OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE

AUDIT OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S FISCAL YEAR 2001 FINANCIAL STATEMENTS

OIG Audit Report Number 02-01
March 15, 2002

Prepared by:

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

Under the Corporation for National and Community Service
Purchase Order # 200107160002
GS Contract # GS-23F-8127H
Task Order # 00-01

This report was issued to Corporation management on March 15, 2002. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than September 11, 2002, and complete its corrective actions by March 17, 2003. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

CORPORATION
FOR NATIONAL
SERVICE

Office of Inspector General
Corporation for National and Community Service

Audit of the Corporation for National and Community Service's
Fiscal Year 2001 Financial Statements
OIG Audit Report 02-01

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 2001 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. In contrast, the FY 2000 audit noted one material weakness relating to grants management.
>
> No instances of material non-compliance with laws and regulations were found.

As is our responsibility, CNCS 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's financial operations are strong and positioned to handle growth and changes. The response also indicates that the Corporation will reassess their monitoring tools to address the report's recommendations. The response is presented in its entirety as Appendix A.

Inspector General
1201 New York Avenue, NW
Washington, DC 20525

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

Independent Auditors' Report on Financial Statements

Office of the Inspector General
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, 2001 and 2000, 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, 2001 and 2000, and the results of its operations, changes in net position, and 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 March 8, 2002 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

March 8, 2002

KPMG LLP KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

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

	2001	2000
ASSETS		
Fund Balance with Treasury *(Note 2)*	$ 825,962	$ 812,521
Trust Investments and Related Receivables *(Note 3)*	307,688	331,831
Advances to Others	22,251	24,848
Accounts Receivable, Net *(Note 4)*	3,070	3,058
Property and Equipment, Net *(Note 5)*	1,162	1,715
Total Assets	$ 1,160,133	$ 1,173,973
LIABILITIES		
Trust Service Award Liability *(Note 6)*	$ 186,414	$ 193,035
Grants Payable	48,885	39,516
Accounts Payable	6,507	9,699
Actuarial FECA Liability *(Note 9)*	12,637	12,265
Other Liabilities	10,205	8,064
Accrued Annual Leave	2,947	3,011
Commission Post-Service Benefits Liability *(Note 7)*	662	1,439
Advances from Others	164	742
Capital Lease Liability *(Note 8)*	64	128
Total Liabilities	$ 268,485	$ 267,899
Commitments and Contingencies *(Notes 8 and 16)*		
NET POSITION		
Unexpended Appropriations		
Obligated	$ 681,752	$ 645,132
Unobligated	107,404	138,692
Cumulative Results of Operations	102,492	122,250
Total Net Position *(Note 10)*	$ 891,648	$ 906,074
Total Liabilities and Net Position	$ 1,160,133	$ 1,173,973

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)

	2001	2000
REVENUES		
Appropriated Capital Used, excluding Trust Fund	$ 683,886	$ 611,641
Appropriations Received by the Trust Fund *(Note 11)*	69,846	70,000
Interest	18,949	21,514
Revenue from Services Provided	5,934	6,044
Other	301	173
Total Revenue	$ 778,916	$ 709,372
EXPENSES		
AmeriCorps	$ 510,283	$ 516,856
National Senior Service Corps	186,471	138,866
Service-Learning Program	51,343	43,498
Subtotal	748,097	699,220
Congressionally Earmarked Grants	12,701	7,471
DVSA State Grants	778	748
Office of the Inspector General	5,120	1,545
Total Expenses *(Note 12)*	$ 766,696	$ 708,984
EXCESS OF REVENUES OVER EXPENSES	$ 12,220	$ 388
NET POSITION		
Excess of Revenues over Expenses	$ 12,220	$ 388
Increase in Unexpended Appropriations, Net *(Note 14 & 17)*	5,332	41,759
Non-Operating Changes:		
Permanent Rescission of Trust Funds *(Note 15)*	(30,000)	(81,000)
Reclassification of Net Position *(Note 17)*	(1,978)	0
Decrease in Net Position, Net	(14,426)	(38,853)
Net Position, Beginning Balance	906,074	944,927
Net Position, Ending Balance	$ 891,648	$ 906,074

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

Excess of Revenues over Expenses			$ 12,220
Adjustments Affecting Cash Flow:			
Appropriated Capital Used	$ (683,886)		
Appropriations Received by Trust Fund	(69,846)		
Increase in Accounts Receivable	(12)		
Decrease in Interest Receivable	306		
Decrease in Advances	2,597		
		(750,841)	
Decrease in Accounts Payable and Other Liabilities	$ (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.

