Office of Inspector General
Corporation for National and Community Service

**AUDIT OF THE
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE'S
FISCAL YEAR 2006 FINANCIAL STATEMENTS**

Audit Report Number 07- 01

Corporation for
NATIONAL & COMMUNITY SERVICE

Prepared by:

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

This report was issued to Corporation management on November 15, 2006. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than May 15, 2007, and complete its corrective actions by November 15, 2007. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Corporation for
NATIONAL &
COMMUNITY
SERVICE

OFFICE OF INSPECTOR GENERAL

November 15, 2006

TO: David Eisner
Chief Executive Officer

FROM: Robert Shadowens
Deputy Inspector General

SUBJECT: Audit of the Corporation for National and Community Service's Fiscal Year 2006 Financial Statements, Audit Report Number 07-01

We contracted with the independent certified public accounting firm of Cotton & Company (Cotton) to audit the financial statements of the Corporation for National and Community Service (Corporation) as of September 30, 2006 and 2005, and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards.

In its audit, Cotton found

- The financial statements were fairly presented, in all material respects, in conformity with generally accepted accounting principles;
- Reportable conditions from the Fiscal Year 2005 audit were determined to be closed;
- A reportable condition on Financial Reporting for Fiscal Year 2006;
- An issue of noncompliance with laws and regulations it tested.

Cotton & Company is responsible for the attached auditor's report, dated November 13, 2006, and the conclusions expressed therein. The Office of Inspector General does not express an opinion on the Corporation for National and Community Service's Financial Statements or Cotton's conclusions about the effectiveness of internal control or compliance with laws and regulations.

The Corporation's response to the audit report is included as an Appendix.

Attachment

cc:
Nicola Goren, Chief of Staff
Frank Trinity, General Counsel
Jerry Bridges, Chief Financial Officer
William Anderson, Deputy CFO for Financial Management
Sherry Wright, Audit Resolution Coordinator

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Office of Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying Statements of Financial Position of the Corporation for National and Community Service (Corporation) as of September 30, 2006, and September 30, 2005, and the related Statements of Operations and Changes in Net Position, Budgetary Resources, and Cash Flows for the years ended September 30, 2006, and September 30, 2005. These financial statements are the responsibility of Corporation management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation at September 30, 2006, and September 30, 2005, and the results of its operations and changes in its net position, budgetary resources, and cash flows for the years ended September 30, 2006, and September 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 13, 2006, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with provisions of laws and regulations. Our reports on internal control and compliance are an integral part of an audit conducted in accordance with *Government Auditing Standards* and, in considering the results of our audit, those reports should be read together with this report.

COTTON & COMPANY LLP

Alan Rosenthal, CPA
Partner

November 13, 2006
Alexandria, Virginia

Corporation for National and Community Service
Statements of Financial Position
As of September 30

(dollars in thousands)

ASSETS	2006	2005
Fund Balance with Treasury *(Note 2)*	$ 927,827	$ 904,096
Trust Investments and Related Receivables *(Note 3)*	448,329	404,745
Advances to Others	60,047	63,589
Accounts Receivable, Net *(Note 4)*	2,055	3,187
Property and Equipment, Net *(Note 5)*	3,158	982
Total Assets	**$ 1,441,416**	**$ 1,376,599**
LIABILITIES		
Trust Service Award Liability *(Note 6)*	$ 266,943	$ 260,061
Grants Payable	88,639	91,448
Accounts Payable	5,912	7,061
Actuarial FECA Liability *(Note 8)*	12,537	12,298
Other Liabilities	11,223	10,109
Accrued Annual Leave	3,736	3,412
Advances from Others	162	68
Capital Lease Liability *(Note 7)*	327	402
Total Liabilities	**389,479**	**384,859**
Commitments and Contingencies *(Note 14)*		
NET POSITION		
Unexpended Appropriations	872,133	864,400
Cumulative Results of Operations	179,804	127,340
Total Net Position *(Note 9)*	**1,051,937**	**991,740**
Total Liabilities and Net Position	**$ 1,441,416**	**$ 1,376,599**

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

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

(dollars in thousands)

REVENUE	2006	2005
Appropriated Capital Used	$ 731,807	$ 678,753
Appropriations Transferred to the Trust Fund *(Note 10)*	154,868	142,848
Interest	15,427	12,096
Revenue from Services Provided	9,064	8,248
Other	185	1,111
Total Revenue	**911,351**	**843,056**

EXPENSES		
AmeriCorps	553,851	494,246
SeniorCorps	235,955	233,285
Learn and Serve America	51,799	54,695
Subtotal - Program Expenses	841,605	782,226
Earmarked Grants	9,504	12,465
Office of the Inspector General	7,778	6,029
Total Expenses *(Note 11)*	**858,887**	**800,720**
Excess of Revenue Over Expenses	**$ 52,464**	**$ 42,336**

NET POSITION		
Excess of Revenue over Expenses	$ 52,464	$ 42,336
Increase in Unexpended Appropriations, Net *(Note 13)*	7,733	75,344
Increase in Net Position, Net	60,197	117,680
Net Position, Beginning Balance	991,740	874,060
Net Position, Ending Balance *(Note 9)*	**$ 1,051,937**	**$ 991,740**

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

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

(dollars in thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of Revenue over Expenses	$ 52,464	$ 42,336
Adjustments Affecting Cash Flow:		
Appropriated Capital Used	(731,807)	(678,753)
Appropriations Received in Trust	(154,868)	(142,848)
Decrease/(Increase) in Accounts Receivable	1,132	(551)
Decrease/(Increase) in Interest Receivable	(56)	(1,332)
Decrease/(Increase) in Advances	3,542	2,565
Increase/(Decrease) in Accounts Payable and Other Liabilities	59	(473)
Increase/(Decrease) in FECA and Annual Leave Liabilities	563	259
Increase/(Decrease) in Capital Lease Liability	(75)	-
Increase/(Decrease) in Trust Liability	6,882	22,564
Increase/(Decrease) in Grants Payable	(2,809)	(25,802)
Amortization of Premium/Discount on Investments	2,839	(1,732)
Depreciation, Amortization, and Loss on Disposition of Assets	897	402
Total Adjustments	(873,701)	(825,701)
Net Cash Provided (Used) by Operating Activities	**(821,237)**	**(783,365)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(3,075)	(46)
Sales of Securities	363,305	337,175
Purchase of Securities	(409,670)	(400,983)
Net Cash Provided (Used) in Investing Activities	**(49,440)**	**(63,854)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received	919,049	934,482
Canceled/Rescinded Appropriations	(24,641)	(37,537)
Net Cash Provided by Financing Activities	**894,408**	**896,945**
Net Increase/(Decrease) in Fund Balance with Treasury	**23,731**	**49,726**
Fund Balance with Treasury, Beginning	**904,096**	**854,370**
Fund Balance with Treasury, Ending	**$ 927,827**	**$ 904,096**

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

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

(dollars in thousands)

