

CORPORATION FOR NATIONAL & COMMUNITY SERVICE

OFFICE OF INSPECTOR GENERAL

AUDIT OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S FISCAL YEAR 2018 CONSOLIDATED FINANCIAL STATEMENTS

OIG Report 19-01

Prepared by:

CliftonLarsonAllen LLP
901 North Glebe Road, Suite 200
Arlington, VA 22203



This report was issued to Corporation management on November 15, 2018. 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 15, 2019, and complete its corrective actions by November 15, 2019. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



November 15, 2018

TO: Barbara Stewart
Chief Executive Officer

FROM: Carol Bates /s/
Acting Assistant Inspector General for Audit

SUBJECT: Audit of the Corporation for National and Community Service's
Fiscal Year 2018 Consolidated Financial Statements, OIG Report 19-01

We contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP (CLA) to audit the consolidated financial statements of the Corporation for National and Community Service (CNCS) as of September 30, 2018 and for the year then ended. The contract required that the audit be performed in accordance with the United States generally accepted government auditing standards and applicable Office of Management and Budget audit guidance. In its audit of the fiscal year 2018 CNCS consolidated financial statements, CLA reported:

- **Disclaimer of Opinion:** CNCS was unable to provide adequate evidential matter to support a significant number of transactions and account balances due to inadequate processes and controls to support transactions and estimates, and incomplete records to support accounting for transactions in accordance with generally accepted accounting principles. CLA has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
- **Ten material weaknesses and two significant deficiencies** in CNCS's internal control over financial reporting. These issues included:
 - Material Weaknesses:
 - Internal Controls Program;
 - Financial System and Reporting;
 - Trust Fund Unpaid Obligations;
 - Trust Service Award Liability;
 - Grants Accrual Payable and Advances;
 - Undelivered Orders and Accounts Payable - Procurement;
 - Property and Equipment;
 - Undelivered Orders - Grants;
 - Recoveries of Prior Year Obligations; and
 - Other Liabilities

- Significant Deficiencies:
 - Information Technology Security Controls; and
 - Accounts Receivable and Allowance for Doubtful Accounts
- CLA was unable to perform all applicable tests of CNCS's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance which could have a direct and material effect on the determination of financial statement amounts and disclosures.

Had CLA been able to obtain sufficient appropriate audit evidence to express an opinion on the CNCS consolidated financial statements, other material weaknesses or significant deficiencies, or instances of noncompliance or other matters may have been identified and reported.

In connection with the contract, we reviewed CLA's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with United States generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on CNCS's financial statements or conclusions about the effectiveness of internal control over financial reporting; or conclusions on compliance with applicable provisions of laws, regulations, contracts, and grant agreements.

CLA is responsible for the attached independent auditors' report, dated November 5, 2018, and the conclusions expressed therein. However, our review disclosed no instances where CLA did not comply, in all material respects, with United States generally accepted government auditing standards.

Attachment

cc: Desiree Tucker-Sorini, Chief of Staff
Timothy Noelker, General Counsel
Robert McCarty, Chief Financial Officer
Edward (Woody) Davis Jr., Acting Chief Information Officer
Lori Giblin, Chief Risk Officer
Lora Pollari-Welbes, Audits and Investigations Program Manager
Mia Leswing, Principal-in-Charge, CliftonLarsonAllen LLP



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We were engaged to audit the accompanying consolidated financial statements of the Corporation for National and Community Service (CNCS), which comprise the balance sheets as of September 30, 2018 and 2017, the statements of net cost and changes in net position, the combined statements of budgetary resources, for the years then ended, and the related notes to the financial statements (referred to herein as financial statements).

Management's Responsibility for the Financial Statements

CNCS management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-01). Because of the matters described in the Basis for Disclaimer of Opinion paragraph; however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

CNCS was unable to provide adequate evidential matter to support a significant number of transactions and account balances, as presented in the accompanying financial statements as of and for the years ended September 30, 2018 and 2017, due to inadequate processes and controls to support transactions and estimates, and incomplete records to support accounting for transactions in accordance with generally accepted accounting principles. The financial statement line items impacted by the lack of evidential matter include but are not limited to

INDEPENDENT AUDITORS' REPORT (Continued)

Advances to Others; Property and Equipment; Trust Service Award Liability; Trust Fund Unpaid Obligations; Grant Accrual Payable and Advances; Accounts Payable; Advances From Other; Other Liabilities; Prior Year Recoveries and Obligations. In addition, we were not able to audit beginning balances.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements referred to in the first paragraph.

Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Internal Control over Financial Reporting

In connection with our engagement to audit the financial statements, we considered CNCS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CNCS's internal control. Accordingly, we do not express an opinion on the effectiveness of CNCS's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982* (FMFIA).

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in Exhibits A and B, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the areas below, and described in Exhibit A to be material weaknesses.

1. Internal Controls Program (FMFIA)
2. Financial System and Reporting
3. Trust Fund Unpaid Obligations
4. Trust Service Award Liability

INDEPENDENT AUDITORS' REPORT (Continued)

5. Grants Accrual Payable and Advances
6. Undelivered Orders and Accounts Payable - Procurement
7. Property and Equipment
8. Undelivered Orders - Grants
9. Recoveries of Prior Year Obligations
10. Other Liabilities

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the area below, and described in Exhibit B to be significant deficiencies.

11. Information Technology Security Controls
12. Accounts Receivable and Allowance for Doubtful Accounts

Had we been able to obtain sufficient appropriate audit evidence to express an opinion on the financial statements, other material weaknesses or significant deficiencies may have been identified and reported herein.

Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters

In connection with our engagement to audit the financial statements, we were not able to perform all applicable tests of CNCS's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and disclosures. Had we been able to obtain sufficient appropriate audit evidence to express an opinion on the financial statements, instances of noncompliance or other matters may have been identified and reported herein. Also, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion.

Management's Responsibility for Internal Control and Compliance

CNCS management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the FMFIA and Government Accountability Office's *Standards for Internal Control in the Federal Government*, (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, and (3) complying with other applicable laws, regulations, contracts, and grant agreements.

Auditors' Responsibilities

We are responsible for (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, and (2) testing compliance with certain provisions of laws, regulations, contracts, and grant agreements.

INDEPENDENT AUDITORS' REPORT (Continued)

We limited our tests to certain provisions of laws, regulations, contracts, and grants agreements noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. We were not able to perform all applicable tests of CNCS's compliance due to inability to obtain sufficient appropriate audit evidence to enable us to express an opinion on the financial statements. Also, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion.

