Office of Inspector General
Corporation for National and Community Service

AUDIT OF THE
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE'S
FISCAL YEAR 2003 FINANCIAL STATEMENTS

Audit Report Number 04-01
October 31, 2003

Prepared by:

COTTON & COMPANY LLP
333 North Fairfax Street, Suite 401
Alexandria, Virginia 22314

This report was issued to Corporation management on November 14, 2003. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than May 14, 2004, and complete its corrective actions by November 14, 2004. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

Office of Inspector General
Corporation for National and Community Service

Audit of the Corporation for National and Community Service's Fiscal Year 2003 Financial Statements Audit Report 04-01

Introduction

In accordance with the Government Corporation Control Act (31 U.S.C. §§ 9101-10), the Office of Inspector General (OIG) engaged Cotton and Company LLP to audit the Corporation for National and Community Service's fiscal year 2003 financial statements. This report presents the results of the audit. In summary:

- Cotton and Company's opinion on the financial statements is unqualified. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and results of operations of the Corporation.

- Cotton and Company considered certain matters involving the internal control over financial reporting and its operations to be a reportable condition. For the third consecutive year, the Corporation's monitoring of grantee activities has been considered a reportable condition. However, Cotton and Company and the OIG agree that this reportable condition, more specifically described in Exhibit 1, is not a material weakness.

- Cotton and Company found no instances of material non-compliance with laws and regulations that would have a direct and material effect on the Financial Statements.[1]

As is our responsibility, the OIG helped plan the auditors' work, evaluated the procedures performed, monitored the audit's progress, and reviewed the auditors' work papers supporting the conclusions in this report. Our review of the auditors' work papers disclosed no instances where Cotton and Company did not comply, in all material respects, with generally accepted government auditing standards.

We provided a draft of this report to Corporation management for review and comment. The Corporation's response indicates that the clean opinion received reflects the hard work over the past year to improve the Corporation's operations and regain the trust of Congress. The Corporation recognizes that more work needs to be done and is committed to continuously improving its programs. The Corporation's response is presented in its entirety as Appendix A.

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[1] A potential Anti-Deficiency Act violation was noted in the Fiscal Year 2002 Financial Statements Audit Report. The Office of Inspector General issued an investigative report that found a violation existed. This issue was resolved when President George W. Bush signed the Strengthen AmeriCorps Program Act, which applied retroactively to October 1, 2002. The Strengthen AmeriCorps Program Act also requires an independent annual audit of Corporation accounts relating to approved national service positions. The results of that audit are reported in OIG Report 04-03.

COTTON & COMPANY LLP

auditors • advisors

DAVID L. COTTON, CPA, CFE, CGFM • CHARLES HAYWARD, CPA, CFE, CISA • MICHAEL W. GILLESPIE, CPA, CFE • CATHERINE L. NOGERA, CPA, CISA
MATTHEW H. JOHNSON, CPA, CGFM • SAM HADLEY, CPA, CGFM • COLETTE Y. WILSON, CPA • ALAN ROSENTHAL, CPA • LOREN SCHWARTZ, CPA, CISA

INDEPENDENT AUDITORS' REPORT

Inspector General
Board of Directors
Corporation for National and Community Service

We have audited the accompanying Statement of Financial Position of the Corporation for National and Community Service (Corporation) as of September 30, 2003, and the related Statements of Operations and Changes in Net Position and Cash Flows for the year ended September 30, 2003. These financial statements are the responsibility of Corporation management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Corporation as of September 30, 2002, were audited by other auditors, whose report, dated January 24, 2003, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audit provides 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, 2003, and the results of its operations and changes in its net position and cash flow for the year ended September 30, 2003, 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 October 31, 2003, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with provisions of laws and regulations. Our reports on internal control and compliance are an integral part of an audit conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

