OFFICE OF THE INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE

Financial Reporting
An Analysis of Alternatives and Recommendations

OIG Audit Report Number 01-33
June 7, 2001

Prepared by:

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Office of Inspector General
Corporation for National and Community Service

CORPORATION
FOR NATIONAL
SERVICE

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In 1999, the American Institute of Certified Public Accountants (AICPA) Council designated the Federal Accounting Standards Advisory Board (FASAB) as the accounting standards setting body for Federal government entities. The AICPA requires members to comply with accounting principles promulgated by a body designated by the AICPA to establish such principles. The amendment recognized accounting standards published by the FASAB as generally accepted accounting principles (GAAP) for Federal financial reporting entities. The amendment gave the FASAB exclusive jurisdiction to establish GAAP for Federal entities.

As a result of the AICPA's decision, an issue arose as to the accounting standards to be used by Federal government corporations which had, historically, followed private sector standards promulgated by the private sector standard setter – the Financial Accounting Standards Board (FASB). The FASAB issued an initial decision to allow Federal entities, including government corporations, to continue reporting under the FASB standards if the entities had previously issued such financial statements.

CNS OIG engaged KPMG, LLP to provide a study on the Corporation's financial reporting and basis of accounting, including an analysis of alternatives and recommendations. KPMG reviewed the Corporation's legislation (authorizing and appropriations), budget, and current financial statements, and obtained an understanding of the Corporation's structure and operations. KPMG also researched FASB and FASAB standards and OMB's reporting requirements.

The KPMG study concludes that the Corporation is in substance a Federal agency by virtue of its funding source, appropriated funds, and that the private sector standards do not provide for the reporting of essential budgetary information or program performance data as required by the FASAB standards. The study recommends that the Corporation consider adopting the Federal reporting model. CNS OIG reviewed the study, and its recommendation with which we concur, and the Corporation's response.

In its response, the Corporation agreed that the Federal reporting model provided useful information on the Corporation's operations. The Corporation intends to continue enhancing its financial statements as deemed relevant, cost effective and useful to the financial statement reader. In addition, the Corporation will consider voluntary adoption of FASAB standards in future years.

Inspector General
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Inspector General
Corporation for National and Community Service

We have performed a study of the Corporation for National and Community Service's basis of financial reporting, the results of which are discussed in the accompanying report entitled: Financial Reporting – An Analysis of Alternatives and Recommendations.

We conducted this study at your request to assist the Corporation in assessing whether its current financial reporting practices provide the information necessary for program management and evaluation.

We concluded that the Corporation is in substance a Federal agency by virtue of its funding source, appropriated funds. The business-reporting model followed by the Corporation does not provide the information necessary to fully satisfy Federal financial reporting objectives and the objectives of the CFOs Act of 1990. Accordingly, we recommended that the Corporation consider adopting the Federal reporting model.

KPMG LLP

June 19, 2001

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Corporation for National and Community Service
Financial Reporting
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Corporation for National and Community Service
Financial Reporting
An Analysis of Alternatives and Recommendation

Objective and Conclusion:

KPMG was engaged by the Office of Inspector General to perform a study of the Corporation for National and Community Service's basis of financial reporting. The objective of this study is to provide the Corporation with information about the financial reporting concepts and standards for communicating information necessary for program management and evaluation of Federal entities and to assist the Corporation in assessing whether its current reporting practices provide such information.

KPMG concluded that the Corporation is in substance a Federal agency by virtue of its funding source, appropriated funds. The business-reporting model followed by the Corporation does not provide the information necessary to fully satisfy Federal financial reporting objectives and the objectives of the CFOs Act of 1990. In response, the Corporation reported some of the information provided for by Federal concepts statements and associated accounting standards in the "About the Corporation" section of its Annual Report to Congress.

KPMG recommends that the Corporation consider adopting the Federal reporting model. The Corporation has indicated that it would consider disclosing in the Notes to the Financial Statements the relevant information provided for by the Federal accounting concepts and standards to achieve Federal financial reporting objectives. During its deliberations of this analysis and the resulting recommendations, the Corporation should consider the needs of financial statement users for information relevant to financing, managing, and evaluating Federal programs.