CNCS's Response to Findings

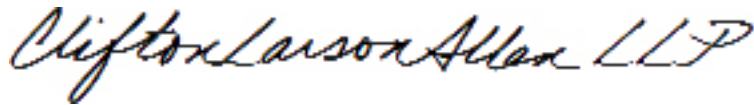
CNCS's response to the audit findings in our report is included in Exhibit C. In its response, CNCS stated that "CNCS does not entirely concur with all of the conditions and recommendations in the reports." CNCS, however, did not provide CLA with any responses to its conditions and recommendations. Accordingly, CLA was not aware of which conditions and recommendations were non-concurred with. CLA stands by the results of its audit. We did not audit CNCS's response and, accordingly, we express no opinion on the response.

Status of Prior Year Findings

The status of findings in prior year Independent Auditors' Report, dated November 8, 2017, is included in Exhibit D.

Purpose of the Report on Internal Control over Financial Reporting and on Compliance

The purpose of the Report on Internal Control over Financial Reporting and on Compliance is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of CNCS's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CNCS's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.



CLIFTONLARSONALLEN LLP

Arlington, Virginia
November 5, 2018

EXHIBIT A Material Weakness

1. Internal Controls Program (FMFIA) (new material weakness)

An effective system of internal control is necessary to provide reasonable assurance that a Federal entity conducts its programmatic activities effectively and efficiently, has a reliable financial reporting system and complies with applicable laws and regulations. OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Policy section. Without a fully functional internal controls program, CNCS might not meet its financial, programmatic and compliance objectives. Establishing internal controls that meet Federal standards is a core responsibility of the management of a Federal agency, as required by the Federal Managers Financial Integrity Act of 1982, OMB Circular No. A-123 and the Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government*.

In Fiscal Year (FY) 2018, CNCS's system of internal control did not meet Federal requirements or operate effectively. The system of internal controls failed to identify numerous and pervasive material weaknesses that we found in financial reporting and in specific material line items on the financial statements. CNCS also did not complete corrective actions for the four material weaknesses identified in last year's financial statement audits, and those material weaknesses persisted during FY 2018.

Individual deficiencies include:

- CNCS's entity-level control assessment noted that entity-level controls supporting five of the 17 internal control principles were not operating effectively.¹
- CNCS failed to identify five new material weaknesses discovered by auditors in the FY 2018 financial statement audit.
- CNCS had incomplete or inaccurate business process narratives for critical financial statement processes and items, such as:
 - Trust Service Award Liability;
 - Accounts Payable (AP) and Expenditures;
 - Financial Reporting (Expense-Cost Allocation); and
 - Accounts Receivable (AR)

¹ The five principles are:

- Principle 10: Management should design control activities to achieve objectives and respond to risk;
- Principle 11: Management should design the entity's information system and related control activities to achieve objectives and respond to risks;
- Principle 12: Management should implement control activities through policies;
- Principle 13: Management should use quality information to achieve the entity's objectives; and
- Principle 15: Management should externally communicate the necessary quality information to achieve entity's objectives.

See GAO's *Standards for Internal Control in the Federal Government*.

EXHIBIT A
Material Weakness

- CNCS’s risk assessment process failed to identify the following significant accounts as high risk:
 - Advances to Others;
 - Procurement Process Management;
 - Accounts Payable (and Expenditures); and
 - Property and Equipment
- CNCS did not conduct adequate testing of the design and operating effectiveness of the following critical business processes:
 - Financial Reporting;
 - Revenue and Accounts Receivable; and
 - Property Management
- CNCS did not test the design and operating effectiveness of the internal controls related to the following significant accounts:
 - Grants Payable (accrual calculation);
 - Grant Advances;
 - Accounts Payable; and
 - Trust Service Award Liability
- CNCS did not implement corrective action plans for the four material weaknesses we reported in the prior year financial statement audit, including the material weakness in its financial reporting.
- CNCS did not assess information security risks to its external systems managed by service providers.
- CNCS did not timely provide to the external auditors a risk register that records identified risks at the mission and business process level, or Tier 2 as defined by the National Institute of Standards and Technology.

Despite these persistent and pervasive material weaknesses, CNCS’s Chief Executive Officer (CEO) asserted in her FY 2018 assurance statement that, based on CNCS’s assessment of risk and internal control, CNCS could provide reasonable assurance that CNCS’s internal control over operations, reporting and compliance was operating effectively as of September 30, 2018, except for the material weaknesses identified in our audit. CNCS did not provide us with evidence to support this modified assurance statement, and it is not justified by the results of CNCS’s own testing. OMB Circular No. A-123 clearly states that agency management should provide statement of ***no assurance*** when there are either “no processes in place or ***pervasive material weaknesses.***”² (emphasis added)

² OMB Circular No. A-123, Section VI. E.

EXHIBIT A Material Weakness

Given (1) the acknowledged material weakness in internal control over financial reporting; (2) the individual material weaknesses we found in numerous material line items on the financial statements, including CNCS's largest liability account – Trust Service Award Liability; (3) CNCS's own failure to identify the material weaknesses that we found; (4) CNCS's acknowledged failure to complete testing of controls over critical processes; and (5) the failure to resolve corrective actions for the material weaknesses found in last year's audit, it is difficult to see how CNCS could offer any assurance about the adequacy of its internal controls over financial reporting. The CEO's assurance statement omitted the required statement as to whether CNCS's financial management systems were in compliance with applicable Federal requirements.

Furthermore, the CEO's assurance statement did not accurately describe the extent and seriousness of the financial reporting issues identified by the external auditors. The material weakness in financial reporting was not merely that "[t]he financial statements were not prepared and presented in accordance with Federal standards." Rather, we identified pervasive and systemic internal control failures that impact the integrity, accuracy and the overall reliability of the financial statements. Refer to the financial system and reporting material weakness number 2 below for details.

While we did not audit the internal control over programmatic operations, we also take note that CNCS has not completed or implemented corrective actions to address the serious grant monitoring weaknesses reported by GAO³ and by CNCS-OIG.⁴ These open recommendations relate to the accuracy of CNCS's grant risk assessment and the design and effectiveness of its grant management and monitoring. The absence of sound monitoring of CNCS's core business, which accounts for 75 percent of its operating budget, represents a potentially serious gap in the internal control over operations.⁵ It is not clear whether or how CNCS considered information from the GAO report or from the OIG's work in determining whether the internal controls over programmatic operations were adequate.