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

CASH FLOWS FROM OPERATING ACTIVITIES

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

(continued)

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

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

CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	$ (449)	
Sales of Securities	211,869	
Purchase of Securities	(153,138)	
Net Cash Provided by Investing Activities		$ 58,282
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received	$ 734,145	
Canceled/Rescinded Appropriations	(91,745)	
Net Cash Provided by Financing Activities		$ 642,400
Net Cash Provided by Operating, Investing, and Financing Activities		$ 53,933
Fund Balance with Treasury, Beginning		758,588
Fund Balance with Treasury, Ending		$ 812,521

Supplemental Disclosure of Cash Flow Information

Interest Paid	$ 18

Supplemental Schedule of Financing and Investing Activity

Equipment Acquired Under Capital Lease Obligations	$ 25

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

Corporation for National and Community Service
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

These financial statements have been prepared to report the financial position, results of operations, and cash flows of the Corporation for National and Community Service (the Corporation), as required by Section 9106 of the Government Corporation Control Act and by the National and Community Service Act of 1990, as amended. These financial statements have been prepared from the books and records of the Corporation in accordance with generally accepted accounting principles and include the Corporation's activities related to providing grants and education awards to eligible 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). 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 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 500,000 people age 55 and older who participate in the *Foster Grandparent Program*, the *Senior Companion Program*, and the *Retired and Senior Volunteer Program*. These programs tap the experience, skills, talents, and creativity of America's seniors.
- **Service-Learning** supports and promotes service learning in schools, universities, and communities. Through structured service activities that help meet community needs, 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 for the National Service Trust (the Trust), a fund within the Corporation used to provide education awards to eligible participants. The Trust provides awards for AmeriCorps members under AmeriCorps*State and National, AmeriCorps*NCCC, and AmeriCorps*VISTA as well as for the AmeriCorps Education Award Program, where sponsoring organizations are responsible for providing member subsistence and other costs, and the Corporation provides an education award and a small amount for administrative costs.

D. Basis of Accounting

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

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

E. Fund Balance with Treasury

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

Funds maintained in the National Service Trust are restricted for use in paying service awards earned by eligible participants, 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. Pre-paid 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 education awards incurred by the former Commission on National and Community Service, which has been managed by the Corporation since 1994. This liability, more fully discussed in Note 7, is funded by the Corporation when a request for payment is made.

Q. Advances from Others

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

R. Net Position

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

S. Revenues

Appropriated Capital Used

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

Interest

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

Revenue from Services Provided

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

Other Revenue

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

T. Retirement Benefits

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

For employees covered by CSRS, the Corporation contributes 8.51 percent of their gross pay 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 $991 thousand and $993 thousand to the CSRS Plan, and $5,008 thousand and $4,580 thousand to the FERS and TSP Plans in fiscal years 2001 and 2000, 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 revenue and expenses during the reporting period. Actual results could differ from these estimates.

V. Reclassifications

Certain fiscal 2000 amounts have been reclassified to conform to the fiscal 2001 presentation.

Corporation for National and Community Service
Notes to the Financial Statements

NOTE 2 – FUND BALANCE WITH TREASURY

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

- **Appropriated Funds** – Appropriated funds are received through congressional appropriations to provide financing sources for the Corporation's programs on an annual, multi-year, and no-year basis. The funds are warranted by the United States Treasury and apportioned by the Office of Management and Budget.
- **Trust Funds** – Trust Funds are accounts designated by law for receipts earmarked for specific purposes and for the expenditure of these receipts. Funds from the Corporation's Trust Fund may be expended for the purpose of providing an education award 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.
- **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)

	2001			2000		
Type	**Unrestricted**	**Restricted**	**Total**	**Unrestricted**	**Restricted**	**Total**
Appropriated Funds	$825,700	$ --	$825,700	$811,232	$ --	$811,232
Trust Funds	--	104	104	--	1,191	1,191
Gift Funds	6	152	158	11	87	98
Total	**$825,706**	**$256**	**$825,962**	**$811,243**	**$1,278**	**$812,521**

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)

	2001	2000
Investments, Carrying Value	$303,277	$306,146
Matured Investment Receivable	--	20,967
Investment and Interest Receivable	4,411	4,718
Total	**$307,688**	**$331,831**