Methodology:

To accomplish the foregoing objective, KPMG:

- Reviewed CNS's budget for Fiscal Year 2000 and its Fiscal Year 2000 financial statements;
- Obtained an understanding of CNS's structure, programs, and operations; and
- Researched Federal Accounting Standards Advisory Board (FASAB) and Financial Accounting Standards Board (FASB) financial reporting concepts and standards and considered the reporting objectives of the Chief Financial Officers Act of 1990 and the requirements of the Office of Management and Budget.

Background:

The Government Corporation Control Act provides that Government Corporations must prepare financial statements in accordance with generally accepted accounting principles. Until recently, there were no such principles issued specifically for Federal entities, including Government Corporations. Accordingly, Government Corporations adopted the generally accepted accounting principles established by the FASB for non-government entities. In 1993, the FASB issued Statement of Financial Accounting Standard (SFAS) Number 117, which established financial reporting requirements for not-for-profit organizations. Since some Government Corporations possess many if not all of the characteristics of a not-for-profit organization (See SFAS Number 116, Appendix D), those possessing these characteristics should have been complying with the provisions of SFAS 117 for fiscal years beginning after December 15, 1994, SFAS 117's effective date.

In 1999, the American Institute of Certified Public Accountants recognized the FASAB as the authoritative accounting standards setting body for Federal entities, which include Government Corporations. Standards issued by FASAB are now recognized as generally accepted accounting principles for Federal entities. In response to inquiries about whether Government Corporations should adopt FASAB standards, the FASAB provided that such organizations could continue to follow FASB standards until the FASAB studied the matter.

We have been asked to study and report on whether CNS should continue to follow private sector standards issued by the FASB or adopt FASAB standards.

History of CNS

In 1990, Congress passed the National and Community Service Act. This legislation created both a private, nonprofit organization -- the Points of Light Foundation, and a new independent federal agency, the Commission on National and Community Service. Through grants and national coordination, the Commission supported four streams of service: service-learning programs for school-aged youth, higher-education service programs, youth corps, and national service demonstration models. In 1993, Congress created the National Civilian Community Corps (NCCC) through passage of the National and Community Service Trust Act. The legislation created the Corporation for National and Community Service to administer AmeriCorps, Learn and Serve America, and the other national service programs.

The CNS merged the work and staff of two predecessor agencies, ACTION and the Commission on National and Community Service. For two decades, ACTION had administered VISTA and the three programs which make up the Senior Corps - the Retired and Senior Volunteer Program (RSVP), Senior Companions and Foster Grandparents.

Since 1996, the Congress has increased the Corporation's annual appropriation from $600 million to over $731.6 million for fiscal year 2000. Table I summarizes the Corporations Year 2000 enacted budget. Table II summaries the funding sources for Corporation Program Offices.

Table I

CNS Major Budget Categories and Funding Sources Source: Year 2000 enacted budget	
National and Community Service Act (NCSA)	
National Service Trust	$ 69,000,000
AmeriCorps Grants	228,395,000
Innovation, Assistance, and Other Activities	33,500,000
Evaluation	5,000,000
National Civilian Community Corps	17,892,000
Learn and Serve America: K-12 and Higher Ed	43,000,000
Program Administration	17,100,000
State Commissions	10,795,000
Points of Light Foundation	7,471,000
Domestic Volunteer Service Act (DVSA)	
Volunteers in Service to America (VISTA)	80,574,000
National Senior Service Corps	
Retired and Senior Volunteer Program	46,117,000
Foster Grandparent Program	95,988,000
Senior Companion Program	39,219,000
Senior Demonstration Program	1,494,000
Other	
Office of the Inspector General	4,985,000
Program Administration	31,129,000
Total (Funded by General Fund Appropriations)	$731,659,000

