OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

AUDIT OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S FISCAL YEAR 2002 FINANCIAL STATEMENTS

Audit Report Number 03-01
February 4, 2003

Prepared by:

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

Under the Corporation for National and Community Service
Purchase Order # CNSIG-02-G-0001
GS Contract # GS-23F-8127H
Task Order # 00-01

This report was issued to Corporation management on February 4, 2003. 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 August 4, 2003, and complete its corrective actions by February 4, 2004. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of Inspector General
Corporation for National and Community Service

Audit of the Corporation for National and Community Service's
Fiscal Year 2002 Financial Statements
Audit Report 03-01

Introduction

In accordance with the Government Corporation Control Act (31 U.S.C. 9101 *et seq.*), the Office of Inspector General engaged KPMG LLP to audit the Corporation for National and Community Service's fiscal year 2002 financial statements. This report presents the results of the audit. In summary,

> KPMG's opinion on the financial statements is unqualified.
>
> KPMG noted certain matters involving the internal control over financial reporting and its operations that were considered to be a reportable condition. However, KPMG and OIG agree that this reportable condition, more specifically described in Exhibit I, is not a material weakness.
>
> KPMG noted that the Corporation's approval of AmeriCorps national service positions in excess of the number of positions it budgeted for violated Subsection 129(f) of the NCSA (42 U.S.C. 12581(f)), which requires the Corporation to ensure that there are sufficient funds in the National Service Trust to support the projected number of enrollments in the Trust before approving national service positions. As a result, in November 2002 the Corporation temporarily suspended the ability of its grantees to enroll members into national service positions that had already been authorized.

As is our responsibility, 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 indicates that the Corporation continued to make improvements in its grants processes including those for monitoring grantees and has instituted controls over the approval of national service positions at grantees to prevent a reoccurrence of the condition that led to the pause in enrollments. The response is presented in its entirety as Appendix A.

Inspector General
1201 New York Avenue, NW
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Independent Auditors' Report on Financial Statements

Inspector General and
Board of Directors
Corporation for National and Community Service:

We have audited the Statements of Financial Position of the Corporation for National and Community Service (the Corporation) as of September 30, 2002 and 2001, and the related Statements of Operations and Changes in Net Position and Cash Flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation at September 30, 2002 and 2001, and the results of its operations, changes in its net position, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our reports dated January 24, 2003, on our consideration of the Corporation's internal control over financial reporting and its compliance with laws and regulations. Those reports are an integral part of an audit conducted in accordance with *Government Auditing Standards,* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

January 24, 2003

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

		2002		2001
ASSETS				
Fund Balance with Treasury *(Note 2)*	$	843,469	$	825,962
Trust Investments and Related Receivables *(Note 3)*		233,280		307,688
Advances to Others		59,195		22,251
Accounts Receivable, Net *(Note 4)*		3,021		3,070
Property and Equipment, Net *(Note 5)*		1,924		1,162
Total Assets	$	1,140,889	$	1,160,133
LIABILITIES				
Trust Service Award Liability *(Note 6)*	$	231,429	$	186,414
Grants Payable		88,392		48,885
Accounts Payable		5,010		6,507
Actuarial FECA Liability *(Note 9)*		11,521		12,637
Other Liabilities		8,742		10,205
Accrued Annual Leave		3,109		2,947
Commission Post-Service Benefits Liability *(Note 7)*		184		662
Advances from Others		–		164
Capital Lease Liability *(Note 8)*		75		64
Total Liabilities		348,462		268,485
Commitments and Contingencies *(Notes 8 and 16)*				
NET POSITION				
Unexpended Appropriations				
Obligated		699,235		681,752
Unobligated		108,144		107,404
Cumulative Results of Operations		(14,952)		102,492
Total Net Position *(Note 10)*		792,427		891,648
Total Liabilities and Net Position	$	1,140,889	$	1,160,133

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)

	2002	2001
REVENUES		
Appropriated Capital Used, excluding Trust Fund	$ 705,266	$ 683,886
Appropriations Received by the Trust Fund *(Note 11)*	–	69,846
Interest	13,993	18,949
Revenue from Services Provided	7,358	5,934
Other	747	301
Total Revenues	727,364	778,916
EXPENSES		
AmeriCorps	556,231	507,514
National Senior Service Corps	196,382	186,471
Learn & Serve America	62,495	54,112
Subtotal	815,108	748,097
Congressionally Earmarked Grants	23,944	12,701
DVSA State Grants	751	778
Office of Inspector General	5,006	5,120
Total Expenses *(Note 12)*	844,809	766,696
NET OF REVENUES OVER EXPENSES	$ (117,445)	$ 12,220
NET POSITION		
Net of Revenues over Expenses	$ (117,445)	$ 12,220
Increase in Unexpended Appropriations, Net *(Note 14 & 17)*	18,224	5,332
Non-Operating Changes:		
Permanent Rescission of Trust Funds *(Note 15)*	–	(30,000)
Reclassification of Net Position *(Note 17)*	–	(1,978)
Decrease in Net Position, Net	(99,221)	(14,426)
Net Position, Beginning Balance	891,648	906,074
Net Position, Ending Balance	$ 792,427	$ 891,648

