

# Office of Inspector General Corporation for National and Community Service

## AUDIT OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S FISCAL YEAR 2010 NATIONAL SERVICE TRUST SCHEDULES

Audit Report Number 11- 02



Corporation for  
**NATIONAL &  
COMMUNITY  
SERVICE** 

Prepared by:

Kearney & Company  
1701 Duke Street, Suite 500  
Alexandria, Virginia 22314



November 15, 2010

TO: Patrick A. Corvington  
Chief Executive Officer

FROM: Kenneth Bach /s/  
Acting Inspector General

SUBJECT: Audit of the Corporation for National and Community Service's  
Fiscal Year 2010 National Service Trust Schedules, OIG Audit Report 11-02

Attached is the Independent Auditor's Report on the Fiscal Year 2010 National Service Trust Schedule of Financial Position, and the related schedules of Operations and Changes in Net Position, Budgetary Resources and Trust Obligations (Schedules). We contracted with the independent certified public accounting firm of Kearney & Company (Kearney) to audit the financial statements of the Corporation as of September 30, 2010 and 2009, 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, Kearney found that the Schedules present fairly, in all material respects, the financial position of the Corporation's National Service Trust Fund for the fiscal year ended September 30, 2010.

Kearney is responsible for the attached auditor's report, dated November 15, 2010, and the conclusions expressed therein. The Office of Inspector General does not express an opinion on the Schedules.

Attachment

cc: James Siegal, Chief of Staff  
Robert Velasco, Chief Operating Officer  
William Anderson, Chief Financial Officer  
Kristin McSwain, Chief of Program Operations  
Wilsie Minor, Acting General Counsel  
Rocco Gaudio, Deputy CFO for Grants and Field Financial Management  
Tom Hanley, Acting Chief Information Officer  
David Zavada, Engagement Partner, Kearney & Company

## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying special purpose schedule of financial position of the Corporation for National and Community Service's (the Corporation) National Service Trust Fund as of September 30, 2010, and the related special purpose schedule of operations and changes in net position, schedule of trust obligations, and trust budgetary resources (hereinafter referred to as the "trust schedules") for the year then ended. These trust schedules are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these trust schedules based on our audit. The Corporation's trust schedules as of September 30, 2009 were audited by other auditors, whose report dated November 10, 2009 expressed an unqualified opinion on those trust schedules.

We conducted our audit of the trust schedules in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the trust schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the trust schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall trust schedules presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special purpose trust schedules were prepared for the purpose of complying with the National and Community Service Act of 1990 (P.L. 101-610), as amended, and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the special purpose trust schedules, as referenced above, including the accompanying notes, present fairly, in all material respects, the assets, liabilities, net position, and trust obligations of the Corporation as of September 30, 2010, and the revenues, expenses, budgetary resources, obligations, and commitments for the year then ended, in conformity with basis of accounting described in Note A.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, we have also issued reports, dated November 15, 2010, on our consideration of the Corporation's internal control over financial reporting and compliance, and on our tests of the Corporation's compliance with certain provisions of laws, regulations, and other matters for the year ended September 30, 2010. The purpose of the reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing*



*Standards* and OMB Bulletin No. 07-04, as amended, and should be considered in assessing the results of our audit.

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

A handwritten signature in blue ink that reads "Kearney &amp; Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia  
November 15, 2010

**Supplemental Information on the  
National Service Trust**

NATIONAL SERVICE TRUST FUND

SCHEDULE OF FINANCIAL POSITION

as of September 30

(dollars in thousands)

	2010	2009
<b>Assets</b>		
Trust Fund Balance with Treasury	\$ 241	\$ 452
Investments, carrying value	563,453	515,733
Investment and interest receivable	1,742	4,105
Accounts receivable	214	350
<b>Total Assets</b>	<b>\$ 565,650</b>	<b>\$ 520,640</b>
<b>Liabilities</b>		
Service Award Liability	\$ 379,878	\$ 324,067
<b>Net Position</b>		
Cumulative Results of Operations	185,772	196,573
<b>Total Liabilities and Net Position</b>	<b>\$ 565,650</b>	<b>\$ 520,640</b>

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

NATIONAL SERVICE TRUST FUND

SCHEDULE OF OPERATIONS AND CHANGES IN NET POSITION

For the Period Ending September 30

*(dollars in thousands)*

	2010	2009
<b>Revenues</b>		
Appropriations	\$ 197,000	\$ 171,075
Transfer in of Program Funds	2,659	3,857
Interest	7,288	12,236
Other	<u>155</u>	<u>326</u>
<b>Total Revenues</b>	<b>207,102</b>	<b>187,494</b>
 <b>Expenses</b>		
AmeriCorps Program	(217,767)	(171,662)
Service Learning Program	-	-
(Writeoff) / Recovery of Receivables	<u>(136)</u>	<u>(30)</u>
<b>Total Expenses</b>	<b>(217,903)</b>	<b>(171,692)</b>
 <b>Excess of Revenues Over Expenses</b>	 <b><u>\$ (10,801)</u></b>	 <b><u>\$ 15,802</u></b>
 <b>Net Position</b>		
Excess of Revenues Over Expenses	\$ (10,801)	\$ 15,802
Net Position, Beginning of Year	<u>196,573</u>	<u>180,771</u>
<b>Net Position, End of Year</b>	<b><u>\$ 185,772</u></b>	<b><u>\$ 196,573</u></b>