Table II

Funding Sources of Program Offices

Budget Categories/Funding Sources	Program Offices					
	Foundations	Service Learning	National Senior Service Corps	AmeriCorps	Planning and Program Integration	Evaluation and Effective Practices
10-National and Community Service Act						
101-National Service Trust				X		
102-AmeriCorps Grants				X		
103-Innovation, Assistance, and Other Activities		X	X	X	X	X
104-Evaluation						X
105-National Civilian Community Corps				X		
106-Learn and Serve America: K-12 and Higher Ed		X				
107-Program Administration		X	X	X	X	X
108-State Commissions				X		
109-Points of Light Foundation (Pass through-Funds)	X					
20-Domestic Volunteer Service Act (DVSA)						
201-Volunteers in Service to America				X		
30-National Senior Service Corps						
301-Retired and Senior Volunteer Program			X			
302-Foster Grandparent Program			X			
303-Senior Companion Program			X			
304-Senior Demonstration Program			X			

Financial Reporting Concepts and Objectives

Concepts statements issued by accounting standards setting bodies describe the financial reporting objectives of users who lack the authority to prescribe the information they want and must rely on in making rational decisions. Thus, the concepts establish the objectives that standards setting bodies use in developing accounting and reporting standards. This study considered the concepts issued by the FASAB and the FASB. Appendix A provides a detailed description of these concepts.

Table III summarizes objectives of financial reporting for Federal entities adopted by the FASAB and compares the financial reporting requirements of the FASAB and FASB with these objectives. The purpose of this comparison is to illustrate the extent to which the non-Federal reporting model currently used by the Corporation satisfies the reporting objectives for Federal entities.

Table III

Comparison of FASAB and FASB Reporting Requirements with FASAB Reporting Objectives

Reporting Objectives	Reporting Requirements to Accomplish Objectives		
FASAB	**FASAB**	**FASB**	**SFAS 117**
Budgetary Integrity			
How budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization;	-Statement of Net Cost -Statement of Changes in Net Position -Statement of Budgetary Resources	Not addressed	Not addressed
The status of budgetary resources; and	-Balance Sheet -Statement of Budgetary Resources	Not addressed	Not addressed
How information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.	-Statement of Financing	Not addressed	Not addressed
Operating Performance			
Costs of providing specific programs and activities and the composition of, and changes in, these costs;	-Statement of Net Cost -Statement of Changes in Net Position	Not Addressed	Statement of Activities
Efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; and	-Statement of Program Performance Measures	Not Addressed	Not Addressed
Efficiency and effectiveness of the government's management of its assets and liabilities.	-Statement of Net Cost -Statement of Changes in Net Position	Not Addressed	Statement of Activities

Table III (Continued)

Stewardship			
Whether the government's financial position improved or deteriorated over the period;	-Balance Sheet -Required Supplementary Stewardship Information	Statement of Financial Position	Statement of Financial Position
Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due; and	-Balance Sheet -Required Supplementary Stewardship Information	Statement of Financial Position	Statement of Financial Position
Whether government operations have contributed to the nation's current and future well-being.	-Balance Sheet -Required Supplementary Stewardship Information	Statement of Financial Position	Statement of Financial Position
Systems and Control			
Transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and recorded in accordance with Federal accounting standards; assets are properly safeguarded to deter fraud, waste, and abuse; and performance measurement information is adequately supported.	Not addressed by financial statements per se. However, CNS issues a Report on Management Controls prepared in a manner consistent with the Federal Manager's Financial Integrity Act, pursuant to the provisions of the Government Corporation Control Act, and the Office of Inspector General reports on internal control in the auditor's report on the Corporation's financial statements. Both of these reports are included in the Corporation's Annual Report.	Not addressed by financial statements per se	Not addressed by financial statements per se

Objectives of the Chief Financial Officers Act of 1990

In addition to the foregoing comparative analysis, KPMG reviewed the Chief Financial Officers Act of 1990 (CFOs Act) to obtain an understanding of the purpose of the legislation that led to the creation of the various aspects of the federal financial management improvement effort, including the current federal accounting standards setting structure. The stated purpose of the CFOs Act relevant to this evaluation is the production of complete, reliable, timely, and consistent financial information for use by the Executive Branch of the Government and Congress in financing, managing, and evaluating federal programs.

The FASAB considered the objectives of the CFOs Act in developing the conceptual framework for Federal financial reporting and Federal accounting standards.