BUDGETARY RESOURCES	2006	2005
Unobligated balance, brought forward, October 1	$ 215,828	$ 154,669
Recoveries of prior year unpaid obligations	39,507	42,426
Budget authority		
Appropriations received	1,092,466	1,086,254
Spending authority from offsetting collections		
Collected	10,581	7,809
Change in receivable from Federal sources	(1,968)	(1,726)
Change in unfilled customer orders		
Advance received	94	(187)
Without advance from Federal sources	2,634	-
Anticipated for rest of year, without advances	-	-
Permanently not available	(24,642)	(37,537)
Total budgetary resources	**$ 1,334,500**	**$ 1,251,708**

STATUS OF BUDGETARY RESOURCES		
Obligations Incurred		
Direct	$ 1,148,622	$ 1,035,880
Unobligated balances		
Apportioned	5,285	111,941
Other available	73,607	38,227
Unobligated balances not available	106,986	65,660
Total status of budgetary resources	**$ 1,334,500**	**$ 1,251,708**

(Continued)

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

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

(dollars in thousands)

(Continued)

CHANGE IN OBLIGATED BALANCE	2006	2005
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 1,083,950	1,040,374
Less uncollected customer payments - brought forward, October 1	(2,789)	(2,708)
Adjustment for 2004 carry forward balance	-	(8,352)
Obligations incurred, net	1,148,622	1,035,880
Less gross outlays	(1,007,987)	(943,333)
Less recoveries of prior year unpaid obligations, actual	(39,507)	(42,426)
Change in uncollected customer payments from Federal sources	(666)	1,726
Total unpaid obligated balance, net, end of period	**$ 1,181,623**	**$ 1,081,161**
Obligated balance, net, end of period		
Unpaid obligations	$ 1,185,078	$ 1,083,950
Less uncollected customer payments from Federal sources	(3,455)	(2,789)
Total unpaid obligated balance, net, end of period	**$ 1,181,623**	**$ 1,081,161**

OUTLAYS		
Gross outlays	$ 1,007,987	$ 943,333
Less offsetting collections	(10,675)	(7,622)
Less distributed offsetting receipts	(25,228)	(21,273)
Net outlays	**$ 972,084**	**$ 914,438**

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

These financial statements have been prepared to report the financial position, results of operations, cash flows, and budgetary resources of the Corporation for National and Community Service (Corporation), as required by the Government Corporation Control Act (31 USC 9106), the National and Community Service Act of 1990, as amended (42 USC 12651), and the President's February 27, 2004, Executive Order on National and Community Service Programs. These financial statements have been prepared from the books and records of the Corporation. The Statements of Financial Position, Operations and Changes in Net Position, and Cash Flows have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to Federal governmental corporations and include the Corporation's activities related to providing grants and education awards to eligible participants. The Statement of Budgetary Resources, required by Executive Order, has been prepared in accordance with guidance prescribed in Office of Management and Budget (OMB) *Circular A-136 Financial Reporting Requirements*, which constitutes generally accepted accounting principles for Federal governmental entities as specified by the AICPA's Statement on Auditing Standards 69, *The Meaning of Presents Fairly in Conformity With Generally Accepted Accounting Principles*. The Corporation is not subject to income tax.

The principal financial statements of the Corporation are the:

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

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

B. Reporting Entity

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

- **AmeriCorps** is the national service program that annually engages Americans of all ages and backgrounds in full-time and sustained part-time community service and provides education awards in return for such service. AmeriCorps includes *State, National, Tribes & Territories* (State/National); *National Civilian Community Corps* (NCCC); and *Volunteers In Service To America* (VISTA) programs.

- **The National Senior Service Corps** is a network of people age 55 and older who participate in the *Foster Grandparent Program*, the *Senior Companion Program*, and the *Retired and Senior Volunteer Program*. These programs tap the experience, skills, talents, and creativity of America's seniors.

- **Learn and Serve America** supports and promotes service learning in schools, universities, and communities. Through structured service activities that help meet community needs, nearly one million students improve their academic learning, develop personal skills, and practice responsible citizenship.

C. Budgets and Budgetary Accounting

The activities of the Corporation are primarily funded through the Labor-Health and Human Service, and Education appropriation bill. For fiscal year 2006, the bill provided one amount to carry out Domestic Volunteer Service Act (DVSA) programs, a second amount to carry out National and Community Service Act (NCSA) programs, a third amount for salaries and expenses to cover administration of both DVSA and NCSA programs, and a fourth amount to cover necessary expenses of the Office of Inspector General (OIG).

Appropriations covering DVSA programs as well as salaries and expenses are available for obligation by the Corporation for one fiscal year only, while appropriations for NCSA and OIG are available for obligation by the Corporation over two fiscal years.

In addition, part of the NCSA appropriations are provided on a no-year basis for the National Service Trust (the Trust), a fund within the Corporation primarily used to provide education awards to eligible participants. The Trust provides awards for AmeriCorps members under AmeriCorps*State and National, Tribes and Territories, AmeriCorps*NCCC, and AmeriCorps*VISTA.

D. Basis of Accounting

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

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

E. Fund Balance with Treasury

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

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

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

F. Trust Investments and Related Receivables

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

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

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

G. Advances to Others

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

H. Accounts Receivable

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

I. Property and Equipment

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

J. Trust Service Award Liability

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

K. Grants Payable

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

L. Accounts Payable

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

M. Actuarial FECA Liability

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

N. Other Liabilities

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

O. Accrued Annual Leave

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

P. Advances from Others

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

Q. Net Position

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

R. Revenues

Appropriated Capital Used

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

Interest

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

Revenue from Services Provided

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

Other Revenue

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

S. Retirement Benefits

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

For employees covered by CSRS, the Corporation contributes 8.51 percent of their gross pay towards retirement. For those employees covered by FERS, the Corporation contributes 11.50 percent of their gross pay towards retirement. Employees are allowed to participate in the Federal Thrift Savings Plan (TSP). For employees under FERS, the Corporation contributes an automatic one percent of basic pay to TSP and matches employee contributions up to an additional 4 percent of pay, for a maximum Corporation contribution amounting to 5 percent of pay. Employees under CSRS may participate in the TSP, but will not receive either the Corporation's automatic or matching contributions.

The Corporation made retirement contributions of $571 thousand and $622 thousand to the CSRS Plan, and $7.06 million and $6.63 million to the FERS and TSP Plans in fiscal years 2006 and 2005, respectively.

T. Use of Estimates

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

U. Supplemental Cash Flow Information

Interest paid during fiscal 2006 and 2005 was $11 thousand and $16 thousand, respectively. Property and equipment acquired under capital lease obligations totaled $435 thousand in fiscal 2005. There were no capital acquisitions in fiscal 2006.

V. Reclassification of 2005 Financial Statements

Net Position in the Statement of Financial Position for fiscal 2005 was reformatted to conform to the fiscal 2006 presentation. The fiscal 2005 Statement of Budgetary resources was reformatted to conform to the July 2006 changes required by OMB Circular A-136, *Financial Reporting Requirements*. These changes had no affect on Total Net Position, Budgetary Resources, Status of Budgetary Resources, or Relationship of Obligations to Outlays presented in the 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 or interest forbearance payment and must always be paid directly to a qualified institution (college, university, or other approved educational institution, or a lending institution holding an existing student loan) as designated by the participant, as well as awards under the President's Freedom Scholarship Program.
- **Gift Funds** – Gift Funds are funds received from individuals and organizations as donations in furtherance of the purposes of the national service laws.