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

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

	2001				2000			
Securities	**Amortized Cost**	**Unrealized Gains**	**Unrealized (Losses)**	**Fair Value**	**Amortized Cost**	**Unrealized Gains**	**Unrealized (Losses)**	**Fair Value**
Notes	$249,197	$11,428	$ --	$260,625	$261,815	$ --	$(1,368)	$260,447
Bills	37,359	398	--	37,757	26,717	415	--	27,132
Bonds	16,721	599	--	17,320	17,614	--	(217)	17,397
Total	**$303,277**	**$12,425**	**$ --**	**$315,702**	**$306,146**	**$415**	**$(1,585)**	**$304,976**

At September 30, 2001, the notes held at year-end had an interest rate range of 5.50% to 7.50% and a maturity period of approximately 31 days to almost four and a half years. Interest rates on bonds ranged from 10.75% to 14.25% and had a maturity period of approximately six months to almost four years. The bills held at year-end had an interest rate range of 2.06% to 3.62% and were all due to mature within 120 days. The par values of these investments range from $506 thousand to $27,917 thousand.

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

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

	2001		2000	
Held-to-Maturity Securities	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in 1 year or less	$130,999	$133,128	$77,852	$78,016
Due after 1 year up to 5 years	172,278	182,574	209,473	208,193
Due after 5 years up to 10 years	--	--	18,821	18,767
Total	**$303,277**	**$315,702**	**$306,146**	**$304,976**

NOTE 4 – ACCOUNTS RECEIVABLE, NET

Accounts Receivable as of September 30
(dollars in thousands)

	2001	2000
Accounts receivable	$3,314	$3,352
Less: allowance for loss on receivables	244	294
Accounts Receivable, Net	**$3,070**	**$3,058**

Corporation for National and Community Service
Notes to the Financial Statements

NOTE 5 – PROPERTY AND EQUIPMENT, NET

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

		2001			2000		
Major Class	**Service Life (Years)**	**Cost**	**Less: Accumulated Depreciation**	**Net Book Value**	**Cost**	**Less: Accumulated Depreciation**	**Net Book Value**
Equipment	3-10	$2,242	$1,402	$ 840	$2,080	$1,362	$ 718
Capital leases	3-5	127	65	62	280	145	135
ADP software	2	3,449	3,189	260	3,182	2,320	862
Total		**$5,818**	**$4,656**	**$1,162**	**$5,542**	**$3,827**	**$1,715**

NOTE 6 – SERVICE AWARD LIABILITY – NATIONAL SERVICE TRUST

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

Service Award Liability as of September 30
(dollars in thousands)

	2001	**2000**
Education awards	$477,181	$407,591
Interest forbearance	18,011	12,826
Student scholarship award	8,340	5,571
Total service award liability	503,532	425,988
Less: cumulative awards paid	317,118	232,953
Total	**$186,414**	**$193,035**

The net service award liability as of September 30, 2001, decreased by approximately $6.6 million from the net service award liability as of September 30, 2000. This decrease was largely due to a decrease in the overall estimated percentage of awards to be used based on historical experience.

NOTE 7 – POST-SERVICE BENEFITS LIABILITY, COMMISSION ON NATIONAL AND COMMUNITY SERVICE

The Commission on National and Community Service (Commission) was merged into the Corporation for National and Community Service during fiscal year 1994. With this merger, the Corporation became responsible for all Commission liabilities, including those for post-service benefits.

Post-service benefits liabilities from the former Commission's operations differ from those originating within the Corporation in three significant respects:

- the grantee, rather than an agency of the Federal government, is responsible for making post-service award payments;
- the portion of these awards which is funded by the Federal government is specified in each grant agreement, with any remaining amount funded by the grantee; and
- the post-service period during which an award is available for use was established by each program grantee, rather than set at seven years for all awardees.

The post-service benefits liability associated with the former Commission is estimated based on a review of its grants that authorize post-service benefits. Amounts shown below represent the aggregate maximum liability under the assumption that all funds obligated for post-service benefits remain payable to grantees for this purpose until they are drawn down or the period of award availability has expired.