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, 2002
(dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Net of Revenues over Expenses			$ (117,445)
Adjustments Affecting Cash Flow:			
Appropriated Capital Used	$ (705,266)		
Decrease in Accounts Receivable	(49)		
Decrease in Interest Receivable	2,885		
Increase in Advances	(36,944)		
		$ (739,374)	
Decrease in Accounts Payable, Other Liabilities and Advances from Others	(3,124)		
Decrease in FECA and Annual Leave Liabilities	(954)		
Decrease in Commission Liability	(478)		
Increase in Capital Lease Liability	11		
Increase in Trust Liability	45,015		
Increase in Grants Payable	39,507		
		79,977	
Amortization of Premium/Discount on Investments	1,215		
Depreciation, Amortization, and Loss on Disposition of Assets	902		
Bad Debt Expense	$ 93		
		$ 2,210	
Total Adjustments			(657,187)
Net Cash Used by Operating Activities			$ (774,632)

(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, 2002

(dollars in thousands)

CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	$ (1,664)	
Sales of Securities	248,461	
Purchase of Securities	(178,148)	
Net Cash Provided by Investing Activities		$ 68,649
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received	735,875	
Canceled/Rescinded Appropriations	$ (12,385)	
Net Cash Provided by Financing Activities		723,490
Net Cash Provided by Operating, Investing, and Financing Activities		17,507
Fund Balance with Treasury, Beginning		825,962
Fund Balance with Treasury, Ending		$ 843,469
Supplemental Disclosure of Cash Flow Information		
Interest Paid		$ 6
Supplemental Schedule of Financing and Investing Activities		
Property and Equipment Acquired Under Capital Lease Obligations		$ 11

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, 2001

(dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Net of Revenues over Expenses			$ 12,220
Adjustments Affecting Cash Flow:			
Appropriated Capital Used	$ (683,886)		
Appropriations Received by Trust Fund	(69,846)		
Decrease in Accounts Receivable	(12)		
Decrease in Interest Receivable	306		
Decrease in Advances	2,597		
		$ (750,841)	
Decrease in Accounts Payable, Other Liabilities and Advances from Others	(1,629)		
Increase in FECA and Annual Leave Liabilities	308		
Decrease in Commission Liability	(777)		
Decrease in Capital Lease Liability	(64)		
Decrease in Trust Liability	(6,621)		
Increase in Grants Payable	9,369		
		586	
Amortization of Premium/Discount on Investments	1,628		
Depreciation, Amortization, and Loss on Disposition of Assets	$ 1,237		
		$ 2,865	
Total Adjustments			(747,390)
Net Cash Used by Operating Activities			$ (735,170)

(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, 2001

(dollars in thousands)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Property and Equipment	$ (684)	
Sales of Securities	231,130	
Purchase of Securities	(208,921)	
Net Cash Provided by Investing Activities		$ 21,525

CASH FLOWS FROM FINANCING ACTIVITIES

Appropriations Received	767,350	
Canceled/Rescinded Appropriations	$ (40,264)	
Net Cash Provided by Financing Activities		727,086
Net Cash Provided by Operating, Investing, and Financing Activities		13,441
Fund Balance with Treasury, Beginning		812,521
Fund Balance with Treasury, Ending		$ 825,962

Supplemental Disclosure of Cash Flow Information

Interest Paid	$ 11

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, and cash flows of the Corporation for National and Community Service (the Corporation), as required by the Government Corporation Control Act (31 USC 9106) and by the National and Community Service Act of 1990, as amended (42 USC 12651). These financial statements have been prepared from the books and records of the Corporation in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to Federal corporations and include the Corporation's activities related to providing grants and education awards to eligible participants. 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, 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 more than 50 thousand 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 thousand 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 & Serve America** supports and promotes service learning in schools, universities, and communities. Through structured service activities that help meet community needs, nearly one million students improve their academic learning, develop personal skills, and practice responsible citizenship.

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

C. Budgets and Budgetary Accounting

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

The second is the Veterans Affairs, Housing and Urban Development, and Independent Agencies bill, which funds National and Community Service Act (NCSA) programs. The NCSA appropriation is available for obligation by the Corporation over two fiscal years.

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 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, 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 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 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. 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 of two or more years. 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 non-profit organizations, education 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. Commission Post-Service Benefits Liability

The Commission post-service benefits liability represents unpaid earned educational benefits 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 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 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.

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 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 $940 thousand and $991 thousand to the CSRS Plan, and $5,424 thousand and $5,008 thousand to the FERS and TSP Plans in fiscal years 2002 and 2001, respectively.