COTTON & COMPANY LLP

Alan Rosenthal, CPA
Partner

October 31, 2003
Alexandria, Virginia

C&C
established 1981

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

	2003	2002
ASSETS		
Fund Balance with Treasury *(Note 2)*	$ 743,363	$ 843,469
Trust Investments and Related Receivables *(Note 3)*	231,880	233,280
Advances to Others	49,279	59,195
Accounts Receivable, Net *(Note 4)*	2,756	3,021
Property and Equipment, Net *(Note 5)*	786	1,924
Total Assets	$ 1,028,064	$ 1,140,889
LIABILITIES		
Trust Service Award Liability *(Note 6)*	$ 230,622	$ 231,429
Grants Payable	116,798	88,392
Accounts Payable	7,145	5,010
Actuarial FECA Liability *(Note 9)*	12,506	11,521
Other Liabilities	9,258	8,742
Accrued Annual Leave	3,086	3,109
Commission Post-Service Benefits Liability *(Note 7)*	–	184
Advances from Others	223	–
Capital Lease Liability *(Note 8)*	39	75
Total Liabilities	379,677	348,462
Commitments and Contingencies *(Notes 8 and 15)*		
NET POSITION		
Unexpended Appropriations		
Obligated	554,179	699,235
Unobligated	111,174	108,144
Cumulative Results of Operations	(16,966)	(14,952)
Total Net Position *(Note 10)*	648,387	792,427
Total Liabilities and Net Position	$ 1,028,064	$ 1,140,889

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)

	2003	2002
REVENUES		
Appropriated Capital Used, excluding Trust Fund	$ 768,005	$ 705,266
Appropriations Received by the Trust Fund *(Note 11)*	99,350	–
Interest	9,693	13,993
Revenue from Services Provided	7,288	7,358
Other	605	747
Total Revenues	884,941	727,364
EXPENSES		
AmeriCorps	544,204	556,231
National Senior Service Corps	239,650	196,382
Learn & Serve America	70,974	62,495
Subtotal	854,828	815,108
Congressionally Earmarked Grants	26,688	23,944
DVSA State Grants	1,211	751
Office of Inspector General	4,228	5,006
Total Expenses *(Note 12)*	886,955	844,809
NET OF REVENUES OVER EXPENSES	$ (2,014)	$ (117,445)
NET POSITION		
Net of Revenues over Expenses	$ (2,014)	$ (117,445)
Change in Unexpended Appropriations, Net *(Note 14)*	(142,026)	18,224
Decrease in Net Position, Net	(144,040)	(99,221)
Net Position, Beginning Balance	792,427	891,648
Net Position, Ending Balance	$ 648,387	$ 792,427

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, 2003
(dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Net of Revenues over Expenses			$ (2,014)
Adjustments Affecting Cash Flow:			
Appropriated Capital Used	$ (768,005)		
Appropriations Received by the Trust	(99,350)		
Decrease in Accounts Receivable	265		
Increase in Interest Receivable	(92)		
Decrease in Advances	9,916		
		$ (857,266)	
Increase in Accounts Payable, Other Liabilities and Advances from Others	2,873		
Increase in FECA and Annual Leave Liabilities	962		
Decrease in Commission Liability	(184)		
Decrease in Capital Lease Liability	(36)		
Decrease in Trust Liability	(807)		
Increase in Grants Payable	28,406		
		31,214	
Amortization of Premium/Discount on Investments	543		
Depreciation, Amortization, and Loss on Disposition of Assets	$ 1,138		
		$ 1,681	
Total Adjustments			(824,371)
Net Cash Used by Operating Activities			$ (826,385)

(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, 2003
(dollars in thousands)

CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	$ 0	
Sales of Securities	445,933	
Purchase of Securities	(444,983)	
Net Cash Provided by Investing Activities		$ 950
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received	791,205	
Canceled/Rescinded Appropriations	$ (65,876)	
Net Cash Provided by Financing Activities		725,329
Net Cash Provided by Operating, Investing, and Financing Activities		(100,106)
Fund Balance with Treasury, Beginning		843,469
Fund Balance with Treasury, Ending		$ 743,363

Supplemental Disclosure of Cash Flow Information

Interest Paid	$ 8

Supplemental Schedule of Financing and Investing Activities

Property and Equipment Acquired Under Capital Lease Obligations	$ 0

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

Corporation for National and Community Service
Statement of Cash Flows
For the Year Ended September 30, 2002
(dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Net of Revenues over Expenses			$ (117,445)
Adjustments Affecting Cash Flow:			
Appropriated Capital Used	$ (705,266)		
Decrease in Accounts Receivable	(49)		
Decrease in Interest Receivable	2,978		
Increase in Advances	(36,944)		
		$ (739,281)	
Decrease in Accounts Payable, Other Liabilities and Advances from Others	(3,124)		
Decrease in FECA and Annual Leave Liabilities	(954)		
Decrease in Commission Liability	(478)		
Increase in Capital Lease Liability	11		
Increase in Trust Liability	45,015		
Increase in Grants Payable	39,507		
		79,977	
Amortization of Premium/Discount on Investments	1,215		
Depreciation, Amortization, and Loss on Disposition of Assets	$ 902		
		$ 2,117	
Total Adjustments			(657,187)
Net Cash Used by Operating Activities			$ (774,632)