These longstanding, pervasive material weakness issues present significant risks at CNCS. An effective internal controls program should include coordination and collaboration agency-wide across functional offices and leadership to (1) properly assign responsibility and monitor progress and (2) timely communicate quality information so that agency management can make informed decision about risks and resources.

There was lack of communication and coordination between the Office of the Chief Risk Officer (OCRO) and Accounting and Financial Management Services (AFMS) on identifying risks that could impact the financial reporting process and assessing risks related to the use of service

³ GAO Report GAO-17-90, *Grants Management: Monitoring Efforts by Corporation for National and Community Service Could Be Improved*, March 21, 2017

⁴ CNCS-OIG Semiannual Report To Congress 18-01, Appendix A Unimplemented Recommendations.

⁵ CNCS's internal controls assessment of grant monitoring currently focuses on confirming grant compliance (*e.g.*, timeliness and completeness of documentation) rather than assessing effectiveness of grant management.

EXHIBIT A Material Weakness

organizations. Although the OCRO conducted its entity-level assessment in FY 2018, it has decided to perform the assessment on a rotational basis in future years. Forgoing an annual entity-level control assessment may leave CNCS unaware of new internal control weaknesses and delay its ability to identify and mitigate agency-wide risks.

OMB Circular No. A-123 requires management to continuously monitor, assess, and improve the effectiveness of internal control associated with those internal control objectives identified as part of their risk profile to support the annual assessment and report on internal control as required by the FMFIA.⁶ It also requires management to regularly review risk to ascertain whether the risk profile has changed and gain assurance that risk management is effective or whether further action is necessary. Management must have processes in place to assess whether risks continue to exist, new risks have emerged and the impact of those risks in providing assurance on the effectiveness of controls.⁷

In summary, CNCS does not have a reliable, mature internal control program sufficient to comply with government-wide standards.

We recommend that CNCS:

1. Establish responsibility and accountability to ensure that CNCS complies with OMB Circular No. A-123 and holds appropriate CNCS management officials accountable in supporting the internal control assessment process.
2. Engage in periodic meetings with the functional offices to identify risks associated with significant financial statement line items and gather the necessary information to make informed decisions as part of the risk assessment process. Specifically, OCRO should:
 - a. Stay informed regarding new and open audit recommendations to ensure that key operational and financial control deficiencies are identified, and those controls are documented in CNCS's business process narratives and risk control matrices.
 - b. Actively participate in ongoing financial statement audit status meetings and stay informed on identified risks to ensure that functional offices are held accountable and addresses those specific risks through the assurance statement preparation process.
 - c. Develop a process and criteria for functional offices to follow when they review and assess service organization reports and incorporate the results in their annual assurance statements. The process should include assigning responsibility for each service organization report to applicable functional offices, a timeline for

⁶ OMB Circular No. A-123, Section IV.

⁷ OMB Circular No. A-123, Section II.

EXHIBIT A
Material Weakness

completion, and meetings to discuss their assessment results prior to finalizing the assurance statements. The assessment should also include consideration of any complimentary user controls and documentation of the existence and operating effectiveness of such user controls. Guidance should be provided to functional offices on how to respond to service organization reports with modified opinion and exceptions related to control objectives.

3. Continue the process to develop and update all business process narratives with realistic timeline and monitor status to meet completion milestones. All documented business process should be accurate and reflect the actual business practices. Key controls should also be properly identified in the narratives.
4. Develop guidance and best practices for functional offices for completing assurance statements. Guidance should clearly identify what would constitute an adequate internal control assessment from which the functional offices can rely on to submit an unmodified assurance statement. Guidance should also be provided to functional offices with clear definitions and examples on control deficiency, significant deficiency, material weakness; and when a modified or no assurance statement should be provided.
5. Require functional offices to provide supporting documents for their assurance statements. OCRO should establish quality control reviews of the support for function offices' assurance statements to ensure that they are complete, and the functional offices address business cycles, financial statement line items and systems under their purview of responsibility to ensure consistency with the assurance statements.
6. Update definitions from the assurance statement guidance as to what constitutes a modified and no assurance statement.

2. Financial System and Reporting (modified repeat material weakness)

CNCS's financial reporting was hindered by limitations in its financial system (Momentum) and the timing and difficulties arising from an upgrade, accounting staff turnover, and inadequate internal controls. The combination of these weaknesses prevented CNCS from providing auditable financial statements. These limitations contributed to an environment that forced CNCS to adopt temporary fixes rather than complete solutions to address pervasive longstanding issues.

Effective controls in financial reporting are critical to ensure that CNCS's financial information is adequate, accurate and reliable, so that Congress and the general public can hold CNCS accountable for the expenditure of taxpayers' money. CNCS's financial reporting internal controls were either not properly designed or not implemented effectively. Repeated financial reporting issues from the prior year continued in FY 2018, which resulted in unreliable financial information, including the failure to prepare complete and accurate interim financial statements.

EXHIBIT A
Material Weakness

Moreover, CNCS's internal control program failed to ensure that adequate corrective actions were developed and timely executed. CNCS lacked the staff to accomplish these goals.

Consequently, we see little or no progress in addressing most of the financial reporting conditions from the prior year. Resolutions of financial reporting internal control issues were further complicated by turnover of key accounting personnel. For example, the Director of AFMS position was vacant for the majority of the fiscal year, with multiple key accounting staff resigning from CNCS during FY 2018. Overall, CNCS's control environment did not demonstrate the required discipline to present reliable and auditable financial statements. As a result, CNCS's financial statements were deemed unauditably again in FY 2018.

Our audit procedures found the continuation of problematic conditions from the prior year audit and uncovered new conditions. We categorize these issues as follows:

- a. Financial statements not prepared in accordance with generally accepted accounting principles (GAAP);
- b. Lack of internal controls related to the preparation and review of CNCS's financial accounting and reporting process;
- c. Systemic deficiencies in the core financial system; and
- d. Improper design of internal controls for the use of Standard Vouchers (SVs).