Fund Balance with Treasury as of September 30
(dollars in thousands)

	2006			2005		
Type	**Unrestricted**	**Restricted**	**Total**	**Unrestricted**	**Restricted**	**Total**
Appropriated Funds	$ 913,492	$ -	$ 913,492	$ 902,793	$ -	$ 902,793
Trust Funds	-	13,590	13,590	-	252	252
Gift Funds	-	745	745	-	1,051	1,051
Total	**$ 913,492**	**$ 14,335**	**$ 927,827**	**$ 902,793**	**$ 1,303**	**$ 904,096**

NOTE 3 – TRUST INVESTMENTS AND RELATED RECEIVABLES

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

Trust Investments and Related Receivables as of September 30 *(dollars in thousands)*	**2006**	**2005**
Investments, Carrying Value	$ 443,602	$ 400,074
Investment and Interest Receivable	4,727	4,671
Total	**$ 448,329**	**$ 404,745**

Amortized Cost and Fair Value of Investment Securities as of September 30
(dollars in thousands)

	2006				**2005**			
Securities	**Amortized Cost**	**Unrealized Gains**	**Unrealized (Losses)**	**Fair Value**	**Amortized Cost**	**Unrealized Gains**	**Unrealized (Losses)**	**Fair Value**
Notes	$ 406,825	$ -	$ (4,520)	$ 402,305	$ 370,896	$ -	$ (6,324)	$ 364,572
Bills	36,777	124	-	36,901	29,178	63	-	29,241
Bonds	-	-	-	-	-	-	-	-
Total	**$ 443,602**	**$ 124**	**$ (4,520)**	**$ 439,206**	**$ 400,074**	**$ 63**	**$ (6,324)**	**$ 393,813**

At September 30, 2006, the notes held at year-end had an interest rate range of 3.0% to 6.625% and an outstanding maturity period of approximately one day to five years. The bills held at year-end had an interest rate range of 4.50% to 4.955% and were all due to mature within 46 days. The par values of these bills range from $1.2 million to $4.6 million.

As required by the Strengthen AmeriCorps Program Act, beginning in fiscal 2003 the Corporation has set aside in reserve a portion of the funds appropriated to the Trust in the event that its estimates used to calculate obligational amounts for education awards prove to be too low. As of September 30, 2006, $39.8 million of the Corporation's investment account has been set aside for this reserve.

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

Maturation of Securities Held as of September 30
(dollars in thousands)

	2006		**2005**	
Held-to-Maturity Securities	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in 1 year or less	$ 189,747	$ 188,294	$ 156,960	$ 156,005
Due after 1 year up to 5 years	253,855	250,912	243,114	237,808
Total	**$ 443,602**	**$ 439,206**	**$ 400,074**	**$ 393,813**

NOTE 4 – ACCOUNTS RECEIVABLE, NET

Accounts Receivable as of September 30 *(dollars in thousands)*	**2006**	**2005**
Accounts receivable	$ 3,113	$ 4,240
Less: allowance for loss on receivables	1,058	1,053
Accounts Receivable, Net	**$ 2,055**	**$ 3,187**

NOTE 5 – PROPERTY AND EQUIPMENT, NET

General Property and Equipment as of September 30
(dollars in thousands)

		2006			2005		
Major Class	**Service Life (Years)**	**Cost**	**Less: Accumulated Depreciation**	**Net Net Book Value**	**Cost**	**Less: Accumulated Depreciation**	**Net Net Book Value**
Equipment	3 - 10	$ 3,320	$ 1,381	$ 1,939	$ 2,191	$ 1,593	$ 598
Capital leases	3 - 5	435	140	295	435	51	384
ADP software	2	6,274	5,350	924	5,042	5,042	-
Total		**$ 10,029**	**$ 6,871**	**$ 3,158**	**$ 7,668**	**$ 6,686**	**$ 982**

NOTE 6 – SERVICE AWARD LIABILITY – NATIONAL SERVICE TRUST

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

Service Award Liability as of September 30 *(dollars in thousands)*	**2006**	**2005**
Education awards	$1,038,985	$ 921,086
Interest forbearance	32,478	30,038
Presidential Freedom Scholarship Program	20,900	20,999
Total estimated service award liability	1,092,363	972,123
Less: cumulative awards paid	825,420	712,062
Total	**$ 266,943**	**$ 260,061**

The net service award liability as of September 30, 2006, increased by approximately $6.9 million from the net service award liability as of September 30, 2005. This change was largely due to new member enrollments and an increase in the number of members still serving during the year.

NOTE 7 – CAPITAL AND OPERATING LEASES

A. Capital Leases

The Corporation has entered into lease agreements for copy machines. These leases vary from 3 to 4 year terms and are deemed to be capital leases. The costs of the copiers have been recorded as property and equipment (also see Note 5). The following is a schedule by year of the future minimum payments under these leases:

Capital Leases Future Minimum Due as of September 30 *(dollars in thousands)*	2006	2005
Fiscal Year 2006	$ -	$ 117
Fiscal Year 2007	109	109
Fiscal Year 2008	109	109
Fiscal Year 2009	109	109
Fiscal Year 2010	73	73
Total future minimum lease payments	400	517
Less: amounts representing interest	73	115
Total	**$ 327**	**$ 402**

B. Operating Leases

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

Estimated Operating Lease Commitments as of September 30 *(dollars in thousands)*

	2006				2005			
Fiscal Year	**Facilities Space**	**Vehicles**	**Other**	**Total**	**Facilities Space**	**Vehicles**	**Other**	**Total**
2006	$ -	$ -	$ -	$ -	$ 8,597	$ 1,053	$ 169	$ 9,819
2007	7,828	964	166	8,958	9,166	1,091	175	10,432
2008	8,073	998	173	9,244	9,338	1,131	182	10,651
2009	8,328	1,033	180	9,541	9,515	1,173	188	10,876
2010	8,592	1,069	188	9,849	9,697	1,216	195	11,108
2011	8,864	1,107	198	10,169	-	-	-	-
Total	**$ 41,685**	**$ 5,171**	**$ 905**	**$ 47,761**	**$ 46,313**	**$ 5,664**	**$ 909**	**$ 52,886**

NOTE 8 – WORKERS' COMPENSATION

The Corporation's actuarial liability for future workers' compensation benefits (FECA) was $12.5 million and $12.3 million as of September 30, 2006 and 2005, respectively. The amount includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The actuarial liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds.