Summary Analysis and Recommendation

Relevance of the FASB model to CNS. Historically, the CNS has followed the accounting and reporting standards issued by the FASB for business-type organizations. As demonstrated by the information in Table III, the business-type reporting model does not satisfy fully the objectives of Federal financial reporting. Specifically, it does not provide information needed to assess the budgetary integrity and operating performance objectives. As described in Table III and Appendix A, these objectives provide that Federal financial reporting should assist in assessing budgetary integrity and operating performance.

The budgetary integrity objective pertains in part to providing information about how budgetary resources have been obtained and used; the status of budgetary resources; how information on the use of budgetary resources relates to information on the costs of program operations; and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.

The operating performance objective pertains to providing information about the costs of providing specific programs and activities and the composition of, and changes in, these costs; efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; and efficiency and effectiveness of the government's management of its assets and liabilities.

The FASB business type model focuses on economic resources, obligations (liabilities), and owner's equity. Under this model, operating performance is measured in terms of earnings and its components. The model is designed to provide investors and creditors with earnings information useful in assessing the prospects for enterprise cash flows. Earnings information is commonly the focus for assessing management's stewardship or accountability.

The CNS is funded entirely by Congressional appropriations.[1] Operating performance is not measured in terms of earnings but in terms of program costs compared with program outputs and outcomes. This is illustrated in part through CNS's Fiscal 1999 annual performance report.[2] Accordingly, the FASB model is not designed to and does not address fully the objectives of financial reporting for Federal agencies.

Relevance of the SFAS Number 117 Model to CNS. The SFAS 117 model, also described in Appendix A, applies to not-for-profit organizations. It is designed to meet the unique reporting objectives of these organizations. The model focuses on programs. The information provided in the Statement of Activities prescribed by SFAS 117 is

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[1] The National Service Trust, which provides educational awards to participants who successfully complete a term of service in one of the three branches of AmeriCorps, earns interest on balances held by the U.S. Treasury. Interest earnings are restricted entirely to the funding of educational awards and interest forebearance and payments on qualifying student loans on behalf of qualifying members.

[2] Fiscal 1999 Annual Performance Report, Corporation for National Service, March 31, 2000.

intended to help users (1) evaluate the organization's performance during a period, (2) assess the organization's service efforts, and (3) assess how an organization's managers have discharged their stewardship responsibilities and other aspects of their performance. The objectives of this Statement are more closely aligned with the objectives of the Statement of Net Costs under the Federal model. However, the CNS has not chosen to follow the provisions of SFAS 117.

The SFAS 117 reporting model does not provide for reporting on program performance in relation to the costs of program operations, albeit such a presentation could be presented in conjunction with the Statement of Activities. It is noteworthy that FASB Statement of Financial Accounting Concepts No. 4, paragraph 53, provides that reporting on service accomplishments may enhance significantly the value of information on service efforts. However, the SFAS 117 model does not provide for reporting on program accomplishments.

Finally, the SFAS 117 model does not address the budgetary integrity objective. This is a critical objective for Federal agencies funded by appropriations. The financial statements designed to satisfy this objective are the Statements of Budgetary Resources and Financing. The Statement of Budgetary Resources provides information on the status of budgetary resources, critical to a confirmation of the accuracy of budget information reported to oversight organizations. The Statement of Financing is critical to understanding the relationship between the accrual based information presented in the statements of net costs and changes in net position and the budgetary based information presented in the statement of budgetary resources.

Relevance of the Federal Reporting Model. The Federal financial reporting model is designed to satisfy all of the objectives of Federal financial reporting, except for the internal control objective.[3] It provides information necessary for assessing budgetary integrity, operating performance, and stewardship. The Statements of Budgetary Resources and Financing are specifically designed to address the budgetary integrity objective. The Statements of Net Cost and Changes in Net Position are designed to address the operating performance objective from an input perspective and the Statement of Program Performance Measures is designed to assist in reporting on program performance from an output and outcome perspective.

Conclusion

The CNS is in substance a Federal agency by virtue of its funding source, appropriated funds. The business-reporting model historically followed by the CNS does not provide the information necessary to fully satisfy Federal financial reporting objectives and the objectives of the CFOs Act of 1990. The not-for-profit organization model more closely mirrors the Federal model in terms of reporting on operating performance from a

[3] Financial reporting alone does not provide information to satisfy the internal control objective. However, the Corporation reports on management controls in its annual report and the Inspector General reports on internal controls in the auditor's report on the Corporation's financial statements.

financial perspective. However, it has several major deficits: it does not provide for the reporting of critical budgetary information and it does not provide for reporting on program performance in terms of outputs and outcomes. Accordingly, the CNS should consider adopting the Federal reporting model.