(continued)

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

Corporation for National and Community Service
Statement of Cash Flows
For the Year Ended September 30, 2002
(dollars in thousands)

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

Supplemental Disclosure of Cash Flow Information

Interest Paid	$ 6

Supplemental Schedule of Financing and Investing Activities

Property and Equipment Acquired Under Capital Lease Obligations	$ 11

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

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 (Corporation), as required by the Government Corporation Control Act (31 USC 9106) and by the National and Community Service Act of 1990, as amended (42 USC 12651). These financial statements have been prepared from the books and records of the Corporation in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to Federal corporations and include the Corporation's activities related to providing grants and education awards to eligible participants. The Corporation is not subject to income tax.

The principal financial statements of the Corporation are the:

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

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

B. Reporting Entity

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

- **AmeriCorps** is the national service program that annually engages 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 people age 55 and older who participate in the *Foster Grandparent Program*, the *Senior Companion Program*, and the *Retired and Senior Volunteer Program*. These programs tap the experience, skills, talents, and creativity of America's seniors.
- **Learn & Serve America** supports and promotes service learning in schools, universities, and communities. Through structured service activities that help meet community needs, nearly one million students improve their academic learning, develop personal skills, and practice responsible citizenship.

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

C. Budgets and Budgetary Accounting

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

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

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

AmeriCorps*VISTA as well as for the AmeriCorps Education Award Program, where sponsoring organizations are responsible for providing member subsistence and other costs, and the Corporation provides an education award and a small amount for administrative costs.

D. Basis of Accounting

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

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

E. Fund Balance with Treasury

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

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

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

F. Trust Investments and Related Receivables

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

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

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

G. Advances to Others

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

H. Accounts Receivable

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

I. Property and Equipment

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

J. Trust Service Award Liability

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

K. Grants Payable

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

L. Accounts Payable

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

M. Actuarial FECA Liability

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

N. Other Liabilities

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

O. Accrued Annual Leave

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

P. Commission Post-Service Benefits Liability

The Commission post-service benefits liability represents unpaid earned educational benefits incurred by the former Commission on National and Community Service, which has been managed by the Corporation since 1994. This liability, more fully discussed in Note 7, is funded by the Corporation when a request for payment is made.

Q. Advances from Others

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

R. Net Position

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

S. Revenues

Appropriated Capital Used

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

Interest

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

Revenue from Services Provided

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

Other Revenue

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

T. Retirement Benefits

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

For employees covered by CSRS, the Corporation contributes 8.51 percent of their gross pay towards retirement. For those employees covered by FERS, the Corporation contributes 11.50 percent of their gross pay towards retirement. Employees are allowed to participate in the Federal Thrift Savings Plan (TSP). For employees under

FERS, the Corporation contributes an automatic one percent of basic pay to TSP and matches employee contributions up to an additional 4 percent of pay, for a maximum Corporation contribution amounting to 5 percent of pay. Employees under CSRS may participate in the TSP, but will not receive either the Corporation's automatic or matching contributions.

The Corporation made retirement contributions of $791 thousand and $940 thousand to the CSRS Plan, and $5,721 thousand and $5,424 thousand to the FERS and TSP Plans in fiscal years 2003 and 2002, respectively.

U. Use of Estimates

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

NOTE 2 – FUND BALANCE WITH TREASURY

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

- **Appropriated Funds** – Appropriated funds are received through congressional appropriations to provide financing sources for the Corporation's programs on an annual, multi-year, and no-year basis. The funds are warranted by the United States Treasury and apportioned by the Office of Management and Budget.
- **Trust Funds** – Trust Funds are accounts designated by law for receipts earmarked for specific purposes and for the expenditure of these receipts. Funds from the Corporation's Trust Fund may be expended for the purpose of providing an education award or interest forbearance payment and must always be paid directly to a qualified institution (college, university, or other approved educational institution, or a lending institution holding an existing student loan) as designated by the participant, as well as awards under the President's Freedom Scholarship Program.
- **Gift Funds** – Gift Funds are funds received from individuals and organizations as donations in furtherance of the purposes of the national service laws.