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

NATIONAL SERVICE TRUST FUND

SCHEDULE OF TRUST OBLIGATIONS

as of September 30

*(dollars in thousands)*

	2010	2009
<b>Resources</b>		
Trust Fund Balance with Treasury	\$ 241	\$ 452
Investments, carrying value	563,453	515,733
Investment and interest receivable	1,742	4,105
Accounts receivable	214	350
Sub-total	<u>565,650</u>	<u>520,640</u>
Less investments and receivables not available for obligation	(4,772)	(13,833)
Less Trust Reserve	<u>(50,197)</u>	<u>(50,197)</u>
<b>Total Resources</b>	<b><u>\$ 510,681</u></b>	<b><u>\$ 456,610</u></b>
 <b>Unliquidated Obligations</b>		
President's Freedom Scholarships	\$ (882)	\$ (1,035)
Education Awards	(481,084)	(424,571)
Interest Forbearance	<u>(16,843)</u>	<u>(18,129)</u>
<b>Total Unliquidated Obligations</b>	<b>(498,809)</b>	<b>(443,735)</b>
 <b>Commitments</b>		
Education Awards	-	-
Interest Forbearance	<u>-</u>	<u>-</u>
<b>Total Commitments</b>	<b>-</b>	<b>-</b>
 <b>Total Budgetary Uses</b>	 <b><u>\$ (498,809)</u></b>	 <b><u>\$ (443,735)</u></b>
 <b>Funds Available for Obligation at September 30</b>	 <b><u>\$ 11,872</u></b>	 <b><u>\$ 12,875</u></b>

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



NATIONAL SERVICE TRUST FUND

SCHEDULE OF TRUST BUDGETARY RESOURCES

For the Period Ending September 30

*(dollars in thousands)*

	2010	2009
Funds Available for Obligation, beginning of year	\$ 12,875	\$ 8,848
<b>Budgetary Resources</b>		
<i>Appropriations</i>		
Appropriation Received in Trust (net of rescissions)	197,000	171,075
Transfers in of Program Funds	2,659	3,857
Subtotal	199,659	174,932
Deobligation of Member Positions	8,388	3,617
Collection of Audit Receivables	155	-
<i>Less: Addition to Trust Reserve</i>	-	(3,500)
<b>Total Budgetary Resources</b>	<b>\$ 221,077</b>	<b>\$ 183,897</b>
<b>Obligations</b>		
Education Awards	\$ (201,390)	\$ (164,763)
Interest Forbearance	(7,815)	(6,860)
President's Freedom Scholarships	-	-
<b>Total Obligations</b>	<b>(209,205)</b>	<b>(171,623)</b>
<b>Net Change in Commitments</b>		
Education Awards	-	570
Interest Forbearance	-	31
<b>Total Commitments</b>	<b>-</b>	<b>601</b>
<b>Total Budgetary Uses</b>	<b>\$ (209,205)</b>	<b>\$ (171,022)</b>
<b>Funds Available for Obligation, end of year</b>	<b>\$ 11,872</b>	<b>\$ 12,875</b>

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

## ***NOTES TO THE TRUST FUND SCHEDULES***

### ***A. Basis of Accounting***

The Schedules of Financial Position; Operations and Changes in Net Position; Trust Obligations; and Trust Budgetary Resources have been prepared from the books and records of the Corporation in accordance with the National and Community Service Act of 1990, as amended by Edward M. Kennedy Serve America Act (Section 149 of Public Law 101-610, 42 USC § 12606) for the period commencing October 1, 2009 and ending September 30, 2010 and the Strengthen AmeriCorps Program Act (Public Law 108-45, 42 USC § 12605) for the period commencing October 1, 2008 and ending September 30, 2009.

The activities of the Trust are funded through the annual Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriations Act, which funds National and Community Service Act programs. Appropriations are provided on a no-year basis for the Trust, a fund within the Corporation used to provide education awards and student loan interest forbearance to eligible participants. Trust appropriations do not expire with the passage of time and are retained by the Corporation in the Trust until used for eligible purposes.

The Trust provides awards for AmeriCorps members serving in approved national service positions 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. Programs have up to two years after award to enroll members in positions.

Funds from the Trust may be expended for the purpose of providing an education award or student loan 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. The Trust may also expend funds for payments under the President's Freedom Scholarship Program as authorized under various Corporation appropriations through fiscal 2006.

Assets, liabilities, and net position, included in the Schedule of Financial Position and revenues and expenses included in the schedule of operations and changes in net position are presented in accordance with Generally Accepted Accounting Principles. The accompanying schedules of Trust Obligations and Trust Budgetary Resources were prepared in accordance with budgetary accounting rules.

The recognition of budgetary accounting transactions is essential for compliance with legal controls over the use of Federal funds. Budgetary accounting principles are designed to recognize the obligation of funds upon the establishment of a properly documented legal liability, which in many cases is different from the occurrence of an accrual-based transaction.