The Corporation has indicated that it will consider disclosing in the Notes to the Financial Statements the relevant information provided for by the Federal accounting concepts and standards to achieve Federal financial reporting objectives. During its deliberations on this analysis and the resulting recommendations, the Corporation should consider the needs of financial statement users for information relevant to financing, managing, and evaluating Federal programs.

Description of Relevant Concepts Statements and Non-Federal Financial Reporting Requirements

Federal Accounting Standards Advisory Board

FASAB Statement of Federal Financial Accounting Concepts (SFFAC) Number 1, "Objectives of Federal Financial Reporting"

SFFAC Number 1 includes four major categories of reporting objectives - budgetary integrity, operating performance, stewardship, and systems and controls. Each category has sub-categories that more fully describe the objective. The categories and related sub-categories follow.

Budgetary Integrity

Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations. Specifically, federal financial reporting should provide information that helps the reader to determine:

- how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization;
- the status of budgetary resources; and
- how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.

Operating Performance

Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities. Specifically, federal financial reporting should provide information that helps the reader to determine the:

- costs of providing specific programs and activities and the composition of, and changes in, these costs;
- efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; and

- efficiency and effectiveness of the government's management of its assets and liabilities.

Stewardship

Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial conditions have changed and may change in the future. Specifically, Federal financial reporting should provide information that helps the reader to determine:

- whether the government's financial position improved or deteriorated over the period;

- whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due; and

- whether government operations have contributed to the nation's current and future well being.

Systems And Control

Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that:

- transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and recorded in accordance with Federal accounting standards;

- assets are properly safeguarded to deter fraud, waste, and abuse; and

- performance measurement information is adequately supported.

FASAB Statement of Federal Financial Accounting Concepts (SFFAC) Number 2, "Entity and Display"

SFFAC Number 2 provides that [*Federal*] financial statements represent the principal means of communicating accounting information about an entity's resources, obligations, revenues, costs, etc. to those outside the entity. Emphasis added. This Statement also provides model financial reports designed to provide information that supports the objectives of Federal financial reporting. SFFAC Number 2 provides that [*Federal*] financial statements should include:

- *Management Discussion and Analysis*, which is designed to summarize and explain the most significant aspects of the entity's performance and its financial affairs.

- *Balance Sheet*, which is designed to report on the operating assets and liabilities related to the delivery of goods and services by government reporting entities.

- *Statement of Net Costs*, which is designed to report the gross and net costs of providing government goods, services, and benefits and will help in assessing the cost of service efforts and accomplishments.

- *Statement of Changes in Financial Position*, which is designed to provide information on the changes in financial position from year to year and the causes of the changes.

- *Statement of Custodial Activities*, which is designed to report, for those entities whose primary mission is collecting taxes or other revenues, the sources and disposition of amounts collected and collectible.

- *Statement of Budgetary Resources*, which is designed to present information related to budgetary resources made available, the status of budgetary resources, and outlays.

- *Statement of Program Performance Measures*, which is designated to present outputs and outcomes for each of the major programs operated by the reporting entity.

- *Statement of Financing* (added by SFFAS Number 7), which is designed to explain the relationship of budgetary obligations to costs recorded in the financial statements.

- *Required Supplementary Stewardship Information*

FASAB Statement of Federal Financial Accounting Standards Number 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government"

Managerial Cost Accounting Concepts in SFFAS Number 4 provide that managerial cost accounting should be a fundamental part of a financial management system and, to the extent practicable, should be integrated with other parts of the system. Managerial costing should use a basis of accounting, recognition, and measurement appropriate for the intended purpose. Cost information developed for different purposes should be drawn from a common data source, and output reports should be reconcilable to each other.

SFFAS Number 4 defines the fundamental elements of managerial cost accounting as:

- accumulating and reporting the costs of activities on a regular basis for management information purposes;
- establishing responsibility segments to match costs with outputs;
- determining the full costs of government goods and services;
- recognizing the costs of goods and services received from other federal entities; and
- using appropriate costing methodologies to accumulate and assign costs to outputs.