NOTE 9 – NET POSITION

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

Net Position by Fund Balance Components
As of September 30, 2006
(dollars in thousands)

	Gift Fund	Trust Fund	Appropriated Fund	Total
Unexpended appropriations	$ -	$ -	$ 872,133	$ 872,133
Cumulative results of operations	743	194,980	(15,919)	179,804
Total Net Position	**$ 743**	**$ 194,980**	**$ 856,214**	**$ 1,051,937**

Net Position by Fund Balance Components
As of September 30, 2005
(dollars in thousands)

	Gift Fund	Trust Fund	Appropriated Fund	Total
Total unexpended appropriations	$ -	$ -	$ 864,400	$ 864,400
Cumulative results of operations	1,011	144,950	(18,621)	127,340
Total Net Position	**$ 1,011**	**$ 144,950**	**$ 845,779**	**$ 991,740**

NOTE 10 – APPROPRIATIONS RECEIVED BY THE TRUST FUND

Under the Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriations Act, 2006 (P.L. 109-149) the Trust received $138.6 million ($140 million less the one percent government-wide rescission included in the Department of Defense Appropriations Act, 2006 (P.L. 109-148)). The Act also authorized the Corporation to transfer additional amounts from subtitle C program funds to the National Service Trust if "necessary to support the activities of national service participants." The Corporation transferred $16.3 million to the Trust under this provision in fiscal 2006. Under the 2005 Consolidated Appropriations Act (Public Law 108-447) the Trust received $142.8 million ($144 million less $1.2 million Trust portion of the rescission to NCSA pursuant to the Act). The Trust portion of the NCSA rescissions were transferred back to NCSA, reducing the net amount of appropriations received by the Trust Fund during each fiscal year.

NOTE 11 – EXPENSES

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

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

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

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

Other Program Costs

The National Service Award expense component consists of the Corporation's estimated expense for education awards based on the increase in its service award liability during the year, interest forbearance costs on qualified student loans during the period members perform community service, as well as disbursements for the Presidential Freedom Scholarship Program. No indirect costs have been allocated to the National Service Award expense component. The Corporation's annual appropriation includes various Congressionally Earmarked Grants. In addition, the Corporation has reimbursable agreements with state agencies whereby the Corporation awards and administers grants to a list of grantees selected and funded by the State. No indirect costs have been allocated to these grants. The Office of Inspector General (OIG) receives a separate appropriation. No indirect costs have been allocated to the OIG. The largest component of total expense is grant funds expended.

Components of Grant Funds Expended for the years ended September 30
(dollars in thousands)

		2006		2005
Domestic Volunteer Service Act Programs		$ 240,753		$ 231,722
National and Community Service Act Programs		308,007		268,771
Earmarked Grants				
Congressionally Earmarked Grants	$ 8,344		$ 11,485	
DVSA State Grants	1,160		980	
Total Earmarked Grants		9,504		12,465
Total Grants Expense		**$ 558,264**		**$ 512,958**

Expenses by Major Responsibility Segment for the years ended September 30
(dollars in thousands)

		2006		2005
AmeriCorps				
State, National, Tribes & Territories (State/National)	$ 399,882		$ 343,905	
National Civilian Community Corps (NCCC)	37,162		35,706	
Volunteers In Service To America (VISTA)	116,807		114,635	
Subtotal		$ 553,851		$ 494,246
National Senior Service Corps				
Retired and Senior Volunteer Program (RSVP)	65,480		62,090	
Foster Grandparent Program (FGP)	119,773		120,476	
Senior Companion Program (SCP)	$ 50,702		$ 50,719	
Subtotal		235,955		233,285
Learn and Serve America		51,799		54,695
Total Earmarked Grants		9,504		12,465
Office of Inspector General (OIG)		7,778		6,029
Total Expenses		**$ 858,887**		**$ 800,720**

Expenses by Type and Subprogram for the year ended September 30, 2006

(dollars in thousands)

Type	AmeriCorps			National Senior Service Corps				Earmarked		
	State/ National	NCCC	VISTA	RSVP	FGP	SCP	Learn & Serve	Grants	OIG	Total
Grant and Related Expense										
Grant funds expended	$ 261,409	$ -	$ 22,536	$ 60,159	$ 111,190	$ 46,868	$ 46,598	$ 9,504	$ -	$ 558,264
VISTA & NCCC stipends & benefits	-	7,803	60,904	-	-	-	-	-	-	68,707
Service award expense	103,924	4,075	12,340	-	-	-	(99)	-	-	120,240
Total Grant and Related Expense	365,333	11,878	95,780	60,159	111,190	46,868	46,499	9,504	-	747,211
Administrative Expense										
Federal employee salaries & benefits	21,581	10,781	7,605	3,261	6,019	2,544	3,718	-	3,011	58,520
Travel & transportation	998	4,003	4,319	170	287	123	146	-	127	10,173
Rent, communications, & utilities	3,114	2,564	818	445	820	346	303	-	332	8,742
Program analysis & evaluation	771	695	698	223	407	172	521	-	-	3,487
Printing & reproduction	79	89	95	9	17	7	12	-	4	312
Other services and expenses	7,020	6,195	7,060	1,080	798	542	494	-	4,146	27,335
Supplies & materials	364	934	362	86	145	62	69	-	156	2,178
Depreciation, amortization & loss on disposition of assets	606	22	66	45	85	36	35	-	2	897
Bad debt	16	1	4	2	5	2	2	-	-	32
Total Administrative Expense	34,549	25,284	21,027	5,321	8,583	3,834	5,300	-	7,778	111,676
Total Expenses by Type	$ 399,882	$ 37,162	$ 116,807	$ 65,480	$ 119,773	$ 50,702	$ 51,799	$ 9,504	$ 7,778	$ 858,887

Expenses by Type and Subprogram for the year ended September 30, 2005

(dollars in thousands)

Type	AmeriCorps			National Senior Service Corps				Earmarked		
	State/ National	NCCC	VISTA	RSVP	FGP	SCP	Learn & Serve	Grants	OIG	Total
Grant and Related Expense										
Grant funds expended	$ 222,812	$ -	$ 19,024	$ 56,478	$ 109,985	$ 46,235	$ 45,959	$ 12,465	$ -	$ 512,958
VISTA & NCCC stipends & benefits	-	7,353	61,066	-	-	-	-	-	-	68,419
Service award expense	94,021	5,160	10,822	-	-	-	3,500	-	-	113,503
Total Grant and Related Expense	316,833	12,513	90,912	56,478	109,985	46,235	49,459	12,465	-	694,880
Administrative Expense										
Federal employee salaries & benefits	14,694	10,508	11,607	3,469	6,741	2,833	2,907	-	2,380	55,139
Travel & transportation	778	2,758	4,331	201	384	167	136	-	94	8,849
Rent, communications, & utilities	1,558	1,440	538	255	495	207	185	-	19	4,697
Program analysis & evaluation	942	856	856	262	508	214	642	-	-	4,280
Printing & reproduction	122	115	31	13	25	12	10	-	2	330
Other services and expenses	8,290	6,796	6,015	1,271	2,064	935	1,227	-	3,506	30,104
Supplies & materials	266	710	246	70	134	56	73	-	28	1,583
Depreciation, amortization & loss on disposition of assets	198	5	46	33	66	28	26	-	-	402
Bad debt	224	5	53	38	74	32	30	-	-	456
Total Administrative Expense	27,072	23,193	23,723	5,612	10,491	4,484	5,236	-	6,029	105,840
Total Expenses by Type	$ 343,905	$ 35,706	$ 114,635	$ 62,090	$ 120,476	$ 50,719	$ 54,695	$ 12,465	$ 6,029	$ 800,720

NOTE 12 – NATIONAL SERVICE AWARD EXPENSE

Members participating in the Trust programs are eligible to earn a service award to pay for qualified education expenses. The Trust also pays interest forbearance costs on qualified student loans during the period members perform community service. The Corporation estimates the expense for national service awards based on the increase in its cumulative service award liability during the year (see Note 6). The total service award liability as of September 30, 2006 and 2005, respectively, has been adjusted to reflect the fact that earned awards are not always used.