OMB Circular No. A-123 requires agency management to establish and maintain internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

A. Financial statements not prepared in accordance with GAAP

CNCS's June 30, 2018 (interim) financial statements were not completed and prepared in accordance with GAAP. Certain line items, statements, and notes were either not prepared or were not updated until the year-end. For example:

- The balances of two significant line items "Property and Equipment" and "Accounts Payable" (accrual portion) on the Balance Sheet were misstated because CNCS did not update these balances until year-end. At the interim reporting periods, CNCS did not record capitalization costs nor accrue expenses and payable for goods and services received but not yet paid.
- CNCS did not properly report its program expenses on the Statement of Net Cost because indirect costs allocation among each CNCS program was only performed at year-end.
- CNCS did not prepare the National Service Trust Fund financial statements and accompanying notes at interim periods.

EXHIBIT A
Material Weakness

Preparing complete and accurate financial statements and notes at interim financial reporting periods would allow CNCS to timely detect and correct errors and to assess the effectiveness of the financial reporting process and controls. Limiting financial reporting procedures and key controls to year-end increases the risk of material misstatements and omissions of required information from the financial statements and notes.

We recommend that CNCS:

7. Record transactions in accordance with GAAP.
8. Prepare a complete set of CNCS and National Service Trust Fund interim financial statements and notes in accordance with GAAP.
9. Implement effective internal controls to ensure interim financial statements and notes are properly reviewed and approved by appropriate CNCS staff and account balances are accurate as of and through the reporting periods.

B. Lack of internal controls related to the preparation and review of CNCS's financial accounting reporting process

B1. Internal control deficiencies in the preparation of the financial statements and review of the trial balance

CNCS's monthly trial balance review was incomplete and ineffective. Staff did not properly research, follow up and document explanations for known and recurring account balance differences, including abnormal account balances. The analysis also did not include a complete budgetary-to-proprietary analysis (tie point) to assess the reasonableness of related accounts and balances. The Treasury Financial Manual (TFM) United States Standard General Ledger (USSGL) standard accounting entries require, in most transactions, the recording of both budgetary and proprietary accounts for a transaction. Therefore, tie points show the relationships of these related accounts that are reported in different basic financial statements. This high-level analysis allows management to detect anomalies in balances.

Moreover, CNCS did not perform a complete, accurate and up-to-date fluctuation analysis of the June 30, 2018 account balances. CNCS did not document the explanations for significant balance fluctuations or the explanations offered were so generic that they did not address the specific nature of the transactions, change in operations or trends sufficient to show the root causes of the balance fluctuations. CNCS also did not document financial account balance fluctuation expectations based on its operating environment and compare those expectations to the identified significant balance fluctuations for reasonableness or unexpected change. In some cases, the balances used for the fluctuation analysis differed from the balances on the financial statements.

EXHIBIT A
Material Weakness

Other financial reporting internal control deficiencies include an incomplete financial statement review checklist; lack of reconciliation between the Combined Statement of Budgetary Resources and the Report on Budget Execution and Budgetary Resources (SF-133); incomplete general ledger and transaction details; and inadequate support to validate transaction details and balances for significant financial statement line items.

B2. The cost allocation process was not documented and properly supported.

CNCS does not have adequate policies and procedures for the allocation of indirect costs among its programs. CNCS was unable to demonstrate how it processed indirect costs in Momentum and how it derived and calculated costs allocation percentages to each program and subprogram. The key individual responsible for the cost allocation process was a Momentum developer contractor who left CNCS in September 2018 right before the year-end financial reporting process.

B3. CNCS did not review legacy transaction codes with balances for validity

CNCS did not perform the necessary research to determine whether longstanding balances in the “TJ” (used to report Trust Fund commitments and obligations) and “JV” (journal voucher) document types represent valid undelivered orders. Document types “TJ” and “JV” were legacy transaction codes that CNCS discontinued in FY 2007 and FY 2011, respectively. The June 30, 2018 unliquidated order report showed:

- A net balance of approximately \$8.6 million associated with document type “TJ,” the obligation for which was initially recorded in FY 2007; and
- A net balance of more than \$6 million associated with document type “JV,” dating to FY 2004.

We identified these balances from our initial review during last year’s audit. They remained unchanged at June 30, 2018.

We recommend that CNCS:

10. Develop comprehensive policies and procedures for the financial statements preparation process and related internal controls. The policies and procedures should address, among other subjects:
 - a. The process to determine and document CNCS’s balance fluctuation expectations should be based on a combination of internal and external operating factors, and program and financial relevant information available.
 - b. The materiality threshold used to determine significant balance fluctuations that require further research should be more conservative than that used by external auditors and consistent with the materiality thresholds used by the OCRO (as part

EXHIBIT A
Material Weakness

- of the OCRO's OMB Circular No. A-123 assessment) to ensure integration and consistency between AFMS and OCRO.
- c. Detailed process to research significant balance fluctuations. CNCS should research and explain all significant balance fluctuations at the account and transaction level. Maintain and have the supporting documentation readily available.
 - d. Review balance differences between proprietary and budgetary accounts.
 - e. Research and retain supporting documents required for any identified account balance differences derived from its abnormal balance review or the tie point analysis.
 - f. Address fatal and non-fatal Government wide Treasury Account Symbol Trial Balance (GTAS) edit failures.
 - g. Address all balance differences and retain supporting documentation of related research.
 - h. Complete the GAO Financial Audit Manual Checklist section 2010, Checklist for Federal Accounting, and section 2020, Checklist for Federal Reporting and Disclosures.
11. Ensure its balance fluctuation analysis is complete, comprehensive, supported and substantive to allow management to detect accounting errors or evaluate reasonableness of balances.
12. Prepare a complete set of quarterly financial statements and notes for both CNCS and National Service Trust Fund.
13. Creates a monthly/quarterly accounting and financial reporting operational checklist with assigned responsibility for each AFMS staff. The AFMS Director and the Chief Financial Officer (CFO) should review the checklist to ensure all tasks are completed timely.
14. Revise its current cost allocation memorandum titled "Corporation for National and Community Service Financial Reporting Cost Allocation" to describe in detail the process for allocating indirect costs allocation among CNCS programs, including indirect cost allocation methodology, basis of allocation, assumptions, sources of data, allocation period timeline, and review process.
15. Review and research the balances for discontinued document types, such as "TJ" and "JV" to determine their validity and correct them accordingly. Document and maintain support for any accounting adjustments made to correct the balances.
16. Identify any additional unused document types and transaction types and related balances for possible liquidation.