Commission Post-Service Benefits Liability as of September 30
(dollars in thousands)

	2001	2000
Estimated liability as of previous year-end	$1,439	$1,596
Less: drawdowns and adjustments	31	61
Potential education awards	1,408	1,535
Less: award expirations	746	96
Total	**$ 662**	**$1,439**

Corporation for National and Community Service
Notes to the Financial Statements

NOTE 8 – CAPITAL AND OPERATING LEASES

A. Capital Leases

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

Capital Leases Future Minimum Due as of September 30
(dollars in thousands)

	2001	2000
Fiscal Year 2001	$ --	$ 75
Fiscal Year 2002	37	37
Fiscal Year 2003	32	32
Fiscal Year 2004	2	2
Total future minimum lease payments	71	146
Less: amounts representing interest	7	18
Total	**$64**	**$128**

B. Operating Leases

The Corporation leases office space through the General Services Administration (GSA). GSA charges the Corporation a Standard Level Users Charge that approximates commercial rental rates for similar properties. Additionally, the Corporation leases motor vehicles on an annual basis through GSA under an Interagency Fleet Management Service agreement for the National Civilian Community Corps. Commitments of the Corporation for future rental payments under operating leases at September 30, 2001, are as follows:

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

	2001				2000			
Fiscal Year	**Office Space**	**Vehicles**	**Other**	**Total**	**Office Space**	**Vehicles**	**Other**	**Total**
2001	--	--	--	--	$4,101	$957	$189	$5,247
2002	$4,533	$886	$218	$5,637	4,249	996	189	5,434
2003	4,650	919	200	5,769	4,403	1,035	189	5,627
2004	4,771	953	183	5,907	4,562	1,077	194	5,833
2005	4,895	988	174	6,057	4,727	1,120	187	6,034
2006	5,022	1,025	174	6,221	--	--	--	--
Total	**$23,871**	**$4,771**	**$949**	**$29,591**	**$22,042**	**$5,185**	**$948**	**$28,175**

NOTE 9 – WORKERS' COMPENSATION

The Corporation's actuarial liability for future workers' compensation benefits (FECA) was $12,637 thousand and $12,265 thousand as of September 30, 2001 and 2000, 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, 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**

As of September 30, 2000

	Gift Fund	Trust Fund	Appropriated Fund	Total
Unexpended appropriations	$ --	$ --	$ 783,824	$ 783,824
Cumulative results of operations	67	140,023	(17,840)	122,250
Total Net Position	**$ 67**	**$ 140,023**	**$ 765,984**	**$ 906,074**

NOTE 11 – APPROPRIATIONS RECEIVED BY THE TRUST FUND

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 current year 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. Fiscal 2000 appropriations received by the Trust Fund of $70 million are pursuant to Public Law 106-74.

Corporation for National and Community Service
Notes to the Financial Statements

NOTE 12 – EXPENSES

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

- The **AmeriCorps** (AC) responsibility segment includes grant expenses, as well as direct and allocated personnel and administrative costs, for the 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 **Service-Learning Program** (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 as well as interest forbearance costs on qualified student loans during the period members perform community service. No indirect costs have been allocated 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 the 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), 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)

	2001	2000
Domestic Volunteer Service Act Programs	$202,581	$192,134
National and Community Service Act Programs	321,262	267,590
Congressionally Earmarked Grants	12,701	7,471
DVSA State Grants	778	748
Total Grants Expense	**$537,322**	**$467,943**

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	77,424	--	--	--	--	77,424
Total Grant and Related Expense	$ 440,687	$177,361	$46,223	$ --	$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	**$510,283**	**$186,471**	**$51,343**	**$5,120**	**$13,479**	**$766,696**

Expenses by Type for the year ended September 30, 2000
(dollars in thousands)

Type	A/C	NSSC	L&S	OIG	Earmarked Grants	Total
Grant and Related Expense						
Awarded funds expended	$ 291,591	$129,749	$38,384	$ --	$8,219	$467,943
VISTA & NCCC stipends & benefits	59,323	--	--	--	--	59,323
Service award expense	83,971	--	--	--	--	83,971
Total Grant and Related Expense	$ 434,885	$129,749	$38,384	$ --	$8,219	$611,237
Administrative Expense						
Federal employee salaries & benefits	$ 41,009	$ 4,412	$ 3,098	$1,079	$ --	$ 49,598
Travel & transportation	6,932	268	163	14	--	7,377
Rent, communications, & utilities	5,717	406	268	9	--	6,400
Program analysis & evaluation	3,799	562	328	--	--	4,689
Printing & reproduction	815	286	66	2	--	1,169
Other services	18,391	2,072	923	382	--	21,768
Supplies & materials	1,756	304	34	58	--	2,152
Loss on Treasury bond recall	2,014	--	--	--	--	2,014
Depreciation & amortization	1,130	602	175	1	--	1,908
Bad debt	12	7	2	--	--	21
Other	396	198	57	--	--	651
Total Administrative Expense	$ 81,971	$ 9,117	$ 5,114	$1,545	$ --	$ 97,747
Total Expenses by Type	**$516,856**	**$138,866**	**$43,498**	**$1,545**	**$8,219**	**$708,984**