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 revenues and expenses during the reporting period. Actual results could differ from these estimates.

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 in forms of gifts and donations for the support of service projects.

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

	2002			2001		
Type	**Unrestricted**	**Restricted**	**Total**	**Unrestricted**	**Restricted**	**Total**
Appropriated Funds	$843,179	$ –	$843,179	$825,700	$ –	$825,700
Trust Funds	–	88	88	–	104	104
Gift Funds	58	144	202	6	152	158
Total	**$843,237**	**$232**	**$843,469**	**$825,706**	**$256**	**$825,962**

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)

	2002	2001
Investments, Carrying Value	$231,754	$303,277
Investment and Interest Receivable	1,526	4,411
Total	**$233,280**	**$307,688**

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

	2002				2001			
Securities	**Amortized Cost**	**Unrealized Gains**	**Unrealized (Losses)**	**Fair Value**	**Amortized Cost**	**Unrealized Gains**	**Unrealized (Losses)**	**Fair Value**
Notes	$162,672	$10,499	$ –	$173,171	$249,197	$11,428	$ –	$260,625
Bills	60,751	199	–	60,950	37,359	398	–	37,757
Bonds	8,331	755	–	9,086	16,721	599	–	17,320
Total	**$231,754**	**$11,453**	**$ –**	**$243,207**	**$303,277**	**$12,425**	**$ –**	**$315,702**

At September 30, 2002, the notes held at year-end had an interest rate range of 5.50% to 7.50% and a maturity period of approximately 4 and a half months to almost four and a half years. The interest rate on the bond was 10.75% and had a maturity period of approximately three years. The bills held at year-end had an interest rate range of .85% to 1.78% and were all due to mature within 90 days. The par values of these investments range from $251 thousand to $29,212 thousand.

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

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

	2002		2001	
Held-to-Maturity Securities	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in 1 year or less	$112,554	$113,765	$130,999	$133,128
Due after 1 year up to 5 years	119,200	129,442	172,278	182,574
Total	**$231,754**	**$243,207**	**$303,277**	**$315,702**

NOTE 4 – ACCOUNTS RECEIVABLE, NET

Accounts Receivable as of September 30 (dollars in thousands)	2002	2001
Accounts receivable	$3,246	$3,314
Less: allowance for loss on receivables	225	244
Accounts Receivable, Net	**$3,021**	**$3,070**

NOTE 5 – PROPERTY AND EQUIPMENT, NET

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

		2002			2001		
Major Class	Service Life (Years)	Cost	Less: Accumulated Depreciation	Net Book Value	Cost	Less: Accumulated Depreciation	Net Book Value
Equipment	3-10	$1,998	$1,458	$ 540	$2,242	$1,402	$ 840
Capital leases	3-5	164	92	72	127	65	62
ADP software	2	5,042	3,730	1,312	3,449	3,189	260
Total		**$7,204**	**$5,280**	**$1,924**	**$5,818**	**$4,656**	**$1,162**

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, 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)	2002	2001
Education awards	$603,353	$477,181
Interest forbearance	22,269	18,011
President's Freedom Scholarship Program	11,305	8,340
Total service award liability	636,927	503,532
Less: cumulative awards paid	405,498	317,118
Total	**$231,429**	**$186,414**

The net service award liability as of September 30, 2002, increased by approximately $45 million from the net service award liability as of September 30, 2001. This increase was largely due to an increase in the numbers of volunteers enrolled and in the overall percentage of awards projected to be used.

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: (1) the grantee, rather than an agency of the Federal government, is responsible for making post-service award payments; (2) the portion of these awards which is funded by the Federal government is specified in each grant agreement, with any remaining amount funded by the grantee; and (3) 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
(dollars in thousands)

	2002	**2001**
Estimated liability as of previous year-end	$662	$1,439
Less: drawdowns and adjustments	1	31
Potential education awards	661	1,408
Less: award expirations	477	746
Total	**$184**	**$ 662**

All former Commission awards are scheduled to expire by December 31, 2002.

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 Due as of September 30
(dollars in thousands)

	2002	**2001**
Fiscal Year 2002	$ –	$37
Fiscal Year 2003	41	32
Fiscal Year 2004	13	2
Fiscal Year 2005	12	–
Fiscal Year 2006	12	–
Fiscal Year 2007	9	–
Total future minimum lease payments	87	71
Less: amounts representing interest	12	7
Total	**$75**	**$64**

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)

	2002				2001			
Fiscal *Year*	**Facilities Space**	**Vehicles**	**Other**	**Total**	**Facilities Space**	**Vehicles**	**Other**	**Total**
2002	$ –	$ –	$ –	$ –	$ 6,327	$ 886	$218	$ 7,431
2003	6,355	1,154	93	7,602	6,522	919	200	7,641
2004	6,885	1,014	72	7,971	6,684	953	183	7,820
2005	7,463	1,033	67	8,563	6,852	988	174	8,014
2006	8,094	1,056	65	9,215	7,028	1,025	174	8,227
2007	8,783	1,081	57	9,921	–	–	–	–
Total	**$37,580**	**$5,338**	**$354**	**$43,272**	**$33,413**	**$4,771**	**$949**	**$39,133**

NOTE 9 – WORKERS' COMPENSATION

The Corporation's actuarial liability for future workers' compensation benefits (FECA) was $11,521 thousand and $12,637 thousand as of September 30, 2002 and 2001, 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 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 balances are separately maintained for the Gift Fund, Trust Fund and Appropriated Fund.