EXHIBIT A
Material Weakness

17. Work with the Momentum support team to remove any document types that are no longer used.

C. Systematic deficiencies in the core financial system

C.1 Non-compliance with OMB Circular No. A-11: CNCS did not use object class codes to record certain transactions

CNCS's financial system was not properly set up to record transactions with object class (OC) codes. Our analysis of the CNCS general ledger history report identified pervasive errors such as transactions without OC codes or with inaccurate OC codes. The financial system set up was also not in compliance with OMB Circular No. A-11, *Preparing, Submitting, and Executing the Budget*, which requires OC codes be associated with the USSGL transactions. As a result, considerable research is needed to correct the OC reporting of many transactions related to undelivered orders or delivered orders budgetary accounts. To compensate for the system limitation, CNCS uses general ledger accounts and sub-accounts with associated document type and transaction type codes to classify transactions for reporting. However, this time-consuming, manual effort could increase the risks of financial reporting errors. This deficiency had also negatively impacted CNCS's compliance with the statutory requirement of the Digital Accountability and Transparency Act (DATA Act) reporting during FY 2017.⁸

C.2 CNCS failed to timely submit required external reports due to financial system upgrade issues

CNCS executed an upgrade to its financial system on June 25, 2018, immediately before the quarter-end financial reporting close-out period. CNCS accepted at face value the financial system contractor's assurances that the upgrade would have no operational impact and did not independently assess or anticipate the risks and impact of the system upgrade on CNCS's operations and financial reporting. CNCS also did not prepare contingency measures to mitigate any negative impact from the financial system upgrade to its financial reporting. This upgrade caused various accounting system issues, including the delays in certifying three Treasury Account Symbols (TAS) in U.S. Treasury's GTAS file submission.

We recommend that CNCS:

18. Develop a plan to upgrade its financial system to include OC codes which should be associated with USSGL in accordance with OMB Circular No. A-11.

⁸ OIG Report 18-05: *Performance Audit of the Corporation for National and Community Service's Compliance under the Digital Accountability and Transparency Act of 2014*

EXHIBIT A
Material Weakness

19. Provide mandatory training to CNCS accounting staff on the proper use of OC, sub general ledger accounts, and document/transaction types on all obligation and expense transactions.
20. Continue to evaluate and correct, if necessary, any ongoing negative impact of the financial system upgrade on financial reporting.
21. Identify and collect feedback from all stakeholders to ensure all concerns and risks on the system upgrade are addressed and risks are mitigated.
22. Develop milestones for the complete implementation of the resolutions related to the system upgrade issues.

D. Improper design of internal controls for the use of SVs

CNCS overuses SVs to work around limitations to its accounting system and ineffective financial reporting internal controls. CNCS uses SVs to address significant recurring financial reporting issues across multiple funds, instead of resolving the underlying causes of the problems that the SVs are intended to circumvent. In many cases, incorrect SVs were used to correct other SVs which led to misstatements in the financial statements. Moreover, substantial SV transactions' definition or posting logic are outdated, inaccurate or inconsistent with the latest USSGL guidance. As of June 30, 2018, CNCS recorded approximately \$4.4 billion in absolute value through SVs. We also identified control deficiencies of the use of SVs, such as untimely approval; lack of supporting documentation; generic SV descriptions without specific justification of its usage; and lack of policies and procedures over the use of SVs. This over-reliance, incorrect usage and inaccurate SVs create a high risk of material misstatements in the financial statements.

We recommend that CNCS:

23. Work with the financial system developer to identify and remediate the causes that give rise to the current excessive reliance on SVs.
24. As part of the process to correct long-standing financial system configuration issues, examine the document types in the transaction definitions against the USSGL and correct the transaction posting logic.
25. Track the outstanding balances with system configuration issues until their full liquidation.
26. Document and retain the results of actions taken for recommendations above, including the final decisions and solutions to resolve the system issue.
27. Develop and implement policies and procedures for the SV process that include:
 - a. tracking the sequence of SVs for completeness;
 - b. appropriate use of SVs;

EXHIBIT A
Material Weakness

- c. determining and maintaining relevant documentation to support each SV;
- d. use of specific and accurate SV descriptions;
- e. timely review and approval of SVs; and
- f. reviewing and approving all SVs for accuracy and propriety.

3. Trust Fund Unpaid Obligations (modified repeat material weakness)

CNCS continued to significantly overstate its Trust obligation balance and obligated substantially more than is necessary to pay its outstanding liabilities. As of June 30, 2018, CNCS had not adjusted downward the obligations related to expired AmeriCorps education awards and has not done so since the Trust Fund’s inception in 1994. CNCS also did not separately track and record transactions for upward adjustment to prior year unpaid obligations. In addition, CNCS obligated all interest received on the Trust Fund’s investment upon receipt, without adequate justification. The interest revenue should have been recorded as unobligated budgetary resources in accordance with OMB Circular No. A-11. As a result, CNCS has obligated far more than it actually owes for unpaid education awards.

In our review of the relationship between Trust unpaid obligations and the service award liability on the financial statement, we noted significant variances. CNCS could not provide adequate transaction details and explanations to support and account for these differences between Trust unpaid obligations and service award liability, as shown in the table below.

Financial Statement Line Item	6/30/2018 \$ in thousands	9/30/2017 \$ in thousands	6/30/2017 \$ in thousands
Unpaid Obligations, End of Period (per Statement of Budgetary Resources)	\$672,871	\$669,082	\$616,853
Less: Service Award Liability (per Balance Sheet)	\$351,912	\$397,631	\$391,499
Difference	\$320,959	\$271,451	\$225,354

The huge disparity of balances between the Trust unpaid obligations and service award liability continued to grow. CNCS was unable to provide a detailed schedule of the undelivered orders as of June 30, 2018, so we could not validate the unpaid obligations balance. These unsupported unpaid obligations include amounts for AmeriCorps member slots that were never filled, interest earned on Trust investments which was obligated without adequate justification, and expired awards that no longer represent liabilities. Those amounts should be de-obligated from the Trust. We identified each of these issues in the prior year audit, but they remained unresolved at June 30, 2018.