Financial Accounting Standards Board

FASB Concepts Statement Number 1, "Objectives of Financial Reporting by Business Enterprises"

The FASB's Concepts Statement Number 1 establishes three broad reporting objectives for business enterprises. These objectives call for information that is useful in: (1) making investment and credit decisions, (2) assessing cash flows, and (3) understanding an enterprise's resources, claims to those resources, and changes in them. In order to meet these objectives, this concepts statement indicates that financial reporting should provide information:

- that is useful to present and potential investors and creditors as well as other users in making rational investment, credit, and similar decisions.
- to help present and potential investors and creditors as well as other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans.
- about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change resources and claims to those resources.
- about an enterprise's economic resources, obligations, and owners' equity.
- about an enterprise's financial performance during a period.
- about how an enterprise obtains and spends cash, about its borrowing and repayment of borrowing, about its capital transactions, including cash dividends and other distributions of enterprise resources to owners, and about other factors that may affect an enterprise's liquidity or solvency.

- about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it.

- that is useful to managers and directors in making decisions in the interests of owners.

FASB Concepts Statement Number 4, "Objectives of Financial Reporting by Nonbusiness Organizations"

The FASB's Concepts Statement Number 4 establishes four broad objectives. These objectives call for information that is useful in: (1) making resource allocation decisions, (2) assessing services and ability to provide services, (3) assessing management stewardship and performance, and (4) understanding an organization's economic resources, obligations, net resources, and changes in them.

This concepts statement indicates that financial reporting by non-business organizations should provide information:

- that is useful to present and potential resource providers and other users in making rational decisions about the allocation of resources to those organizations.

- to help present and potential resource providers and other users in assessing the services that a non-business organization provides and its ability to continue to provide those services.

- that is useful to present and potential resource providers and other users in assessing how managers of a non-business organization have discharged their stewardship responsibilities and about other aspects of their performance.

- about the economic resources, obligations, and net resources of an organization and the effects of transactions, events, and circumstances that change resources and interests in those resources.

- about an organization's economic resources, obligations, and net resources.

- about the performance of an organization during a period. Periodic measurement of the changes in the amount and nature of the net resources of a non-business organization and information about the service efforts and accomplishments of an organization together represent the information most useful in assessing its performance.

- about the amounts and kinds of inflows and outflows of resources during a period.

- about the relation between inflows and outflows of resources during a period. Those who provide resources to a non-business organization and others want to know how and why net resources changed during a period.

- about the service efforts of a non-business organization.

- about the service accomplishments of a non-business organization.

- about how an organization obtains and spends cash or other liquid resources, about its borrowing and repayment of borrowing, and about other factors that may affect its liquidity.

An important point made by both of the foregoing FASB concepts statements is that financial reporting should include explanations and interpretations to help users understand financial information provided.

Statement of Financial Accounting Standards (SFAS) Number 117, Financial Statements of Not-for-Profit Organizations (SFAS 117)

SFAS 117, an accounting and reporting standard rather than a concept statement, requires three financial statements: a Statement of Financial Position, a Statement of Activities, and a Statement of Cash Flows. The Statement indicates that the primary purpose of the Statement of Financial Position is to provide relevant information about an organization's assets, liabilities, and net assets.

The Statement states that the primary purpose of the Statement of Activities is to provide relevant information about the effects of transactions and other events and circumstances that change the amount and nature of net assets... and how the organization's resources are used in providing various programs or services. The information provided in the Statement of Activities... helps users (1) evaluate the organization's performance during a period, (2) assess the organization's service efforts, and (3) assess how an organization's managers have discharged their stewardship responsibilities and other aspects of their performance.

To help in assessing an organization's service efforts, including the costs of its services and how it uses resources, the Statement of Activities or notes to financial statements should provide information about expenses reported by their functional classification such as major classes of program services and supporting activities. Program services are the activities that fulfill the purposes for which the organization exists. Supporting activities are all activities other than program services, for example, general management.

The Statement of Cash Flows is to provide relevant information about the cash receipts and cash payments of an organization during a period.