NOTE 13 – NATIONAL SERVICE AWARD EXPENSE

Members participating in the Trust programs are eligible to earn a service award to pay for qualified education expenses. The Trust also pays interest forbearance costs on qualified student loans during the period members perform community service. The Corporation estimates the expense for national service awards based on the increase in its service award liability during the year (see Note 6). The total service award liability as of September 30, 2001 and 2000, 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)*	**2001**	**2000**
Increase in estimated awards	$ 69,473	$ 80,901
Increase in estimated interest forbearance	5,182	613
Increase in Student scholarship awards	2,769	2,457
National Service Award Expense	**$ 77,424**	**$ 83,971**

NOTE 14 – INCREASE IN UNEXPENDED APPROPRIATIONS, NET

Increase in Unexpended Appropriations, Net as of September 30 *(dollars in thousands)*	**2001**	**2000**
Increases:		
Appropriations received, net of trust	$697,504	$664,145
OIG Supplemental Appropriation	--	1,000
Reclassification of Net Position (see Note 17)	1,978	--
Total Increases	699,482	665,145
Decreases:		
Appropriated capital used, net of trust	(683,886)	(611,641)
Rescinded appropriations, net of trust	(1,020)	(2,630)
Canceled appropriations	(9,244)	(9,115)
Total Decreases	(694,150)	(623,386)
Increase in Unexpended Appropriations, Net	**$ 5,332**	**$ 41,759**

NOTE 15 – TRUST FUND RESCISSION

In fiscal 2001 and 2000, respectively, $30 million and $81 million of amounts previously appropriated under the National and Community Service Act of 1990 (Act) and transferred to the National Service Trust were rescinded. One million of the $81 million rescinded in fiscal 2000 was provided to the OIG in a supplemental appropriation for use in its current operations. The rescissions permanently reduced the amount available under subtitle D of title I of the Act (42 U.S.C. 12601 et seq.) for the disbursement of education awards.

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

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.

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

Independent Auditors' Report on Internal Control over Financial Reporting

Office of the Inspector General
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 year ended September 30, 2001, and have issued our report thereon dated March 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

In planning and performing our 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 a certain matter, 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 prior year reportable conditions.

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 02-02.

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

As required by the Government Corporation Control Act, this report is intended solely for the information and use of the United States Congress, the President, the Director of the Office of Management and Budget, the Comptroller General of the United States, and the Corporation for National and Community Service and its Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 8, 2002

Monitoring of Grantee Activities

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. For the fiscal year ended September 30, 2001, the Corporation awarded approximately $680 million to grantee organizations. These organizations are responsible and accountable for expenditure of funds awarded in compliance with the terms of their NCSA or DVSA grant agreements, and with other laws and regulations applicable to federal award programs. The financial information provided to the Corporation from these grantees supports the reported amounts of grants receivable and payable and grant expenses included in the Corporation's annual financial statements.

The Corporation is responsible for monitoring the financial and programmatic compliance of its grantees with laws, regulations, and grant agreements. Such monitoring should include procedures to ensure grantees are provided with clear guidance on how compliance can be achieved, follow-up with grantees throughout the grant award period to identify and resolve potential areas of non-compliance, and effective grant closeout procedures to determine whether costs incurred were in accordance with the terms of the grant award document.

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 Office of Inspector General and by 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. However, we noted that some of these monitoring activities are not as effective as they should be. Specifically:

- *Grantee Compliance Monitoring* – The Corporation has several grantee monitoring tools in use. For DVSA grants, it 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.

  Given the variety of monitoring tools, it is sometimes difficult to assess whether the procedures that should have been conducted during site visits were actually performed. Further, the standard monitoring tool used for National Direct grantees is designed primarily to evaluate programmatic activities, and does not specifically include procedures to assess financial activities, such as adequacy of documentation supporting Financial Status Reports and compliance with matching requirements. None of the tools include procedures to assess the adequacy of controls over input of information submitted via the Corporation's Web Based Reporting System (WBRS). We also noted that the GMO tools are not required to be and have not been consistently used during site visits.

- *Grant Closeout Activities* – The Corporation has contracted with an outside contractor to assist in the closeout of its backlog of NCSA grants expired in prior years. Our review of selected grants being closed out by the contractor indicated various exceptions requiring adjustments to the Corporation's accounting records. Further, we noted that the Service Centers are not always closing out DVSA grants within 180 days as required. Timely grant closeouts should be performed as the ultimate verification that information previously recorded in the accounting records and relied on as support for the amounts presented in the financial statements was accurate.