Net Position by Fund Balance Components
(dollars in thousands)

As of September 30, 2002

	Gift Fund	**Trust Fund**	**Appropriated Fund**	**Total**
Unexpended appropriations	$ –	$ –	$807,379	$807,379
Cumulative results of operations	649	1,957	(17,558)	(14,952)
Total Net Position	**$649**	**$1,957**	**$789,821**	**$792,427**

Net Position by Fund Balance Components
(dollars in thousands)

As of September 30, 2001

	Gift Fund	Trust Fund	Appropriated Fund	Total
Unexpended appropriations	$ –	$ –	$789,156	$789,156
Cumulative results of operations	154	121,395	(19,057)	102,492
Total Net Position	**$154**	**$121,395**	**$770,099**	**$891,648**

NOTE 11 – APPROPRIATIONS RECEIVED BY THE TRUST FUND

No appropriations were received for the Trust Fund for fiscal 2002. Fiscal 2001 appropriations received by the Trust Fund of $69.8 million are composed of $70 million appropriated per Public Law 106-377, net of the $154 thousand Trust portion of the rescission to NCSA per Public Law 106-554. The Trust portion of the NCSA rescission was transferred back to NCSA, reducing the net amount of appropriations received by the Trust Fund during fiscal 2001.

NOTE 12 - EXPENSES

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

- The **AmeriCorps** (A/C) responsibility segment includes grant expenses, as well as direct and allocated personnel and administrative costs, for VISTA, NCCC, State & National, and AmeriCorps recruitment.
- The **National Senior Service Corps** (NSSC) responsibility segment includes grant expenses, as well as direct and allocated personnel and administrative costs, for the Foster Grandparent Program, Senior Companions Program, and the Retired and Senior Volunteer Program.
- The **Learn & Serve America** (L&S) responsibility segment includes grant expenses, as well as direct and allocated personnel and administrative costs, for the Learn & Serve America Program, the President's Student Service Challenge, and National Service Leader Schools.
- The **National Service Award** line item consists of the Corporation's estimated expense for education awards based on the increase in its service award liability during the year, interest forbearance costs on qualified student loans during the period members perform community service, as well as disbursements for the President's Student Scholarship Program. No indirect costs have been allocated to this line item.
- The Corporation's annual appropriation includes various **Congressionally Earmarked Grants**. No indirect costs have been allocated to these grants.
- The Corporation has **reimbursable agreements** with state agencies whereby the Corporation awards and administers grants to a list of grantees selected and funded by the State. No indirect costs have been allocated to these grants.
- The **Office of Inspector General** (OIG) receives a separate appropriation. No indirect costs have been allocated to the OIG.

The costs of operating the Corporation's Volunteers in Service to America (VISTA) and National Civilian Community Corps (NCCC) grant programs and providing administrative support for Trust Fund operations are included in the operating expenses of the Corporation. The largest component of total expense is awarded funds expended.

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

		2002		2001
Domestic Volunteer Service Act Programs		$188,505		$202,581
National and Community Service Act Programs		337,569		321,262
Earmarked Grants				
Congressionally Earmarked Grants	$23,944		$12,701	
DVSA State Grants	751		778	
Total Earmarked Grants		24,695		13,479
Total Grants Expense		**$550,769**		**$537,322**

Expenses by Type for the year ended September 30, 2002
reporter *(dollars in thousands)*

Type	A/C	NSSC	L&S	OIG	Earmarked Grants	Total
Grant and Related Expense						
Awarded funds expended	$285,564	$186,165	$54,345	$ –	$24,695	$550,769
VISTA & NCCC stipends & benefits	65,698	–	–	–	–	65,698
Service award expense	130,464	–	2,965	–	–	133,429
Total Grant and Related Expense	481,726	186,165	57,310	–	24,695	749,896
Administrative Expense						
Federal employee salaries & benefits	35,040	6,754	3,063	1,786	–	46,643
Travel & transportation	8,994	322	273	53	–	9,642
Rent, communications, & utilities	5,751	646	439	231	–	7,067
Program analysis & evaluation	2,523	374	218	–	–	3,115
Printing & reproduction	522	60	51	–	–	633
Other services	18,176	1,067	390	2,923	–	22,556
Supplies & materials	1,884	78	75	13	–	2,050
Loss on disposition of assets	8	4	1	–	–	13
Depreciation & amortization	769	72	48	–	–	889
Bad debt	51	32	10	–	–	93
Other	787	808	617	–	–	2,212
Total Administrative Expense	74,505	10,217	5,185	5,006	–	94,913
Total Expenses by Type	**$556,231**	**$196,382**	**$62,495**	**$5,006**	**$24,695**	**$844,809**