CORPORATION
FOR NATIONAL
SERVICE

MEMORANDUM

Date: April 23, 2001

To: Luise Jordan
Inspector General

From: William L. Anderson
Deputy Chief Financial Officer

Subject: Response to OIG draft report 01-33, *Financial Reporting – An Analysis of Alternatives and Recommendation*

The Corporation has reviewed the office of the Inspector General (OIG) draft audit report 01-33, *Financial Reporting – An Analysis of Alternatives and Recommendation,* prepared by KPMG. The draft audit report states that the objective of OIG's analysis was to assist the Corporation in determining the financial reporting standards that it should follow and, after identifying several alternatives, suggests that the Corporation consider adopting the federal [FASAB] reporting model. An analysis of the Corporation's reporting requirements is included as an attachment.

While neither the CFO Act nor the pronouncements of the FASAB require a government entity that historically has followed FASB standards to adopt the standards promulgated by the FASAB,[1] the Corporation agrees that the federal reporting model provides useful information on an agency's operations. In fact, the Corporation's recently issued fiscal 2000 Annual Report includes most, if not all, of the information considered useful under the federal reporting model, including detailed financial and budgetary information on its operations.

For example, the current annual report includes a Management Discussion and Analysis (MD&A) section featuring graphical as well as narrative presentations of financial and program performance results. The MD&A also includes a distribution of Corporation expenses by responsibility segment (AmeriCorps, National Senior Service Corps, and Learn and Serve). In addition, Note 11 to the principal financial statements provides a distribution of grants expense among the four major grant program areas: Domestic Volunteer Service Act Programs, National and Community Service Act Programs, Points of Light Foundation, and Domestic Volunteer Service Act State Pass-Through Grants. The Corporation intends to continue annual enhancements to its financial reports as deemed relevant, cost effective, and useful to the financial statement reader.

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[1] Except for those listed in OMB Bulletin No. 97-01, which does not include the Corporation. FASAB concepts and standards permit and encourage the Corporation to continue reporting under FASB standards.

It is important to note that prior to the conclusion of fiscal 1997 the Corporation's financial statements were considered to be unauditable. There were many deficiencies, including a non-compliant financial system. In September 1999, the Corporation implemented a new financial management system, which complies with Joint Financial Management Improvement Program and OMB Circular A-127, *Policies and Standards for Financial Management Systems,* standards. The Corporation's improvements have been deliberate and incremental so as to ensure a continuous forward progression in its financial management policies, procedures and systems. Thus, each financial reporting enhancement must include the establishment of an infrastructure of policies, procedures and systems that can be sustained and further enhanced in future fiscal years.

Following its plan for continual enhancement to the financial reporting function the Corporation will consider voluntary adoption of the FASAB, or federal reporting model in future fiscal years to the extent authorized by law.

Analysis of Corporation Reporting Requirements

The Corporation was established as "a Government corporation, as defined in section 103 of Title 5." (42 U.S.C. 12651). A federal government corporation is a type of federal agency. As a federal government corporation, the Corporation must adhere to the Government Corporation Control Act, 31 U.S.C. §9101 et seq. That Act (Section 9106, Management reports) requires that the Corporation submit an annual management report to Congress that "***shall include*** (emphasis added):

- a balance sheet;
- a statement of operations;
- a statement of cash flows;
- a reconciliation to the budget report of the Government corporation, if applicable;
- a statement on internal accounting and administrative control systems by the head of the management of the corporation, consistent with the requirements for agency statements on internal accounting and administrative control systems under the amendments made by the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255);
- the report resulting from an audit of the financial statements of the corporation conducted under section 9105 of this title; and
- any other comments and information necessary to inform the Congress about the operations and financial condition of the corporation."

Thus, the Corporation is required to prepare a balance sheet (statement of financial position), a statement of operations (income statement), and a statement of cash flows; and have the financial statements audited. In order for the auditor to express an unqualified or "clean" opinion on the financial statements, the financial statements must be prepared in accordance with generally accepted accounting principles. The very specific reporting requirements denoted above were amendments to the Government Corporation Control Act contained in the *Chief Financial Officers Act* (P.L. 101-576, Title III, §306) designed to bring the two Acts into agreement.