EXHIBIT A
Material Weakness

CNCS began to implement a new methodology to estimate Trust liability and obligation balances in FY 2018. The new process was not completed and implementation did not begin until after the end of the fiscal year. CNCS advised us orally that it intended to use the new methodology to adjust the Trust obligation balance as of September 30, 2018 to account for the above issues identified in last year's audit. However, the methodology was in its infant stage and had not been finalized and vetted. The analysis and recordation of an adjustment was described by CNCS as the first phase of a five-phase implementation process described in a draft "Corrective Action Plan" (provided to us in August 2018) to address the prior year material weaknesses in Trust Fund Unpaid Obligations and Trust Service Award Liability. We noted, however, that the new methodology did not include development or implementation of any internal controls related to the new Trust obligation process. CNCS continued to make changes to the proposed new methodology throughout the audit period, leaving us unable to perform adequate audit procedures to assess the completeness, accuracy, reasonableness, and integrity of either the new methodology itself or the resulting adjustments to the Trust obligation balance as of the year-end.

We recommend that CNCS:

28. Discontinue obligating interest revenue automatically upon receipt and deobligate amounts representing interest previously obligated, or document the authority to automatically obligate interest earned.
29. Document and implement policies and procedures to include the following:
 - a. review obligations to verify that amounts, timeframe (*i.e.*, grant dates are correctly reflected in the obligation) and age are accurately reflected in the status of the obligation to confirm their validity;
 - b. ensure obligations are sufficiently supported (*i.e.*, by documentary evidence);
 - c. reconcile obligations to source documents (such as grant agreements); and
 - d. perform complete reconciliations of all outstanding obligations monthly, and ensure any discrepancies identified are promptly researched and resolved.
30. Implement a complete and correct mapping of the accounting transactions (such as downward adjustments to the obligations) incurred for the Trust Fund to the proper USSGL accounts and financial statement line items, for both the budgetary and proprietary accounts.
31. Finalize the new methodology on Trust obligations.
32. Document a complete and comprehensive policies, procedures and process narratives related to the National Service Trust's accounting and financial reporting, including obligation recording and reporting.
33. Ensure that the policies and procedures for the new methodology include properly designed internal control activities, such as the preparation of the estimate, periodic testing and periodic updates to the methodology.

EXHIBIT A
Material Weakness

4. Trust Service Award Liability (TSAL) (modified repeat material weakness)

TSAL model deficiencies and lack of quality controls resulting in input and calculation errors in TSAL

The TSAL of \$304 million (unaudited) is the largest liability on CNCS's financial statements as of September 30, 2018. CNCS developed a model to estimate the anticipated service awards to be paid by the Trust. The calculation of this liability is based on a variety of factors, such as member enrollment levels, education award earning statistics, usage patterns and interest forbearance.

As mentioned above, CNCS's new Trust service liability and obligation estimation methodology was not in use until after September 30, 2018. Therefore, the serious deficiencies that we identified in the TSAL model in FY 2017 audit continued through June 30, 2018 and thereafter. Recurring issues included calculation errors and lack of quality controls that significantly impacted the accuracy of the reported liability.

We identified the following deficiencies of the TSAL model: (a) CNCS failed to prevent, detect and correct material calculation errors on the June 30, 2018 estimated Trust service liability; (b) CNCS estimates its outstanding liability for education awards by means of an Excel-based spreadsheet, which is prone to human errors and had security deficiencies arising from inadequate physical access and version controls; (c) CNCS used a manual cut-and-paste process to transfer data from other system reports to the TSAL model, with ability to override assumptions without adequate justification or documentation; (d) CNCS did not use discount rates in its TSAL calculation; and (e) inadequate documentation of the key assumptions, procedures and controls, sources and validation of data. As with the Trust Fund obligation methodology, we were unable to perform adequate audit procedures to review the TSAL balance and the new TSAL model.

We recommend that CNCS:

34. Review the prior year recommendations provided and ensure that any applicable considered and incorporated in the new Trust Obligations and Liability model.
35. Develop a succession plan to ensure the required expertise is available in the event of employee turnover. Such succession planning is key to helping CNCS continue achieving its internal and external reporting objectives. CNCS needs to:
 - a. Train, mentor, and work to retain qualified employees;
 - b. Institute continued cross-training so that knowledge of the model will reside with multiple staff rather than with one person; and
 - c. Implement a peer review process to carry out the necessary quality control reviews of the TSAL model.
36. Strengthen controls to ensure the TSAL modelling is performed by trained personnel to:
 - a. Conduct detailed analysis and validation of data sources;

EXHIBIT A
Material Weakness

- b. Review and ensure the reasonableness of assumptions used and document the rationale behind these assumptions;
 - c. Consider changes in conditions or programs that require further research and analysis. Update the assumptions when necessary;
 - d. Compare estimates with subsequent results to assess the reliability of the assumptions and data used to develop estimates.
37. Conduct a detailed study to determine the historical awards granted to members by duration and by program year, and use the results of that study to adjust the calculation of the Education Awards Earning Percentage.
38. Revise and update policies, key modelling assumptions, SOPs, and business process narratives relevant to the Trust Fund's accounting and financial reporting of education awards.
39. Assess the need and document management's position regarding the discounting factors for the TSAL in accordance with applicable Federal Accounting Standards Advisory Board's standards.

5. Grants Accrual Payable and Advances (modified repeat material weakness)

CNCS changed its grant accrual methodology to record accrued expenses and liability during third quarter of FY 2018 using the calculated disbursement estimate and the "incurred but not reported" (IBNR) cost estimate provided by its service provider (Department of Health and Human Service or HHS). These amounts represent the estimated liability for costs already incurred by the grantees but will be reported in the following quarter, and the estimated IBNR costs. Prior to this change, CNCS did not record IBNR, as we reported in the FY 2017 audit. Advances to grantees are offset against the estimated accrued liability.

The grant accruals are estimates. Per the Federal Accounting Standards Advisory Board, *Accrual Estimates for Grant Programs*, Federal Financial Accounting Technical Release 12, a Federal grant making entity must demonstrate the reliability of its grant accrual estimates. CNCS adopted HHS's IBNR figure without (a) explaining or developing adequate analysis to support how the HHS's assumptions applied to CNCS's grants, and (b) procedures to monitor and validate the accrual after the end of the reporting period.

When management's key assumptions are not validated and properly documented based on historical data analysis and grantees' actual spending pattern, it increases the risk of errors and ultimately may lead to misstatements in CNCS's grant accrual and related expenses reported in its financial statements.