National Service Award Expense for the years ended September 30 *(dollars in thousands)*	**2006**	**2005**
Estimated education awards	$ 117,899	$ 106,922
Estimated interest forbearance	2,440	3,081
President's Freedom Scholarship Program	(99)	3,500
National Service Award Expense	**$ 120,240**	**$ 113,503**

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

Increase/(Decrease) in Unexpended Appropriations, Net as of September 30 *(dollars in thousands)*	**2006**	**2005**
Increases:		
Appropriations Received	$ 919,049	$ 934,482
Decreases:		
Appropriated Capital Used	(731,807)	(678,753)
Appropriations Transferred to Trust Fund	(154,868)	(142,848)
Rescinded Appropriations	(9,090)	(7,475)
Canceled Appropriations	(15,551)	(30,062)
Total Decreases	(911,316)	(859,138)
Increase/(Decrease) in Unexpended Appropriations, Net	**$ 7,733**	**$ 75,344**

NOTE 14 – CONTINGENCIES

Contingencies

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

Judgment Fund

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

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Office of Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have audited the financial statements of the Corporation for National and Community Service (Corporation) as of and for the year ended September 30, 2006, and September 30, 2005, and have issued our report thereon dated November 13, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Corporation management is responsible for complying with laws and regulations applicable to the Corporation. As part of obtaining reasonable assurance that the Corporation's fiscal year 2006 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on determination of financial statement amounts. Providing an opinion on compliance with those provisions was not, however, an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described below.

The Corporation recognizes budgetary resources for reimbursements under cost-share agreements entered into with non-federal AmeriCorps*VISTA sponsors when agreements are executed rather than when reimbursements are received, which is required by Office of Management and Budget (OMB) Circular A-11. OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, Section 20.4(b), states:

> *Budget authority may be recorded and obligations incurred against orders from other Federal accounts only if an obligation is recorded by the paying account; obligations normally cannot be incurred against orders from the public without an advance....*
> *You cannot incur obligations against customer orders received from non-Federal sources without an advance, unless a law specifically allows it.*

Accordingly, the Corporation cannot record spending authority from offsetting collections for cost-share reimbursements or incur obligations against this authority until reimbursements are received. The Corporation may incur obligations to pay VISTA members against its Domestic Volunteer Service Act (DVSA) appropriations as well as cost-share amounts that have been collected. If at any time, however, obligations exceed budgetary resources, an Anti-Deficiency Act violation could occur. We were unable to determine if the Corporation was in compliance with the Anti-Deficiency Act at all times during the fiscal year. However, unobligated balances at September 30, 2006, in the FY 2006 DVSA appropriation (Treasury Account 95 06 0103 000 0) were $54,263. If resources generated by unfilled customer orders without advance and receivables related to cost share agreements of $1,665,182 were deducted from unobligated balances a deficit of $1,610,919 would exist. This is an indication that the Corporation may have been in violation of the Anti-Deficiency Act.

We recommend that the Corporation modify its accounting practices to comply with OMB Circular A-11. We also recommend that the Corporation investigate a potential Anti-Deficiency Act occurrence and take required corrective action if a violation occurred.

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

COTTON & COMPANY LLP

Alan Rosenthal, CPA
Partner

November 13, 2006
Alexandria, Virginia

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Office of Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the financial statements of the Corporation for National and Community Service (Corporation) as of and for the years ended September 30, 2006, and September 30, 2005, and have issued our report thereon dated November 13, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing the Fiscal Year 2006 audit, we considered the Corporation's internal control over financial reporting by obtaining an understanding of the Corporation's internal control, determining if internal control had been placed in operation, assessing control risk, and performing tests of controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards*. The objective of our audit was not to provide assurance on the Corporation's internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

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

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

We also noted other matters involving internal control and its operation that we will report to Corporation management in our management letter, which will be issued as OIG Audit Report 07-02.

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

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

COTTON & COMPANY LLP

Alan Rosenthal, CPA
Partner

November 13, 2006
Alexandria, Virginia

EXHIBIT 1
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
REPORTABLE CONDITION
SEPTEMBER 30, 2006

FINANCIAL STATEMENT QUALITY CONTROL AND ASSURANCE IMPROVEMENTS NEEDED

The Corporation's internal control and quality assurance procedures over financial management and reporting need improvement to ensure that accurate and reliable financial reports can be prepared in a timely manner. The Corporation's financial reporting department, Accounting and Financial Management Services (AFMS), is responsible for preparing financial statements as well as ensuring that all accounting transactions are accurate and recorded in accordance with appropriate accounting principles.

The Corporation did not have sufficient and effective quality control procedures over its draft financial statements and related footnote disclosures. This resulted in a significant number of auditor comments and several versions of the financial statements and footnotes. In addition, the Corporation was unable to adhere to agreed-upon reporting deadlines. For example:

- The year-end trial balance and financial statements were submitted by the Corporation after the scheduled delivery date and contained errors and omissions that resulted in three subsequent revisions.

- Capital property and capital lease supporting schedules were not maintained throughout the fiscal year. The Corporation did not maintain adequate records for approximately $2 million of capital additions.

- Increases and decreases in unobligated balances for expired funds were not accounted for using appropriate general ledger accounts for upward and downward adjustments, resulting in approximately $6.5 million of misstatements on the Statement of Budgetary Resources (SBR).

- Differences of $2.5 million in the relationship between unexpended appropriations in the proprietary accounts and unobligated balances and undelivered orders in budgetary accounts were not researched to determine validity. The invalid differences are indicative of accounting posting errors.

- A misclassification of budget object codes (BOC) during cost allocation resulted in a $15 million discrepancy between member stipends and salaries and benefits that was not detected by AFMS.

- Use of a trial balance that omitted opening account balances resulted in the Corporation overstating unfunded Federal Employees Compensation Act (FECA) liability by approximately $2.1 million.

- Liability for the Volunteer Health Claim Accrual was overstated by $5.1 million as the result of transposition of numbers and data entry errors.

- Adjustments were recorded in the Corporation's Momentum accounting system to reconcile to the FACTS II data submitted to Treasury without supporting documentation for the adjustments.

- The general ledger contained accounts with unnatural balances that were not investigated for determining validity.

- The Corporation did not recognize all imputed expenses and financing related to Treasury's Judgment Fund.

- The ending Fiscal Year (FY) 2005 account balances did not agree with beginning FY 2006 balances due to the fact that adjusting entries were posted to incorrect accounting periods.

- The June 30, 2006, SBR contained a misstatement of approximately $11 million for the line item "Less distributed offsetting receipts" in the "Outlays" section due to the omission of a general ledger account balance.

- Purchases and sales of securities included in investing activities in the Statement of Cash Flows as of June 30, 2006, were not the actual amounts paid or received due to the fact that they included the applicable discount or premium. Operating activities were misstated by a similar amount.