The GAAP concept was created by the American Institute of Certified Public Accountants (AICPA). Rule 203 of the AICPA Code of Professional Conduct provides that an AICPA

> "member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole."

The AICPA Council designated the Financial Accounting Standards Board (FASB) as the standards-setter for the private sector in 1973 and the Governmental Accounting Standards Board (GASB) as the standards-setter for state and local governments in 1986. Thus, federal

corporations were required to prepare and have audited, financial statements prepared in accordance with FASB standards.

On October 19, 1999, the Council designated the Federal Accounting Standards Advisory Board (FASAB) as the Rule 203-designated accounting standards-setter for the federal government. As a consequence of this action a question arose as to whether Government corporations had to now prepare financial statements in accordance with FASAB standards in order that the statements be in accordance with GAAP. However, FASAB recognized that certain federal entities prepare financial statements in accordance with FASB standards. This practice developed before FASAB was established and has been widely recognized and prevalent in the federal government. In SFFAC 2, *Entity and Display*, ¶78, FASAB speaks to this practice, specifically stating:

> Some of a reporting entity's components are likely to be required by law or policy to prepare and issue financial statements in accordance with accounting standards other than those recommended by FASAB and issued by OMB and GAO, e.g., accounting standards issued by the Financial Accounting Standards Board or accounting standards established by a regulatory agency. Those components ***should continue to issue the required reports*** (emphasis added).

The FASAB News newsletter for January-March 2000, as part of a Q and A, stated: "However, financial statements in accordance with accounting standards published b the FASB also may be regarded as in accordance with GAAP for those Federal entities that have in the past issued such financial statements."

Finally, Section 102 (b) of the CFO Act contains three stated purposes, only the third of which was paraphrased in the "Objectives of the Chief Financial Officers Act of 1990," section of the draft audit report. The complete text is as follows:

(b) Purposes - The purposes of this Act are the following:

(1) Bring more effective general and financial management practices to the Federal Government through statutory provisions which would establish in the Office of Management and Budget a Deputy Director for Management, establish an Office of Federal Financial Management headed by a Controller, and designate a Chief Financial Officer in each executive department and in each major executive agency in the Federal Government.

(2) Provide for improvement, in each agency of the Federal Government, of systems of accounting, financial management, and internal controls to assure the issuance of reliable financial information and to deter fraud, waste, and abuse of Government resources.

(3) Provide for the production of complete, reliable, timely, and consistent financial information for use by the executive branch of the Government and the Congress in the financing, management, and evaluation of Federal programs.

In the Act, the first purpose is to establish the Deputy Director for Management and the Controller of the Officer of Federal Financial Management at the Office of Management and Budget and a Chief Financial Officer at each major executive agency in the federal government. The second purpose is to provide for improvement to agency systems of accounting, financial management and internal controls. The third purpose is to provide for production of complete, reliable, timely and consistent financial information.

It is important to note that the CFO Act does not address the need to develop federal financial accounting principles, nor does it address the need to establish a standard setting agency within the federal government. Three federal agency heads, who were in office before the passage of the CFOs Act, recognized these needs and acted independently of the Congress. As a result of their action, the FASAB was established on October 10, 1990, by a memorandum of understanding signed by the Director of the Office of Management and Budget, the Secretary of the Treasury and the Comptroller General of the United States. The CFO Act became a public law on November 15, 1990, about 35 days after the FASAB was established.

While the CFO Act does not address federal accounting principals, it does provide at Section 303(a)3515(c) that,

> The Director of the Office of Management and Budget shall prescribe the form and content of the financial statement of executive agencies under this section, consistent with applicable accounting principles, standards and requirements.

It was under the authority of this provision that the Office of Management and Budget developed the predecessor and current versions of the current Bulletin 97-01, *Form and Content of Agency Financial Statements*, that the draft audit report recommends the Corporation follow. The current version of OMB Bulletin 97-01 includes the format and instructions for six principal financial statements as well as for a management discussion and analysis, required supplementary stewardship information, required supplementary information, and other accompanying information. OMB Bulletin 97-01 explicitly lists the federal entities that must follow the bulletin; the Corporation is not one of them.