We recommend that CNCS:

40. Update and implement policies and procedures for the accrual and validation of grant advances, IBNR, and payable estimates at the grant level. Such documentation should include management's:

EXHIBIT A
Material Weakness

- a. review process of its key assumptions based on relevant and reliable data;
- b. validation process for all program elements in the estimation process and over a few years to show a trend of the estimates. The validation process provides indication whether the resulting amounts are materially consistent with grantees' drawdown and spending patterns;
- c. documentation of the research, review and conclusions for unusual fluctuation between the accrual and the actual performance; and
- d. documentation of how the advances versus grant accrual calculations are used to arrive at the Grants Payable and Advances to Other financial statement line items.

41. Coordinate with the program and grant officers to gather and analyze key grant programs' (AmeriCorps State and National and Senior Corps) historical data and the grantees' spending pattern to develop factors relevant for grant accrual estimation.

6. Undelivered Orders (UDO) and Accounts Payable (AP) – Procurement (new material weakness)

CNCS's Office of Procurement and AFMS did not have adequate internal controls to ensure the accuracy of obligated balances and execute de-obligations over stale and invalid obligations related to contracts and purchase orders. We tested 26 undelivered orders (UDOs) at June 30, 2018, and found that six of them, totaling more than \$2 million, were stale or invalid. CNCS concurred that these amounts should have been deobligated.

We also found that CNCS was unable to provide contracts/purchase orders/modifications (or modifications without Contracting Officer's approval)/invoices of selected samples to support contract and expense amounts recorded in its financial system. We identified approximately \$3.5 million unexplained procurement UDO balance differences between the financial system and our recalculations. Furthermore, we identified errors in CNCS's accounting posting logic in its financial system that led to misstatements and abnormal balances in the UDO balance. CNCS was unable to provide a response regarding the cause of these errors.

For nearly half (12 of 26) of our June 30, 2018 procurement samples, we found that services were performed prior to the financial reporting period (June 30, 2018). Since CNCS only accrues accounts payable at fiscal year-end, the accounts payable balance at June 30, 2018 was understated by at least \$2 million.

We recommend that CNCS:

42. Centralize storage of all procurement documents in contract files and maintain them electronically.
43. Strengthen internal control to ensure procurement documents are properly approved and retained.

EXHIBIT A
Material Weakness

44. Analyze procurement UDO balances quarterly to verify that balances are still valid for those without financial activities for an extended period.
45. Research, resolve and document the disposition of any abnormal UDO transactions/balances.
46. Correct the financial system's posting logic to ensure all future transactions are recorded properly in accordance with USSGL.
47. Develop, document and implement an accounts payable accrual methodology to include the recognition and reporting of the IBNR. The methodology should also document key controls related to review and approval process of the accrual estimation.
48. Conduct validation assessment of amounts accrued for the IBNR on a periodic basis. As part of the validation, CNCS should consider the following:
 - a. Subsequent activities against the amount estimated to determine the level of precision in the estimation;
 - b. Trend the validation results and adjust the IBNR estimation process to address any recurring significant fluctuations; and
 - c. Update the IBNR estimation process as necessary to reflect changes in payment patterns.

7. Property and Equipment (new material weakness)

CNCS did not timely capitalize its Internal Use Software (IUS) at interim financial reporting periods. As a result, the IUS balance of \$13.8 million as of June 30, 2018 was the same as of September 30, 2017. The June 30, 2018 balance was not adjusted for the capitalizable costs incurred of \$506 thousand that we identified in FY 2017. We also noted that IUS of nearly \$5 million expensed as of June 30, 2018 should have been capitalized. CNCS only records depreciation on a quarterly basis, and records and/or reclassifies capitalizable costs from expenses at year-end only. In addition, CNCS's Office of Information Technology and AFMS were not able to provide a schedule of all capitalized costs incurred (direct cost, indirect cost, direct labor and indirect labor) on a significant IUS contract (the new grant management system) awarded on September 26, 2014. Federal accounting standards require agencies to capitalize material internal costs associated with contractor-developed software.

We recommend that CNCS:

49. Analyze contractor-developed-software costs that were expensed but not capitalized in accordance with accounting standards. CNCS should record appropriate adjustments to correct the IUS balance based on its analysis.

EXHIBIT A
Material Weakness

50. Update CNCS policy to recognize and record capitalized costs during the period they are incurred.

8. Undelivered Orders – Grants (new material weakness)

Grant UDOs are outstanding grant awards obligations. Our testing of grant UDOs as of June 30, 2018 noted the following exceptions from 172 samples.

A. The total grant award amount recorded in the financial system did not agree with the most recent Notice of Grant Award (NGA)

For seven grants sampled, CNCS's financial system (Momentum) recorded awards totaling \$18 million, while the most recent Notice of Grant Award (NGA) reported a total of \$15 million. The NGA, generated and retained in CNCS's grant management system eGrants, is the supporting documentation for processing grant award obligation or de-obligation. CNCS did not provide any explanation for the discrepancy between Momentum and the NGA. In addition, we also noted the following concerning those differences:

- There is no NGA to support the obligation that occurred in Momentum;
- There is no NGA to support the de-obligation that occurred in Momentum; and
- The obligation occurred within Momentum before the Senior Grants Officer approved the NGA.

We are unable to rely on the grant obligation amounts in Momentum since Momentum does not consistently agree with the NGA information from eGrants, which serves as the official obligation document. Unresolved differences of grant award amounts between the official grant award documents and the financial system of record poses as significant risk of misstated obligation balances.

B. Grant expenditures from the Payment Management System (PMS) did not agree with the expenditures recorded in the financial system

Expenditures for 19 grants reported in the PMS (grant drawdown and expenditure reporting system managed by HHS) did not reconcile to the grant expenditures recorded in Momentum as of June 30, 2018. The expenditures reported from PMS is \$2.6 million (\$3.8 million in absolute value) more than Momentum.

Based on the controls in place, there may be as much as a two-week delay of data exchange between PMS and Momentum. However, we could not determine whether the timing lapse in fact accounts for some or all of the difference between PMS and Momentum as CNCS did not provide any explanations. Consequently, potential misstatement in obligation balances could occur.

EXHIBIT A
Material Weakness

C. Grants were not closed-out timely

Two grants remained open for more than one year after the end of their period of performance. In accordance with Uniform Grant Guidance, CNCS is required to close out the grant no later than one year after receipt and acceptance of all required final reports, which are due within 90 days after the end of the period of performance. There was no evidence from the grant files showing that CNCS had granted an extension to the grantees. As a result, these two grants with UDO balances of approximately \$1.3 million overstated obligations balance and should have been closed out with funds de-obligated.