Expenses by Type for the year ended September 30, 2001 *(dollars in thousands)*						
Type	A/C	NSSC	L&S	OIG	Earmarked Grants	Total
Grant and Related Expense						
Awarded funds expended	$300,259	$177,361	$46,223	$ –	$13,479	$537,322
VISTA & NCCC stipends & benefits	63,004	–	–	–	–	63,004
Service award expense	74,655	–	2,769	–	–	77,424
Total Grant and Related Expense	437,918	177,361	48,992	–	13,479	677,750
Administrative Expense						
Federal employee salaries & benefits	32,417	6,607	3,072	1,494	–	43,590
Travel & transportation	7,843	476	284	66	–	8,669
Rent, communications, & utilities	5,695	347	265	65	–	6,372
Program analysis & evaluation	1,983	702	511	–	–	3,196
Printing & reproduction	472	89	15	–	–	576
Other services	18,051	731	779	3,325	–	22,886
Supplies & materials	1,691	72	75	170	–	2,008
Loss on disposition of assets	8	–	–	–	–	8
Depreciation & amortization	1,117	16	95	–	–	1,228
Bad debt	54	34	8	–	–	96
Other	265	36	16	–	–	317
Total Administrative Expense	69,596	9,110	5,120	5,120	–	88,946
Total Expenses by Type	**$507,514**	**$186,471**	**$54,112**	**$5,120**	**$13,479**	**$766,696**

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 cumulative service award liability during the year (see Note 6). The total service award liability as of September 30, 2002 and 2001, 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)*	2002	2001
Estimated education awards	$126,206	$69,473
Estimated interest forbearance	4,258	5,182
President's Freedom Scholarship Program	2,965	2,769
National Service Award Expense	**$133,429**	**$77,424**

NOTE 14 – INCREASE IN UNEXPENDED APPROPRIATIONS, NET

Increase in Unexpended Appropriations, Net as of September 30
(dollars in thousands)

	2002	2001
Increases:		
Appropriations received, net of trust	$735,875	$697,504
Reclassification of Net Position (see Note 17)	–	1,978
Total Increases	735,875	699,482
Decreases:		
Appropriated capital used, net of trust	(705,266)	(683,886)
Rescinded appropriations, net of trust	(167)	(1,020)
Canceled appropriations	(12,218)	(9,244)
Total Decreases	(717,651)	(694,150)
Increase in Unexpended Appropriations, Net	**$ 18,224**	**$ 5,332**

NOTE 15 – TRUST FUND RESCISSION

In fiscal 2001 $30 million appropriated under the National and Community Service Act of 1990 (Act) and transferred to the National Service Trust were rescinded. This rescission 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 and interest forbearance.

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 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.

NOTE 17 – RECLASSIFICATION OF NET POSITION

No reclassifications to Net Position occurred in fiscal 2002. During fiscal 2001, the Corporation fully reconciled its budgetary and proprietary accounts, which resulted in the need to reclassify cumulative results of operations and unexpended appropriations (see Note 14) by approximately $2 million.

KPMG

2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control over Financial Reporting

Inspector General and
Board of Directors
Corporation for National and Community Service:

We have audited the financial statements of the Corporation for National and Community Service (the Corporation) as of and for the years ended September 30, 2002 and 2001, and have issued our report thereon dated January 24, 2003. We conducted our audits 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.

In planning and performing our 2002 audit, we considered the Corporation's internal control over financial reporting by obtaining an understanding of the Corporation's internal control, determining whether these internal controls had 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*. 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 control over financial reporting that, in our judgment, could adversely affect the Corporation's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are 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 being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

We noted certain matters, described in Exhibit I, involving the internal control over financial reporting and its operation that we consider to be a reportable condition. However, we do not believe that the reportable condition presented in Exhibit I is a material weakness. Exhibit II presents the status of the prior year reportable condition.

We also noted other matters involving internal control and its operation that we will report to the management of the Corporation in our management letter which will be issued as OIG Audit Report 03-02.

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

January 24, 2003

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Reportable Condition

September 30, 2002

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. Therefore, it is critical that the Corporation monitor grantees' activity closely to ensure that grantees are complying with applicable laws and regulations related to the administration of the respective grant awards.

