciliation team to complete work on current month's differences and submit it to the Director of Accounting for review within 30 days after each month's end. The Corporation believes these actions resolve the reportable condition in this area.

NET POSITION

The draft report states that “the Corporation does not have adequate procedures in place to ensure the accuracy of components of unexpended appropriations.” This statement is misleading because there are no proprietary components of unexpended appropriations. The audit report should clearly state that it is referring to the budgetary

makeup of unexpended appropriations (essentially memorandum accounts), and has no effect on financial statements prepared in accordance with FASB standards, which are prepared from the Corporation's proprietary accounts. With that clarification, the Corporation recognizes that the budgetary components of unexpended appropriations should be reconciled with the proprietary accounts and initiated several actions during fiscal 2000 to address this matter and believes that it has taken great strides toward clean budgetary reporting.

First, *Federal Success*, the accounting system in use by the Corporation through July 1999, incorrectly posted transactions to the budgetary accounts. These posting problems were not easy to identify, isolate, and correct in the *Federal Success* system. At the end of fiscal 1999, with the implementation of *Momentum*, it became much easier to identify and correct posting problems. Moreover, *Momentum* has additional controls such as self-balancing budgetary accounts to help prevent errors from occurring.

In addition, during fiscal 2000, with the assistance of American Management Systems (AMS) and the Department of Interior's National Business Center, the Corporation underwent an extensive review of all posting logic that had been set up in *Momentum*. As a result of this review, posting logic was revised, unused accounting events were deactivated, and adjustments were posted to the system. Now changes in budgetary accounts tie to changes in proprietary accounts.

Finally, the Corporation established procedures in fiscal 2000 for budget holders to routinely review open obligations and deobligate funds on a monthly basis. These reviews are in addition to the monthly review and analyses of appropriations, general ledger account balances, and net position by CFO staff to detect unusual activity and make appropriate corrections. Moreover, *Momentum* automatically deobligates remaining balances when a final payment is made via the "final flag" feature.

As a result of these efforts, account 3100 – Unexpended Appropriations – was cleaned up so that the change in unexpended appropriations and cumulative results of operations from fiscal 1999 to fiscal 2000 was identified to the penny. A cleanup of the related budgetary accounts is currently underway and should be completed during the current fiscal year.

While adjustments to the trial balance were necessary for SF-133 reporting due to the way *Momentum* posted transactions, the Corporation believes that it has an adequate process for preparing SF-133s. The two instances of incorrect SF-133 reporting (out of 102 prepared for fiscal 2000) resulted from human error. Revised SF-133s were prepared once the mistake was identified, and will be transmitted to OMB during the next reporting cycle in April. However, to help ensure that fewer errors are made in the future, the Corporation has instituted an additional control over these reports whereby the Director of Budget must review and approve SF-133s prior to their transmittal to OMB.

The posting issue described in the audit report was brought to the attention of AMS when the Corporation implemented *Momentum* in September 1999. The

Corporation is pleased to report that AMS has recently corrected the problem in the Corporation's current release of the software and that future activity will post properly. The Corporation, in conjunction with AMS, is in the process of correcting the posting for transactions occurring prior to the software fix. The Corporation believes these actions resolve the reportable condition in this area.

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Finally, the Corporation would like to express its appreciation for the effort that your staff made on the fiscal 2000 audit. Corporation staff also worked extremely hard during the year improving operations. The audit result – a clean opinion – has been a long time in the making, but happened because of the dedication and hard work of the entire team.

Sincerely,



Wendy Zenker
Acting Chief Executive Officer