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

	2003			2002		
Type	**Unrestricted**	**Restricted**	**Total**	**Unrestricted**	**Restricted**	**Total**
Appropriated Funds	$742,565	$ –	$742,565	$843,179	$ –	$843,179
Trust Funds	–	146	146	–	88	88
Gift Funds	15	637	652	58	144	202
Total	**$742,580**	**$783**	**$743,363**	**$843,237**	**$232**	**$843,469**

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)

	2003	2002
Investments, Carrying Value	$230,262	$231,754
Investment and Interest Receivable	1,618	1,526
Total	**$231,880**	**$233,280**

Amortized Cost and Fair Value of Investment Securities as of September 30 *(dollars in thousands)*								
	2003				2002			
Securities	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Fair Value	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Fair Value
Notes	$175,244	$5,648	$ –	$180,892	$162,672	$10,499	$ –	$173,171
Bills	47,019	4	–	47,023	60,751	199	–	60,950
Bonds	7,999	570	–	8,569	8,331	755	–	9,086
Total	**$230,262**	**$6,222**	**$ –**	**$236,484**	**$231,754**	**$11,453**	**$ –**	**$243,207**

At September 30, 2003, the notes held at year-end had an interest rate range of 0.80% to 10.75% and an outstanding maturity period of approximately one day to almost two and a half years. The interest rate on the bond was 10.75% and had a maturity period of approximately two and a half years. The bills held at year-end had an interest rate range of 0.80% to 0.95% and were all due to mature within 30 days. The par values of these investments range from $1,517 thousand to $29,957 thousand.

As required by the Strengthen AmeriCorps Program Act, beginning in fiscal 2003 the Corporation has set aside in reserve a portion of the funds appropriated to the Trust in the event that its estimates used to calculate obligational amounts for education awards prove to be too low. As of September 30, 2003, $10 million of the Corporation's investment account has been set aside for this reserve.

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

Maturation of Securities Held as of September 30 *(dollars in thousands)*				
	2003		2002	
Held-to-Maturity Securities	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 1 year or less	$156,108	$157,360	$112,554	$113,765
Due after 1 year up to 5 years	74,154	79,124	119,200	129,442
Total	**$230,262**	**$236,484**	**$231,754**	**$243,207**

NOTE 4 – ACCOUNTS RECEIVABLE, NET

Accounts Receivable as of September 30 *(dollars in thousands)*		
	2003	2002
Accounts receivable	$3,248	$3,246
Less: allowance for loss on receivables	492	225
Accounts Receivable, Net	**$2,756**	**$3,021**

NOTE 5 – PROPERTY AND EQUIPMENT, NET

General Property and Equipment as of September 30 *(dollars in thousands)*							
		2003			2002		
Major Class	Service Life (Years)	Cost	Less: Accumulated Depreciation	Net Book Value	Cost	Less: Accumulated Depreciation	Net Book Value
Equipment	3-10	$1,998	$1,676	$322	$1,998	$1,458	$ 540
Capital leases	3-5	164	123	41	164	92	72
ADP software	2	5,042	4,619	423	5,042	3,730	1,312
Total		**$7,204**	**$6,418**	**$786**	**$7,204**	**$5,280**	**$1,924**

NOTE 6 – SERVICE AWARD LIABILITY – NATIONAL SERVICE TRUST

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

Service Award Liability as of September 30 *(dollars in thousands)*	2003	2002
Education awards	$707,919	$603,353
Interest forbearance	24,371	22,269
President's Freedom Scholarship Program	14,200	11,305
Total estimated service award liability	746,490	636,927
Less: cumulative awards paid	515,868	405,498
Total	**$230,622**	**$231,429**

The net service award liability as of September 30, 2003, decreased by approximately $807 thousand from the net service award liability as of September 30, 2002. This decrease was largely due to fewer member enrollments during the year and the continuing payments of earned education awards.

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

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

Post-service benefits liabilities from the former Commission's operations differ from those originating within the Corporation in three significant respects: (1) the grantee, rather than an agency of the Federal government, is responsible for making post-service award payments; (2) the portion of these awards which is funded by the Federal government is specified in each grant agreement, with any remaining amount funded by the grantee; and (3) the post-service period during which an award is available for use was established by each program grantee, rather than set at seven years for all awardees.