Grantees are required to expend funds for allowable costs and provide periodic reports to the Corporation to demonstrate programmatic and financial compliance with the terms of the respective grant agreements. The majority of NCSA grant funds must be spent to support program members recruited to provide a variety of community service activities. The Web Based Reporting System (WBRS) is currently used to transmit member enrollment and end-of-term data from the majority of State Commissions and selected National Direct grantees. Both grantees and their subgrantees have access to WBRS. Controls over the input of enrollment and end-of-term forms via WBRS are critical to ensure the integrity of the National Service Trust database, System for Programs, Agreements and National Service participants (SPAN), which is also used to calculate the service award liability and the Trust's estimated budgetary needs, and therefore should be reviewed as part of the Corporation's grant management procedures. For the fiscal year ended September 30, 2002, the Corporation disbursed approximately $82 million from the National Service Trust on behalf of members who earned an education award for program years 1994 to 2002.

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

Improvement Needed In Grant Approval Policies and Procedures

The National Service Trust receives appropriated funds restricted for education and similar awards earned by eligible participants who successfully complete a term of service in AmeriCorps under the NCSA, as amended. The Trust has other sources of funds in addition to appropriated amounts. These include interest on and proceeds from the redemption of Trust investments. Education awards earned by AmeriCorps members are generally available for seven years from the end of service.

In fiscal years 2001 and 2000, Congress rescinded $30 million and $81 million, respectively, of amounts previously appropriated under the NCSA and transferred to the Trust. The rescissions permanently reduced the amount available for the disbursement of education awards. In its fiscal year 2002 budget submission to Congress, the Corporation indicated that no new authority was required in fiscal year 2002 for the Trust Fund costs associated with new AmeriCorps members, as it had determined that sufficient funds were available in the Trust to support the estimated education award liability for all members expected to earn and use an award for service to be completed through program year 2002. Hence, Congress appropriated no funds for the Trust for fiscal year 2002. The Corporation's determination was based on a number of assumptions, including estimated new AmeriCorps member enrollments remaining constant at 43,000 for program years 2000 to 2002.

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

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September 30, 2002

The results of our tests of compliance with the NCSA Subsection 129(f) disclosed that the Corporation approved national service positions (i.e., estimated new members to be enrolled) during fiscal year 2002 in excess of the estimated number of national service positions that could be supported by the Trust. The actual number of AmeriCorps members enrolled in the Trust for program years 2000 and 2001 (approximately 53,000 and 59,000, respectively, some of whom were enrolled in fiscal year 2002), were significantly higher than the number of enrollments that had been estimated for these program years. However, the number of national service positions approved in fiscal year 2002, for program year 2002, was not adjusted to ensure the total number of positions approved did not exceed the estimated number of positions that could be supported by the Trust as of September 30, 2002. Consequently, in November 2002, the Corporation had to suspend the ability of its grantees to enroll members into national service positions that had already been authorized.

We believe that some of the reasons for the Corporation's approval of enrollments in excess of its estimate of what the Trust Fund could reasonably support were as follows:

- The Corporation did not have effective internal controls to assess the impact of enrollments on the Trust prior to authorizing new national service positions.
- Corporation staff focused exclusively on available appropriations for AmeriCorps grants, and did not adequately consider the impact of education awards when making grant decisions to support new national service positions.
- There was a lack of coordination between the AmeriCorps Program Office, Grants Management Office (GMO), Trust Office, and Budget Office for annual approval of new national service positions to be allocated to programs.

Under the grant award process in place during fiscal 2002, the Corporation published Notices of Funds Availability based on its approved priorities and guidelines and the enacted appropriations level. The AmeriCorps Program Office, in consultation with senior staff, decided the funding level and numbers of positions awarded to each program without regard to the number of positions available in the Trust. Instead, the AmeriCorps Program Office prepared a certification form that specified the grant budget and the number of positions allocated to the program. Based on that certification, the GMO issued a Notice of Grant Award (NGA), which included the grant number, project period, award amount, and number of approved national service positions. The GMO sent the number of approved national service positions to the Trust Office to download into SPAN and WBRS. The number of approved national service positions downloaded into SPAN and WBRS for program years 2000, 2001 and 2002 were approximately 59,000, 61,000 and 67,000, respectively, exceeding the number used for budget purposes in each program year. We were informed that the Corporation approved more positions than originally budgeted to take into consideration the number of AmeriCorps members who historically do not complete their term of service or use their education award.

In addition, we noted that enrollments in excess of the originally approved national service positions downloaded into SPAN and WBRS are permitted by the Corporation, and that both the program officers and grant officers have access in WBRS to approve additional enrollments by programs. Access controls have not been established to prevent program officers from approving additional enrollments in WBRS. Based on our review of the AmeriCorps Program Director's Handbook, requests for additional enrollments should be approved by the Grants

Officer. However, WBRS procedures contradict this and permit Grant Officers or AmeriCorps Program Officers to approve additional enrollment requests.