Recommendations:

- Consider requiring the use of the GMO monitoring tools that have been developed and that the completed tools documenting the site visit results be maintained in the official site visit files. Consistent use of the tools would assist management in evaluating grantee performance over time.
- Incorporate additional procedures into both the GMO and State Administrative Standards monitoring tools to ensure that the additional financial and internal control matters discussed above are addressed during site visits. Consider modifying the State Administrative Standards tool for use on National Direct grantee site visits, since it already includes a number of procedures related to financial compliance.
- Evaluate whether special reports could be designed and obtained from WBRS or Momentum to flag conditions at grantees that require special attention during site visits, and to assist management in identifying those higher risk grantees requiring more frequent site visits.
- Develop a consistent method of identifying expired grants, particularly those where grantee monitoring has indicated a higher risk for error exists, and enforce timely administrative closeout of these grants. Consider whether special reports from WBRS or Momentum can be developed to notify program managers of grants that are approaching their expiration date.
- Implement procedures to closeout all expired grants in a systematic and timely manner to ensure adjustments resulting from the closeout process are recorded in the proper period, and to avoid adding to the backlog of grants requiring closeout from previous years. Develop timelines for the Service Center staff to request any missing closeout documentation required prior to the grant expiration date to ensure that grants can be closed in a timely manner.

Exhibit II

Corporation for National and Community Service
Status of Prior Year Reportable Conditions

FY2000 Finding	*Type*	*FY2001 Status*
Grants Management – A comprehensive system of internal control for grants management is not in place.	2000 – Material Weakness 2001 – Reportable Condition	The Corporation has made progress in strengthening controls in the grants management area. However, additional improvements in the monitoring of grantee financial activity and related reporting should be made. This finding has been revised to reflect progress made during fiscal year 2001, and has been reduced to a reportable condition for 2001.
Net Position - Adequate procedures are not in place for ensuring that the components of unexpended appropriations (both obligated and unobligated) are accurately accounted for and reported in the financial statements.	2000 – Reportable Condition 2001 - Closed	During fiscal 2001, the Corporation investigated and resolved the differences in unexpended appropriations between the budgetary and proprietary accounts. In the September 30, 2001 trial balance, there were no differences between the unexpended appropriations proprietary account and the sum of the related budgetary accounts. The Corporation has taken action to correct this finding; thus it is considered closed.
Fund Balance with Treasury – Significant differences continue to exist, at the appropriation level, between the Corporation's records and those maintained by the Treasury, primarily as a result of transactions occurring in years prior to fiscal year 2000.	2000 – Reportable Condition 2001 – Closed	During fiscal 2001, the Corporation has investigated and materially resolved differences resulting from prior year transactions. The Corporation has taken action to correct this finding; thus it is considered closed.

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

Independent Auditors' Report on Compliance with Laws and Regulations

Office of the Inspector General
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 year ended September 30, 2001, and have issued our report thereon dated March 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

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 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.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

As required by the Government Corporation Control Act, this report is intended solely for the information and use of the United States Congress, the President, the Director of the Office of Management and Budget, the Comptroller General of the United States, and the Corporation for National and Community Service and its Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 8, 2002

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APPENDIX A

CORPORATION FOR NATIONAL SERVICE RESPONSE

CORPORATION
FOR NATIONAL
SERVICE

March 11, 2002

Terry Bathen,
Deputy Inspector General for Audit
Corporation for National and
Community Service

Dear Mr. Bathen:

Thank you for the opportunity to comment on the draft report on the audit of the Corporation's fiscal 2001 financial statements. The Corporation is pleased that, for a second year in a row, it will receive an unqualified opinion on its financial statements. More importantly, areas identified as material weaknesses have been reduced from ***ten*** in 1996 to ***zero*** in the fiscal 2001 audit. This has been a remarkable turnaround for the organization, and shows that the Corporation has demonstrated a commitment to strong management controls and a sound financial system. The Corporation's financial operations are strong and we are well positioned to handle growth and changes in our programs. However, we recognize that more needs to be done to maintain these results and build on this success. To that end, we will reassess our monitoring tools to address the recommendations made in the audit report.

The Corporation would also like to express its appreciation for the effort that your staff and the staff of KPMG made on the fiscal 2001 audit.

Sincerely,

Leslie Lenkowsky,
Chief Executive Officer