The post-service benefits liability associated with the former Commission is estimated based on a review of its grants that authorize post-service benefits. Amounts shown below represent the aggregate maximum liability under the assumption that all funds obligated for post-service benefits remain payable to grantees for this purpose until they are drawn down or the period of award availability has expired. As of September 30, 2003, all former Commission awards expired.

Commission Post-Service Benefits Liability as of September 30 *(dollars in thousands)*	**2003**	**2002**
Estimated liability as of previous year-end	$184	$662
Less: drawdowns and adjustments	0	1
Potential education awards	184	661
Less: award expirations	184	477
Total	**$ 0**	**$184**

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)*	**2003**	**2002**
Fiscal Year 2003	$ –	$41
Fiscal Year 2004	13	13
Fiscal Year 2005	12	12
Fiscal Year 2006	11	12
Fiscal Year 2007	9	9
Total future minimum lease payments	45	87
Less: amounts representing interest	6	12
Total	**$39**	**$75**

B. Operating Leases

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

Estimated Operating Lease Commitments as of September 30 *(dollars in thousands)*								
	2003				2002			
Fiscal *Year*	Facilities Space	Vehicles	Other	Total	Facilities Space	Vehicles	Other	Total
2003	$ –	$ –	$ –	$ –	6,355	1,154	93	7,602
2004	7,070	1,131	172	8,373	6,885	1,014	72	7,971
2005	7,363	1,162	174	8,699	7,463	1,033	67	8,563
2006	7,668	1,193	176	9,037	8,094	1,056	65	9,215
2007	7,985	1,226	178	9,389	8,783	1,081	57	9,921
2008	8,315	1,261	181	9,757	–	–	–	–
Total	**$38,401**	**$5,973**	**$881**	**$45,255**	**$37,580**	**$5,338**	**$354**	**$43,272**

NOTE 9 – WORKERS' COMPENSATION

The Corporation's actuarial liability for future workers' compensation benefits (FECA) was $12,506 thousand and $11,521 thousand as of September 30, 2003 and 2002, 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, 2003	Gift Fund	Trust Fund	Appropriated Fund	Total
Unexpended appropriations	$ –	$ –	$665,353	$665,353
Cumulative results of operations	650	1,421	(19,037)	(16,966)
Total Net Position	**$650**	**$1,421**	**$646,316**	**$648,387**

Net Position by Fund Balance Components *(dollars in thousands)* As of September 30, 2002	Gift Fund	Trust Fund	Appropriated Fund	Total
Unexpended appropriations	$ –	$ –	$807,379	$807,379
Cumulative results of operations	649	1,957	(17,558)	(14,952)
Total Net Position	**$649**	**$1,957**	**$789,821**	**$792,427**

NOTE 11 – APPROPRIATIONS RECEIVED BY THE TRUST FUND

Fiscal 2003 appropriations received by the Trust Fund were $99.35 million (composed of $100 million, less the $650 thousand Trust portion of the rescission to NCSA per Public Law 108-7). 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 2003. No appropriations were received for the Trust Fund for fiscal 2002.

NOTE 12 – EXPENSES

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

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

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

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

	2003		2002	
Domestic Volunteer Service Act Programs		$231,442		$188,505
National and Community Service Act Programs		352,446		337,569
Earmarked Grants				
Congressionally Earmarked Grants	$26,688		$23,944	
DVSA State Grants	1,211		751	
Total Earmarked Grants		27,899		24,695
Total Grants Expense		**$611,787**		**$550,769**

Expenses by Type for the year ended September 30, 2003
(dollars in thousands)

Type	A/C	NSSC	L&S	OIG	Earmarked Grants	Total
Grant and Related Expense						
Grant funds expended	$296,318	$224,804	$62,766	$ –	$27,899	$611,787
VISTA & NCCC stipends & benefits	66,534	–	–	–	–	66,534
Service award expense	106,683	–	2,895	–	–	109,578
Total Grant and Related Expense	469,535	224,804	65,661	–	27,899	787,899
Administrative Expense						
Federal employee salaries & benefits	36,983	8,931	3,396	1,808	–	51,118
Travel & transportation	9,213	402	219	56	–	9,890
Rent, communications, & utilities	5,319	1,262	427	283	–	7,291
Program analysis & evaluation	1,983	294	171	–	–	2,448
Printing & reproduction	445	170	13	–	–	628
Other services	16,789	3,049	827	2,046	–	22,711
Supplies & materials	2,130	157	69	32	–	2,388
Loss on disposition of assets	–	–	–	–	–	–
Depreciation & amortization	703	340	95	–	–	1,138
Bad debt	239	116	32	–	–	387
Other	865	125	64	3	–	1,057
Total Administrative Expense	74,669	14,846	5,313	4,228	–	99,056
Total Expenses by Type	**$544,204**	**$239,650**	**$70,974**	**$4,228**	**$27,899**	**$886,955**