Finally, Corporation grants are funded for specified budget periods and approved national service positions are documented on the NGA. The budget period represents the time frame for which the grantee has received funding. Each program has one year from the beginning date of the respective program to recruit and enroll members. For example, the program begin date may start anytime during the grantee's budget period, therefore if the program begin date was the last month of the grantee's budget period, they would have one year from that date to enroll all their members for that particular program year. However, there were no controls in WBRS to prevent grantees from enrolling members after the program year enrollment period ended. During fiscal year 2002, we noted that the Corporation enrolled 10 and 1,685 members for program years 1999 and 2000, respectively, subsequent to the end of the programs' enrollment period (two years from the beginning of the budget period).

Recommendations:

- Policies and procedures should be revised to ensure that the AmeriCorps Program Office, GMO, and Trust Office staff are involved in the budgeting process, national service position approval and amendment process. The Trust Office staff should ensure that funds are available in the Trust to meet the estimated liability to be incurred prior to approval.
- Reports should be generated on a monthly basis to compare the number of approved national service positions to the actual members enrolled. Senior management should review these reports on a timely basis to ensure that enrollments do not exceed the Corporation's estimates.
- Automated controls should be implemented in WBRS to limit approval for additional enrollments to authorized Grants Officers, and to prevent grantees from enrolling members after the program year enrollment period ends.

Improvement Needed In Monitoring Grantee Activities

The Corporation is responsible for ensuring that grantees comply with applicable laws and regulations related to the administration of the respective grant awards, including those related to enrollment and Federal cash management. The Corporation has established formal grantee monitoring procedures that include periodic site visits to grantees, a process for obtaining, reviewing, and issuing management decisions on audit findings reported by the OIG as well as nonfederal auditors in OMB Circular A-133 single audit reports, training conferences for grantee personnel, open lines of communication between program managers and grantees, and a grant closeout process. For DVSA grants, the Corporation utilizes the Senior Corps Compliance Monitoring Handbook. For NCSA grants, the State Commission Administrative Standards review is the primary tool for monitoring State Commission grantees. The Corporation also has a separate monitoring tool for National Direct grantees. In addition to these standard tools, the Grants Management Office (GMO) uses a financial monitoring tool for selected reviews it deems necessary based on risk analyses.

However, during fiscal year 2002, we noted the Corporation did not effectively employ these monitoring tools. Specifically, we noted the following weaknesses in the Corporation's monitoring of its grantees:

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Reportable Condition

September 30, 2002

- The GMO prepares a detailed risk assessment plan for NCSA grantees to determine the most efficient and effective means of conducting monitoring visits. At the beginning of the fiscal year, each grantee is assigned a risk assessment rating based on key risk indicators determined by the Corporation. However, there are no documented site visit guidelines to determine which grantees are visited if given the same rating. During fiscal year 2002, we noted that monitoring visits were conducted for only 6 of 15 grantees that were assigned a "high risk" rating and for only 3 of 28 grantees that were assigned a "medium risk" rating.

- The Corporation has established new procedures to enable the State Offices to enter monitoring information for the National Senior Service Corps (NSSC) into a new E-grants system. However, the new E-grants system is not fully implemented. Hence, the monitoring compliance information was not entered in any database during fiscal year 2002. Additionally, the NSSC policies require monitoring visits to be performed every three years. During our audit, we noted that the Corporation did not conduct monitoring visits for 6 of 30 NSSC active programs within the last three years and we were unable to determine if monitoring visits were performed for 5 other NSSC programs as no documentation was received as of the date of this report.

- The State Administrative Standards policies require monitoring visits to be performed every three years. The Corporation began performing Standards visits during fiscal year 1999 for 6 grantees. We reviewed the Standards monitoring tracking spreadsheet and noted that no monitoring visits were performed for these 6 grantees during fiscal year 2002. We understand that these grantees will be visited in fiscal year 2003, which is a time lag of more than three years.

Some of the reasons for the reduction in monitoring visits include:

- Lack of resources (travel funds) for visits to be conducted; and

- NSSC monitoring visits are decentralized and performed by 49 State Offices, who are not being monitored closely by management to ensure visits are being performed.

Since the Corporation relies on its grantees to ensure its mission is achieved through properly administered grant programs, monitoring of grantee compliance with laws and regulations is critical. Inadequate monitoring of grantee performance under the terms of grant agreements could result in instances of potential noncompliance with financial or programmatic requirements not being identified and resolved timely.

Recommendations:

- Formalize GMO monitoring procedures to include detailed guidance on how the risk assessment plan should be used to determine which grantees should be visited.

- Implement procedures to ensure that State Administrative Standards monitoring visits are performed for applicable grantees at least once every three years.

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

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September 30, 2002

- Enhance policies and procedures to ensure that a more thorough management review is performed by GMO to ensure that State Offices are following the Corporation's grants management policies.

- Ensure that the NSSC Compliance Monitoring information is documented by the State Offices and is made available for management review as soon as possible. Additionally, the Senior Program staff should review the monitoring database on a regular basis to ensure that monitoring visits are performed at least once every three years.