Recommendations

We recommend that existing procedures be reviewed and enhanced to ensure that all financial transactions are properly recorded, and that accurate and reliable financial statements and footnotes can be prepared on a timely basis. Specifically, we recommend:

- Performing additional analytical procedures, such as relationship testing and fluctuation analysis.

- Developing and implementing checklists to ensure timely, accurate, and complete financial reporting in accordance with applicable accounting principles.

- Having an independent review conducted by individuals not associated with the Corporation's daily financial management and reporting responsibilities.

- Providing training and continuing education for financial management personnel.

- Producing accruals on a quarterly basis in order that quarterly financial statements comply with generally accepted accounting principles and facilitate fiscal year-end financial reporting.

EXHIBIT 2
STATUS OF PRIOR-YEAR REPORTABLE CONDITIONS
AS OF SEPTEMBER 30, 2006

FY 2005 Finding	Type	FY 2006 Status
Monitoring of Grantee Activities	2002: Reportable Condition 2003: Reportable Condition 2004: Reportable Condition 2005: Reportable Condition	Closed
Personnel and Payroll Processing Internal Controls	2005: Reportable Condition	Closed

Appendix

Corporation Response to Report

Corporation for
NATIONAL &
COMMUNITY
SERVICE

Date: November 15, 2006

To: Carol Bates, Assistant Inspector General for Audit

From: Jerry Bridges, Chief Financial Officer

Subject: Fiscal 2006 Financial Audit Report

Thank you for the opportunity to comment on the fiscal 2006 financial audit report (OIG Report 07-01). We are pleased that the two prior-year reportable conditions have been favorably resolved, especially in the area of grants oversight and monitoring. As you know, strengthening our stewardship of Federal grant funds has been a top management priority. Through the hard work and dedication of hundreds of Corporation staff members and the cooperation and support of our grantees, we have achieved a milestone in which we all should take much pride. Our discussion on the specific issues raised in the audit follows.

Cotton & Company reports that the Corporation did not have sufficient and effective quality control procedures over its draft financial statements and related footnote disclosures to ensure that accurate and reliable financial reports can be prepared in a timely manner and recommends that, among other things, the Corporation perform additional analytical procedures, develop and complete additional checklists for financial reporting, and provide training and continuing education for financial management personnel.

In support of its conclusion on the timeliness of the Corporation's preparation of the financial statements Cotton & Company states that the Corporation was unable to adhere to agreed-upon auditor deadlines to provide information. In support of its conclusion regarding the preparation of accurate financial statements Cotton & Company states that it had a number of comments on the financial statements and footnotes. The Corporation disagrees with Cotton & Company's conclusions.

Timeliness of Financial Statement Preparation

The Corporation's schedule for preparing financial statements is designed to meet OMB and Treasury reporting requirements, which the Corporation does on time without exception throughout the year. Cotton & Company asserts that "the year-end trial balance and financial statements were submitted after the scheduled delivery date and contained errors and omissions that resulted in three subsequent revisions." This statement is incorrect. In fact, each year the Corporation has reduced the time necessary to provide information to the auditors. For example, during the 2006 audit the Corporation provided the pre-closing (period 13) trial balance to the auditors on October 20, six days earlier than in 2005. Similarly, the "period 14" trial balance was provided eleven days earlier and the "period 15" trial balance seven days earlier than in 2005. Moreover, the adjustments to the financial statements referenced by Cotton & Company were completed before the period 13 close, except for one minor adjustment that needs further research that will be posted in fiscal 2007.

The Corporation has an extensive documented closing process that it uses to minimize errors and identify possible omissions. Cotton & Company has been provided this document for the past four years. The Corporation has asked for and received input in the past and made adjustments if requested. We had no such request this year. The document identified when and in what sequence activities would take place, and financial statement preparation activities were scheduled accordingly. Throughout the audit we provided information to Cotton & Company when requested, including requests for preliminary (e.g., prior to our review) information that was needed as soon as possible.

In addition, the Corporation worked with the audit staff on a consistent basis to make adjustments to the schedule as the audit and the conduct of the Corporation's ongoing operations dictated. The Chief of Financial Reporting had numerous discussions with Cotton & Company's onsite lead auditor on the "prepared by client" listing, which the Corporation tracked to ensure that the auditors were getting all the information they needed. In most instances the audit manager stated that she had either received the information or was working with the responsible party directly to get the information. The Corporation was not made aware of any significant outstanding items during the course of the audit.

In instances where the information was preliminary or still under review, as with the period 13 trial balance, the auditors were informed that the Corporation was reviewing balances in the course of their normal duties and that adjustments were likely. Reviewing results, relationship testing, and fluctuation analysis are key processes the Corporation utilizes to ensure that its financial statements are correct in all material respects. The Corporation agrees that, due to the nature of the reporting schedule, the Corporation and auditor reviews take place concurrently. Management is simply carrying out its responsibility in an effective and efficient manner while trying to facilitate the completion of the audit. We strongly object to your characterizing issues raised by management during its review of financial data as an audit finding.

The Corporation understands that time frames are tight, issues arise in the normal course of business and that audit staffing may be in flux – this is a normal part of producing audited financial statements. Cotton & Company has changed auditors on every cycle and, on several occasions, made changes in the middle of the audit causing more time to be utilized by Corporation staff training the auditors that could have been used completing the closeout. The Corporation has always accommodated the auditors because it understands that in order for everyone to complete their jobs there must be cooperation and transparency in the process.

Based on the Corporation's assessment of the issues identified by Cotton & Company, the Corporation should be commended for training the Cotton auditors, identifying issues promptly, and making necessary adjustments to provide the best possible financial statements for the Corporation.

Capital Assets

It is the Corporation's policy to update its capital asset schedule on an annual basis for its external financial statements. The Corporation's inventory of capital assets is immaterial to its financial statements and updating the schedule quarterly for internal financial statements would not be cost effective or provide useful information for management. However, the Corporation does maintain adequate records supporting changes to its capital asset account. Specifically, for the modular furniture cited by the auditors, in fiscal 2005 the Corporation entered into a Reimbursable Work Agreement (RWA) with the General Services Administration (GSA) for furniture as part of the Corporation's headquarters lease renewal. The RWA, the Corporation's contract with GSA, identified the budgeted cost for these items. GSA entered into contracts with vendors and is responsible for paying and reconciling invoices. The Corporation does not receive or pay vendor invoices for the modular furniture. At the completion of the project (there are still open items under the agreement) GSA will close out the RWA and provide the Corporation with a final accounting for the project. In the interim, GSA provided cost information related to the systems and office furniture that had been invoiced to date. The email confirmation and detailed budget schedules prepared by GSA during the build out provided the Corporation sufficient support for capitalizing the modular furniture.

For the Trust Member Module, the confusion was not who held the documentation but what documentation was requested by the auditors. Accounting staff that normally provide the invoices had gone for the day when the request was made to the Director of Accounting (AFMS). The Director of AFMS provided all but two invoices, and stated that the remaining invoices would be provided in the morning when staff arrived. The Director followed up with staff and provided the specific invoices to the auditors.