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

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

NOTE 13 – NATIONAL SERVICE AWARD EXPENSE

Members participating in the Trust programs are eligible to earn a service award to pay for qualified education expenses. The Trust also pays interest forbearance costs on qualified student loans during the period members perform community service. The Corporation estimates the expense for national service awards based on the increase in its cumulative service award liability during the year (see Note 6). The total service award liability as of September 30, 2003 and 2002, 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)*	**2003**	**2002**
Estimated education awards	$104,581	$126,206
Estimated interest forbearance	2,102	4,258
President's Freedom Scholarship Program	2,895	2,965
National Service Award Expense	**$109,578**	**$133,429**

NOTE 14 – INCREASE/(DECREASE) IN UNEXPENDED APPROPRIATIONS, NET

Increase/(Decrease) in Unexpended Appropriations, Net as of September 30 *(dollars in thousands)*	**2003**	**2002**
Increases:		
Appropriations received, net of trust	$691,855	$735,875
Total Increases	691,855	735,875
Decreases:		
Appropriated capital used, net of trust	(768,005)	(705,266)
Rescinded appropriations, net of trust	(53,143)	(167)
Canceled appropriations	(12,733)	(12,218)
Total Decreases	(833,881)	(717,651)
Increase/(Decrease) in Unexpended Appropriations, Net	**$(142,026)**	**$ 18,224**

NOTE 15 – 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.

COTTON & COMPANY LLP

auditors • advisors

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Inspector General
Board of Directors
Corporation for National and Community Service

We have audited the financial statements of the Corporation for National and Community Service (Corporation) as of and for the year ended September 30, 2003, and have issued our report thereon dated October 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing the September 30, 2003, audit, we considered the Corporation's internal control over financial reporting by obtaining an understanding of the Corporation's internal control, determining if internal control had been placed in operation, assessing control risk, and performing tests of internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards*. The objective of our audit was not to provide assurance on the Corporation's internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls over financial reporting that, in our judgment, could adversely affect the Corporation's ability to record, process, summarize, and report financial data consistent with 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 one matter, described in Exhibit 1, involving internal control over financial reporting and its operation that we consider to be a reportable condition. We do not consider this reportable condition to be a material weakness. The status of prior-year reportable conditions is described in Exhibit 2.

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We also noted other matters involving internal control and its operation that we will report to Corporation management in our management letter, which will be issued as OIG Audit Report 04-02.

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

This audit was performed pursuant to the Government Corporation Control Act, and is intended solely for the information and use of the United States Congress, the President, the Director of the Office of Management and Budget, Comptroller General of the United States, the Corporation and its Inspector General, and is not intended to be, and should not be, used by anyone other than these specific parties.

COTTON & COMPANY LLP

Alan Rosenthal, CPA
Partner

October 31, 2003
Alexandria, Virginia

EXHIBIT 1
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
REPORTABLE CONDITION
SEPTEMBER 30, 2003

Grants Management

The Corporation for National and Community Service (Corporation) awards National and Community Service Act (NCSA) and Domestic Volunteer Service Act (DVSA) grants to State and local governments, institutions of higher education, and other not-for-profit organizations. The Corporation expends the majority of its appropriated funds on grants, and grant activities result in the most significant components of the Corporation's financial statements. It is critical that the Corporation monitor grantee activity closely to ensure that grantees are complying with applicable laws and regulations related to the administration of grant awards. Grantees are required to expend funds only for allowable costs and provide periodic reports to the Corporation to demonstrate programmatic financial compliance with the terms of their grant agreements. The Corporation is required to conduct visits of its grantees and State commissions to ensure that grantees are complying with their grant agreements, and that State commissions are performing their prescribed duties.

The following section discusses weaknesses noted in the Corporation's internal controls over grants management.