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Status of Prior Year Reportable Conditions

FY2001 Finding	*Type*	*FY2002 Status*
Monitoring of Grantee Activities – Procedures for monitoring grantee activities need to be more effective.	2001 – Reportable Condition 2002 – Reportable Condition	Monitoring of grantee activities continues to require improvement. Further, as the Corporation expanded the education award program and increased the number of members performing service during fiscal year 2002, the control environment needs to be modified to effectively monitor program activities. This finding has been revised to reflect fiscal year 2002 operations, and is repeated as a continuing reportable condition for 2002.

2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance with Laws and Regulations

Inspector General and
Board of Directors
Corporation for National and Community Service:

We have audited the financial statements of the Corporation for National and Community Service (the Corporation) as of and for the years ended September 30, 2002 and 2001, and have issued our report thereon dated January 24, 2003. We conducted our audits 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.

The management of the Corporation is responsible for complying with laws and regulations applicable to the Corporation. As part of obtaining reasonable assurance about whether the Corporation's 2002 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Our tests of compliance with certain laws and regulations, as described in the preceding paragraph, disclosed an instance of noncompliance with the National and Community Service Act (NCSA) that is required to be reported under *Government Auditing Standards*. Specifically, the Corporation's approval of AmeriCorps national service positions in excess of the number of positions it budgeted for violated Subsection 129(f) of the NCSA (42 U.S.C. 12581(f)), which requires the Corporation to ensure that there are sufficient funds in the National Service Trust to support the projected number of enrollments in the Trust before approving national service positions. As a result, in November 2002 the Corporation temporarily suspended the ability of its grantees to enroll members into national service positions that had already been authorized. This matter is discussed in more detail in Exhibit I to our separate *Independent Auditors' Report on Internal Control over Financial Reporting.*

Additionally, the Corporation's Office of Inspector General and the General Accounting Office (GAO) are performing ongoing reviews to determine whether a violation of the Anti-Deficiency Act (Title 31, U.S. Code, section 1341, as amended) has occurred as a result of the Corporation's noncompliance with the NCSA. These investigations have not been completed as of the date of this report. The Anti-Deficiency Act provides, in part, that an officer or employee of the United States Government may not (1) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation, and; (2) involve the government in a contract or obligation for the payment of money before an appropriation is made unless authorized by law. Whether the Corporation violated the Anti-Deficiency Act is a legal determination. The Corporation should request a written legal opinion on whether a violation of the Anti-Deficiency Act has occurred.

KPMG

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

January 24, 2003

APPENDIX A

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE RESPONSE

February 4, 2003

The Honorable J. Russell George
Inspector General
Corporation for National and
Community Service
1201 New York Ave., NW
Suite 830
Washington, DC 20525

Dear Mr. George:

Thank you for the opportunity to comment on the draft report on the audit of the Corporation's fiscal 2002 financial statements. Developing and maintaining sound financial practices at the Corporation is one of my key objectives. That is why I am pleased that the Corporation continues to receive an unqualified opinion on its financial statements. These audit opinions demonstrate the Corporation's commitment to strong management controls and financial systems. However, while the Corporation has made significant improvements over the past several years, I recognize that more needs to be done and I am committed to establishing a work environment that strives for continuous improvement in the Corporation's operations.

The fiscal 2002 financial audit identifies grants management as an area of the Corporation's operations that needs improvement and makes several recommendations to improve grant approval polices and procedures and grantee compliance monitoring. Over the past year, the Corporation continued to make improvements in its grants processes including those for monitoring grantees. In addition, I have requested our Board of Directors to review the Corporation's grant award policies and procedures. Recommendations from that review should be available this spring.

Regarding the recommendations to improve grant approval policies and procedures, I have recently established new procedures to ensure that Corporation staff takes Trust funding needs into account and does not exceed the projected number of positions in making grants for AmeriCorps programs. These procedures include requirements for AmeriCorps to include an estimate of the number of positions that would result from a grant award and to track and report enrollment information to the Chief Financial Officer and me on a bi-weekly basis. In addition, procedures were established to ensure that the Corporation's financial staff has timely and accurate information about AmeriCorps enrollments to use in updating forecasts of Trust liabilities and recording Trust fund obligations.

Regarding the recommendation to request a written legal opinion on whether a violation of the Antideficiency Act occurred, the facts surrounding the need to pause enrollment of AmeriCorps members into the National Service Trust are under review. As part of that review, I have sought, and will continue to seek, legal determinations on the Corporation's compliance with the Antideficiency Act. To date, those determinations have concluded that the Corporation complied with the Antideficiency Act.

The Corporation would also like to express its appreciation for the effort that your staff and the staff of KPMG made on the fiscal 2002 audit.

Sincerely,

Leslie Lenkowsky,
Chief Executive Officer