Upward/downward Adjustments

As documented in its accounting policy and supported by the Momentum general ledger posting procedures, the Corporation uses the US Government Standard General Ledger guidance to record the cancellation of expired authority and withdraw funds via FMS 2108 at the end of the 5th year after the authority expires (upward/downward adjustments). At the end of the audit Cotton & Company proposed an audit adjustment to expired and cancelled funds based on an analysis of trial balance downloads. To facilitate its review of the adjustment the Corporation requested the criteria used by the auditors in determining their proposed adjustment, which was provided on November 14. The Corporation's review of the criterion used by Cotton & Company found that it pertained to how to use subsequent appropriations to record a payable related to a cancelled fund. However, this criterion does not pertain to closing a cancelled fund at the end of the 5th year. Making the proposed adjustment would cause an error on the Corporation's FMS 2108 (Year-end Closing Statement with Treasury); therefore, the Corporation declined to make the adjustment.

Unexpended appropriations

As discussed above, the Corporation routinely performs relationship testing, fluctuation analysis, and reviews its general ledger accounts to determine the validity of balances, including those related to unexpended appropriations to ensure that its financial statements are correct in all material respects. On November 14, Cotton & Company proposed an audit adjustment for unexpended appropriations and provided the Corporation with an analysis supporting the adjustment. The Corporation replicated the Cotton & Company process to confirm the results of their proposed adjustment. Our review determined that the proposed audit adjustment was based on their analysis of proprietary unexpended appropriations relative to budgetary unobligated balances and undelivered orders using the Treasury "Tie point" edit 19. In edit 19, Treasury specifically states that this tie point will only work for Appropriated Funds, excluding reimbursable activity. Our review of Cotton & Company's analysis confirmed that Cotton & Company incorrectly included reimbursable activity in the analysis supporting their proposed adjustment. Making the proposed adjustment would cause an error on the Corporation's FMS 2108 (Year-end Closing Statement with Treasury); therefore, the Corporation declined to make the adjustment.

Misclassification of Budget Object Codes

As discussed above, the Corporation has an extensive documented closing process that it uses to minimize errors and identify possible omissions, which includes relationship testing and fluctuation analysis. During the Corporation's compilation and review of the financial statements, both the Deputy CFO and the Deputy Director of AFMS annotated a variance in the allocation of stipends in the expense footnote based on their review. While the total was correct there was an unusual variance in individual line items. The variance was caused by an upgrade to the cost allocation module that automated a previously manual process. The Corporation researched the issue and reversed the manual adjustment. The Corporation reran the cost allocation module the next day and provided supporting documentation to the auditors. This is exactly how the process was designed to work.

FECA Liability

The calculation of the unfunded FECA liability was one of the last entries to the period 13 preliminary statements. The preliminary statements were provided to the auditors with the understanding that they were still under review by the Corporation and adjustments were likely. As noted above, reviewing results and variances is one of the key processes for the Corporation to ensure that its financial statements are correct in all material respects. The documentation for this particular transaction was reviewed prior to its posting but an error was made when it was posted (the entry accrued the entire liability rather than the incremental amount as it should have). After the accrual was processed, the Director of AFMS identified the variance and requested it be researched. AFMS was working on the issue prior to the auditors mentioning it. After AFMS review, an adjustment was made to post the incremental amount.

Liability for the Volunteer Health Claims

The Corporation agrees that, due to a cell formula error, there was an error in the calculation of the Liability for the Volunteer Health Claims, but again notes that this entry was under review at the time the auditors brought it to AFMS. As with FECA, this was one of the last entries to the preliminary statements. After processing the accrual, the Director of AFMS identified a variance during his routine review of the adjustments processed in period 13 and asked the Chief of Financial Reporting to research the entry. The auditors did identify the erroneous cell formula in the spreadsheet used to calculate the accrual before AFMS had completed its review. An adjustment was made the next day.

FACTS II Adjustments

The Corporation performs reconciliations between accounts monthly, quarterly and annually. Not only do FACTS II submissions require the Corporation to adjust budgetary account balances but it requires reconciliation with data government-wide. The Corporation uses worksheets with FACTS II edits to identify the cause of any differences. Differences are routinely researched and errors, if any, are corrected on a quarterly basis as required by Treasury. At the end of the year, FACTS II adjustments are made in accordance with Treasury and OMB regulations. For the fiscal 2006 year-end submission, the Corporation made total cash adjustments of $11 thousand for the 26 appropriations the Corporation reports on FACTS II. Budgetary account adjustments totaled $397 thousand across the 26 appropriations, but on a consolidated basis netted to zero. This indicates the budgetary account postings of over $900 million agreed to Treasury in total but some minor differences occurred between funds. These adjustments are input into Momentum and corrected on the following FACTS II submission. Data submitted on the FACTS II is supported by the cash reconciliation, payroll reconciliation, and Treasury 224 reports.

Unnatural Balances in General Ledger Accounts

The Corporation routinely reviews its general ledger balances to determine the validity of the balances. The examples cited by the auditors had been identified by the Corporation and were under research (and one had already been corrected) when the auditors mentioned the issue. According to our research, one transaction was correct and the second was a duplicated transaction. The auditor asked for our analysis of the account and the associated entry so he could propose an adjustment. The original entry was based on an erroneous Cotton & Company proposed adjustment in the fiscal 2004 audit that should not have been posted. The appropriate correcting entry will be processed in fiscal 2007.

Imputed Expense

The Corporation receives quarterly updates from the Office of General Counsel (OGC) on the status of Judgment Fund amounts. In addition, OGC assesses the potential for judgments against the Corporation as part of the financial statement preparation process. Through this process we determined that there were no significant judgments against the Corporation for the fiscal year. However, when checking the payments on the Department of Justice's web page, staff did not observe that the Corporation is listed under two different names on the judgment fund web site (C.N.C.S and Corp for Natl & Comm). The information under "Corp for Natl & Comm" listing was missed, causing a minor understatement in imputed financing. AFMS added the second web page to its quarterly review and is following up with the Department of Justice to determine the reason for the second website listing.

Opening Balance Adjustments

The Corporation agrees that there were some minor differences in its opening balances that were already under research at the time the auditors brought them to the Corporation's attention. Specifically, the balance in account 4801 and the Unobligated Balance brought forward was a net $6 thousand posting issue identified by AFMS prior to the auditors being on site. When asked about the issue, the Director of AFMS stated that staff had been researching the balances and that the adjustments would be processed prior to year end. The adjustments were made in September. The second difference cited (totaling $20.16) was due to an error by the auditor. The Corporation had made the correction but the auditor used the incorrect trial balance when reviewing the account. The other differences were a $622.16 error in accounts 2110.91 and 2110.99, and a $2,473.28 error in accounts 3100 and 3310, which were identified by AFMS prior to the auditor's finding. The Financial Reporting Office analyzed the errors and made correcting entries. These minor differences were identified during a review of 100 percent of the Corporation's opening balances and were the only errors identified.

Presentation of Statement of Budgetary Resources in Interim Financial Statements

The Corporation agrees that it omitted an account while updating the formula to accommodate the change in the format of the SF-133 made by OMB in the summer of 2006. Specifically, the line for "offsetting receipts" did not include the new account 5311 established this year. This oversight was corrected well before the year-end external statements. The format for the statement had changed just prior to the preparation of the third quarter statements and was still under review.