Improvement Needed In Monitoring Grantee Activities

The Corporation has established formal grantee-monitoring procedures that include periodic site visits of grantees. The site visits are designed to obtain, review, and issue management decisions on audit findings reported by the OIG, as well as non-Federal auditors in OMB Circular A-133 single audit reports. Site visits are also utilized to hold training conferences for grantee personnel, open lines of communication between program managers and grantees, and to conduct the grant closeout process. For DVSA grants, the Corporation utilizes the Senior Corps Compliance Monitoring Handbook. For NCSA grants, the State Commission Administrative Standards review is the primary tool for monitoring State commission grantees. The Corporation also has a separate monitoring tool for National Direct grantees.

During Fiscal Year 2003, we noted that the Corporation did not consistently employ site visits to monitor grantee activities. Specifically:

- The Corporation was not in compliance with State Administrative Standards Policies that require site visits every three years. The Corporation did not conduct 15 of 52 State Administrative Standards visits that should have been conducted within the prescribed three year period. Of these 15, six missing site visits were noted by the prior-year auditor.

- The Corporation was not able to visit all of the 1,400 National Senior Service Corps grantees over the past 3 years, as required in the Monitoring Handbook. Of these, 53 grantees have not been visited within 3 years.

- Site visit reports were not always provided to grantees within the required 20 day period following site visits. Of the 606 site visits conducted during FY 2003, 189 site visit reports were provided to the grantees in excess of 20 days.

- Progress reports, which describe program status and milestone achievement from grantees, were not always submitted to State offices as required.

Recommendations

We recommend that:

- The Corporation considers reevaluating its policies and procedures regarding State Administrative Standards visits to implement a risk-based approach to conducting site visits and comply with those policies and procedures.

- State offices utilize grant tracking capabilities in eGrants in order to assist staff in tracking results of monitoring visits and maintaining monitoring visit schedules for Senior Corps grantees in order to comply with policies and procedures related to conducting site visits.

- Corporation staff provide timely feedback from site visits to grantees. Site visit reports should be furnished to grantees within 20 days of the visit. Corporation management should include statistics on timeliness of site visit report completions as performance results in the evaluation of their staff.

- State offices closely monitor the status of progress reports and diligently follow up on delinquent reports.

EXHIBIT 2
STATUS OF PRIOR-YEAR REPORTABLE CONDITIONS
SEPTEMBER 30, 2003

FY 2002 Finding	Type	FY 2003 Status
Monitoring of Grantee Activities	2001: Reportable Condition 2002: Reportable Condition 2003: Reportable Condition	Monitoring of grantee activities continues to require improvement.
Improvement Needed in Grant Approval Policies and Procedures	2002: Reportable Condition	Closed.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Inspector General
Board of Directors
Corporation for National and Community Service

We have audited the financial statements of the Corporation for National and Community Service (Corporation) as of and for the year ended September 30, 2003, and have issued our report thereon dated October 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance that 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. Providing an opinion on compliance with those provisions was not, however, an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This audit was performed pursuant to the Government Corporation Control Act, and is intended solely for the information and use of the United States Congress, the President, the Director of the Office of Management and Budget, Comptroller General of the United States, the Corporation and its Inspector General, and is not intended to be, and should not be, used by anyone other than these specific parties.

COTTON & COMPANY LLP

Alan Rosenthal, CPA
Partner

October 31, 2003
Alexandria, Virginia

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established 1981

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APPENDIX A

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE RESPONSE

Corporation for
NATIONAL &
COMMUNITY
SERVICE

November 14, 2003

The Honorable J. Russell George
Inspector General
Corporation for National and
Community Service
Suite 830
Washington, D.C. 20525

Dear Mr. George:

Thank you for the opportunity to comment on the draft report on the audit of the Corporation's fiscal 2003 financial statements. I am pleased that the Corporation continues to receive a clean opinion on its financial statements. The report reflects the hard work over the past year by staff to improve the Corporation's operations and regain the trust of Congress.

While pleased with these results, the Corporation recognizes that more needs to be done and is committed to establishing a work environment that strives for continuous improvement in its programs. To lead this effort, the Corporation has organized a Management Improvement Team made up of a multidisciplinary team of Corporation staff. The team is reviewing all facets of the Corporation's operations and is working to achieve greater accountability and efficiency in the agency and its programs, including its grants management. The audit also makes several recommendations on how the Corporation can improve the monitoring of grantees. The Corporation concurs with these recommendations and will implement them over the course of the next year.

Sincerely,

James F. Manning
Acting Chief Executive Officer and
Chief Operating Officer

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