The Strengthen AmeriCorps Program Act (Public Law 108-45) directed that, beginning with fiscal 2003, Trust obligations be recorded at the time the Corporation: (1) enters into an enforceable agreement with an individual participant to serve in a program carried out under subtitle E of title I of the National and Community Service Act of 1990 (42 USC § 12611 et seq.), or title I of the

## **NOTES TO THE TRUST FUND SCHEDULES - CONTINUED**

Domestic Volunteer Service Act of 1973 (42 USC § 4951 et seq.); or (2) awards a grant to (or enters into a contract or cooperative agreement with) an entity to carry out a program for which such a position may be approved under section 123 of the Act (42 USC § 12573). The Strengthen AmeriCorps Program Act also directed that the obligational amount be based on the estimated value of the education benefit, discounted for the estimated enrollment, earning and usage rates, and the time value of money.

Effective October 1, 2009, the Edward M. Kennedy Serve America Act (Public Law 111-13) repealed the provisions of the Strengthen America Program Act and added the same requirements to the National and Community Service Act of 1990 (Section 149 of Public Law 101-610, 42 USC 12606).

For fiscal 2010 the factors used to calculate Trust obligations and budgetary needs were the full value of the Segal AmeriCorps Education Award, a 100 percent enrollment rate (allowing for refills), an average earning rate of 84 percent (the rate ranges from 77 to 86 percent depending on term type), and an average usage rate of 86 percent. Under the Serve America Act awards earned by members age 55 or older at the time of enrollment can be transferred to an eligible beneficiary. We project that all transferable awards will eventually be used. For program years 2002 and prior, the Corporation used the actual amounts earned, adjusted for amounts used and the time value of money when establishing the obligation. Estimates for program years 2003 and forward are periodically adjusted to reflect current usage projections and actual fill rates. Funds related to these revised estimates are periodically deobligated and become available for award for new program activities. The Corporation deobligated \$8.388 and \$3.617 million in fiscal 2010 and 2009, respectively.

### **B. Trust Appropriations**

For fiscal year 2010, the National Service Trust received \$197.000 million under the Consolidated Appropriations Act, 2010 (Public Law 111-117). For fiscal year 2009, the National Service Trust received \$131.075 million under the Omnibus Appropriations Act, 2009 (Public Law 111-8) and an additional \$40.000 million under the American Recovery and Reinvestment Act of 2009 (Public Law 111-5). The Acts also authorized the Corporation to transfer additional amounts from subtitle C program funds to the National Service Trust if necessary to support the activities of national service participants. The Corporation transferred \$2.659 million and \$3.857 million to the Trust under this provision in fiscal year 2010 and 2009, respectively.

### **C. Trust Reserve**

As required by the Strengthen AmeriCorps Program Act (up to September 30, 2009) and section 149 of the National and Community Service Act (as of October 1, 2009) the Corporation sets 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. No funds were added to the reserve in fiscal year 2010. The Corporation added \$3.500 million to the reserve in fiscal year 2009 for Recovery Act positions. The total amount held in reserve under this provision was \$50.197 million as of September 30, 2010 and 2009.

## **NOTES TO THE TRUST FUND SCHEDULES - CONTINUED**

### **D. Trust Awards**

Since the Corporation's inception in 1994, AmeriCorps members have earned over \$1.960 billion in education awards. The Corporation has made \$1.340 billion in payments to educational institutions and student loan holders on these awards. In addition, the Corporation has made \$47.861 million in interest forbearance payments since the program's inception. Approximately \$198.237 million in education awards earned had expired without being used as of September 30, 2010. The Trust obligation formula has been adjusted to reflect these expired awards. Payments for President's Freedom Scholarships have totaled \$21.640 million.

**APPENDIX**

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**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S  
RESPONSE TO DRAFT REPORT**



## MEMORANDUM

**DATE:** November 15, 2010

**TO:** Ken Bach, Acting Inspector General

**FROM:** William Anderson, Chief Financial Officer 

**SUBJECT:** Draft Report on the Audit of the Corporation's Fiscal Year 2010 National Service Trust Schedules

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Thank you for the opportunity to respond to the draft report on the results of your audit of the Corporation for National and Community Service's (Corporation) Fiscal Year 2010 National Service Trust Schedules. Fiscal Year 2010 marks the eighth year the schedules have been prepared. I am pleased that we can report that the Corporation maintained its record of strong fiscal stewardship for the American people. The Corporation received an unqualified "clean" opinion on the Trust Schedules for the eighth consecutive year. There were also no material weaknesses in the Corporation's internal control. These are tremendous accomplishments in light of the challenges, new mandates, and transitions that the Corporation has undertaken over the past two years.

Staff and senior leadership across the agency are committed to sound, accountable, and transparent financial management and our stakeholders should have confidence in our efforts to further strengthen financial management practices at the Corporation moving forward.

Finally, I would like to take this opportunity to thank the financial management professionals throughout the agency for their dedication and hard work throughout the past year. Their efforts ensure that we deliver the most accurate, transparent, and useful financial information possible.