Purchases and Sales of Securities

Based on a request from Cotton & Company, AFMS researched a presentation issue related to the purchase and sale of securities on the Statement of Cash Flows. The Corporation had been using the presentation on the statement since the 1990's as agreed to with its previous auditors. Based on our current research, the Corporation agreed to "gross up" the presentation for the year-end statements and provided the auditors with the supporting information. After the change was made, a Cotton & Company auditor came back with questions four days in a row tying up four different staff members at varying times. We explained the calculation to arrive at the amounts in the cash flows each time. The auditor continued to state that the calculation did not work, until on the 4th day we finally reviewed her spreadsheet and found an error in one of the cells. The auditor had made an input error (reversed the mathematical sign) thereby not being able to balance to the correct cash flows amount (similar to the error Cotton wrote up the Corporation for on the Health Benefit accrual).

Compliance with Laws and Regulations

Regarding cost-share agreements entered into with non-Federal AmeriCorps sponsors, we are working in consultation with the Office of Management and Budget to ensure that such agreements are executed and recorded in conformity with statutory authority and OMB Circular A-11. Our consultations with OMB will include identifying corrective action, if any, that is warranted. Based on the information we have, this matter does not have a direct and material effect on determination of financial statement amounts.

Audit Issues

Finally, I would be remiss in my response if I did not respectfully express our very deep concerns about the manner in which the audit was conducted. Before detailing our concerns, I acknowledge that the external deadlines that we all face in completing the annual financial statements audit are not of our making. The limited time available to close our books and complete the audit means that there must be a high level of trust and transparency among all involved for the audit to be successful. In my judgment, Cotton & Company fell short this year on that score.

I believe that serious planning, staffing, and supervision deficiencies in the Cotton & Company audit were the cause of this breakdown. The Corporation raised concerns about communication breakdowns with the audit staff early in the audit and had been assured that Cotton & Company would increase its supervision of staff. This apparently did not occur. If it had, I do not believe we would have had the current communication failures or the earlier problems of auditors sharing passwords in violation of Corporation policy, the unauthorized attempt to hack into our computer systems that could have caused irreparable harm to the Corporation, and other errors by the auditors in conducting their field work.

The sequence of events which occurred at the end of this audit is of particular concern to me. Specifically, on Wednesday, October 25, I met with Alan Rosenthal and Tom

Schweinefuss, the Cotton & Company partner and manager, respectively, responsible for the fiscal 2006 audit, about a question they had on the Corporation's treatment of reimbursable VISTA cost share agreements. Cotton & Company was concerned that the Corporation was not following OMB Circular A-11 in how these reimbursables were recorded. Prior to the meeting the Corporation's General Counsel provided Cotton & Company with an opinion letter spelling out the Corporation's authority for its treatment of the VISTA cost shares and opining that the Corporation was acting within its authority. At the meeting, Mr. Rosenthal and I agreed that the amount in question was immaterial to the financial statements and that I would pursue the issue with OMB in consultation with Cotton & Company after we had completed the audit.

On Wednesday, November 1, I met with you to discuss the status of the audit. At that time you stated that you had spoken with Mr. Rosenthal and Mr. Schweinefuss, and were pleased to report that the Corporation had cleared the reportable conditions related to grants monitoring and human capital identified in the 2005 audit and there were no other significant issues at this time. The Corporation's Chief Executive Officer and Board of Directors were updated on the status of the audit based on this information.

On November 3, Cotton & Company staff, including Mr. Rosenthal and Mr. Schweinefuss, met with the Director of Accounting and Chief of Financial Reporting to go over an issue with the presentation of net position on the balance sheet. Originally, the Corporation planned to present the component balances on the statements. However, because the Corporation follows FASB in the preparation of its financial statements (with the exception of the Statement of Budgetary Resources which is prepared under FASAB) the balance in unobligated appropriations can appear abnormal when aggregated with trust fund and gift fund activity. The Director of Accounting agreed to the alternative presentation but stated that he would have to clear the change with the Deputy CFO for Financial Management. At no time during the meeting did Cotton & Company inform the Director of Accounting that they had modified the report and were going to identify financial reporting as a reportable condition or include the VISTA cost share question as a compliance matter.

On Monday, November 6, Cotton & Company staff, including Mr. Rosenthal and Mr. Schweinefuss, met with the Corporation's Deputy CFO to discuss the resolution of the presentation issue previously discussed with the Director of Accounting. At the meeting, Cotton & Company presented the Deputy CFO with a list of items that they considered immaterial on their face but had now concluded that when taken together were indicative of a reportable condition in financial reporting. Cotton & Company also stated that unless the Corporation produced documentation beyond the General Counsel's opinion letter, Cotton & Company would include the cost share question as a compliance matter in the report.

The Deputy CFO reviewed the write up first presented to the Corporation at this meeting and disagreed with Cotton & Company's characterization of the issues, and stated that individually or in the aggregate they did not amount to a reportable condition. The Deputy CFO stated that he subsequently discussed the findings with you and the OIG audit manager responsible for this report and that you stated you would look into the issues raised.

The Deputy CFO also called to inform me of the modification of the report and Cotton & Company's change in position on the VISTA cost share question and requested my involvement in the discussion. I reminded Mr. Rosenthal of the approach we had agreed to. Mr. Rosenthal stated that he had changed his mind and that he was going to pursue it as part of this audit. Of particular concern to me is the fact that Mr. Rosenthal did not disclose to me that Cotton & Company would initiate a unilateral communication with OMB, contrary to our agreement days before that I would be responsible for that communication. Unbeknownst to me, while I was preparing our written submission to OMB, Cotton & Company initiated communications by telephone with OMB. I cannot emphasize strongly enough how this has undermined the confidence we have in the trust and transparency of Cotton & Company.

In the evening on Tuesday, November 7, Cotton & Company requested that the Corporation provide the detailed transactions for all open DVSA funds covering the period 2001 through 2006 in Excel files by 9 a.m. on November 9. After questioning the relevance of the request to the fiscal 2006 audit, Cotton & Company narrowed its request to activity occurring in fiscal 2006. All of the data in this "new" request had been previously provided to Cotton & Company throughout the audit on a routine basis. The Corporation agreed to put the data from the new request into an Access data base (data had previously been provided in Excel files as the auditors had requested). The Corporation provided Cotton & Company the data on November 8. On November 9, OIG informed the Deputy CFO that Cotton & Company was now considering disclaiming on the financial statements if it couldn't get satisfied with "outstanding items" over the weekend.

In my opinion, this sequence points out a serious shortcoming in the conduct of this audit. Moreover, characterizing minor issues that are routinely resolved throughout the year as a reportable condition seems to fall short of the objectivity required of auditors. Certainly, Corporation staff will make mistakes in carrying out their duties, and the Corporation is subject to the same difficulties other agencies experience when dealing with the central agencies. However, the Corporation routinely reconciles its accounts throughout the year and has adequate procedures in place to ensure that all accounts are materially correct. This is evidenced in part by the total of $11 thousand in cash adjustments for our 26 funds reported on Treasury's FACTS II report. Accordingly, we respectfully disagree with the finding related to financial reporting.