D. Transaction code used to record grant expenditures is not consistent with USSGL

The transaction code used by CNCS to record grant expenditures for 133 grant samples were not consistent with the USSGL transaction codes. CNCS's transaction code erroneously obligates funds that causes duplicated obligations by recording incorrect USSGL accounts. As a result, a subsequent transaction is required to eliminate the duplicate obligation recorded.

Instead of correcting CNCS's transaction code logic for recording grant expenditures in accordance with the USSGL guidance, CNCS has chosen to continue to make manual corrections. This manual correction process is susceptible to human error and is time-consuming.

We recommend that CNCS:

51. Determine the root causes and resolve discrepancies in the grant award amounts recorded in the NGA in eGrants and in Momentum to prevent such differences from occurring in future.
52. Determine the root causes and resolve expenditure differences between PMS and Momentum.
53. Strengthen controls around the review of expired grant obligations by ensuring that:
 - a. All financial, performance and other required reports are submitted no later than 90 calendar days after the end date of the period of performance.
 - b. Grants are promptly closed after submission of required reports and any unspent amounts are promptly deobligated.
 - c. Document justifications for all required reports submission extensions granted to the grantee.
54. Update the CNCS transaction code posting logic for recording grant expenditures to comply with the USSGL guidance.

9. Recoveries of Prior Year Obligations (Recoveries) (new material weakness)

OMB Circular No. A-11 states that a grant obligation is reported at the time the grantee is awarded the grant and is liquidated when the payment is made to the grantee. To the extent

EXHIBIT A
Material Weakness

that a grant in a previous year is no longer valid, agency will record a recovery of prior year obligations. CNCS was unable to provide any documentation, including executed contract amendments or grant close-out letters, to support about one-third of our June 30, 2018 Recoveries samples. A CNCS grant officer explained that an eGrants system issue prevented generation of grant close-out letter. Moreover, we found that Recoveries were not recorded correctly in the financial system. Due to the magnitude of potential errors in our Recoveries sample population, we are unable to rely on our testing results to statistically project a reasonable potential misstatement amount.

We recommend that CNCS:

55. Ensure grant officers validate Recoveries balance to supporting documentation. Also, ensure future Recoveries transactions recorded in Momentum are adequately supported and documented.
56. Require the program and grant officers who perform the grant close-out in Momentum to certify that all required grantee information has been received and reviewed; and any final notices or changes to grant funding have been communicated and accepted by grantees. The process should require a second-level of review before grants are closed-out. All supporting documents should also be made readily available for review.
57. Adhere to the accounting definition and guidance issued by OMB and Treasury for recording Recoveries and updates CNCS's financial reporting policy accordingly.

10. Other Liabilities (new material weakness)

The financial statement line item Other Liabilities represents amounts owed but not yet paid, such as payroll and benefits, AmeriCorps VISTA stipends, unreimbursed Federal Employees' Compensation Act (FECA) claims, other unfunded employment related liability, liability for non-fiduciary deposit funds and undeposited collections, and accounts payable canceled appropriations. CNCS was unable to provide any supporting documentation for approximately \$14 million of the \$20 million balance reported as of June 30, 2018. In addition, we found that CNCS calculated but failed to record \$1.5 million of member payroll liability at June 30, 2018.

We recommend that CNCS:

58. Reconcile the amounts reported in Other Liabilities to supporting documents to verify that Other Liabilities is supported by valid transactions and properly classified.
59. Develop a financial reporting checklist to ensure completeness and recording of all transactions.

EXHIBIT B
Significant Deficiency

1. Information Technology Security Controls (modified repeat significant deficiency)

CNCS relies on information technology (IT) systems to initiate, authorize, record, process, summarize and report financial transactions in the preparation of its financial statements. Internal controls over these operations are essential to ensure the integrity, confidentiality and reliability of critical data while reducing the risk of errors, fraud and other illegal acts.

To balance high levels of service and reduce costs, CNCS's Office of Information Technology has outsourced the operation, maintenance and support of most of its IT systems. Outsourcing introduces special considerations and risks regarding the protection of information and information systems. Despite the outsourcing of IT systems, CNCS by law retains responsibility for complying with the requirements of the Federal Information Security Modernization Act (FISMA) and security control implementation.

Our review of IT controls covered general and selected business process application controls both at the enterprise and at the facility levels, the Field Financial Management Center (FFMC), National Civilian Community Corps (NCCC) campuses and State Offices. Our current year audit identified security weaknesses that were corrected for certain control activities. Examples of CNCS improvements in its IT control environment include: enforcing the CNCS's account management procedures for disabling inactive accounts, tracking known security control weaknesses in the Plan of Action and Milestones (POA&Ms), and updating the Continuity of Operations Plan based on revisions to the Business Impact Analysis and Disaster Recovery Plan.

While CNCS has taken some steps to remediate previously identified information security weaknesses, its efforts has focused on developing policies and procedures and system security documentation. These are necessary and foundational, but they are of limited value unless they are supported by consistent implementation and monitoring of security controls. In addition, we identified new and continued control weaknesses in the information security program that need to be addressed, most importantly pertaining to access controls, configuration management and system change controls, logging and monitoring controls, organization-wide and information system risk management, security authorization documentation, personnel screening, and physical access controls. Specifically, we identified enterprise and facility-level findings for each of the following domains:

Configuration Management

- Vulnerabilities related to patch management, configuration management, and unsupported software exposed the CNCS headquarters and field office networks to critical and high severity vulnerabilities. The average number of vulnerabilities per host scanned increased from last year.

CNCS's vulnerability management program needs to improve to effectively identify, monitor and remediate known vulnerabilities to reduce the risk of security breaches. This includes monitoring and recording actions taken by the General Support System (GSS) contractor to

EXHIBIT B
Significant Deficiency

ensure vulnerability remediation for network devices and servers is addressed or the exposure to vulnerabilities is minimized (Repeat)

- CNCS documented standard baseline configurations only for its Microsoft Windows servers, but not for its databases, network devices and Web browsers. In addition, certain Microsoft Windows production servers did not have any standard baseline configurations implemented and CNCS was not monitoring for deviations from the baselines. (Modified Repeat)
- CNCS did not monitor the Momentum configuration settings to ensure they were in compliance with policy. Specifically, the configuration settings for disabling Momentum user accounts and session timeout were not in compliance with the CNCS configuration policy. (New)
- Change management policies and procedures for testing network changes were not consistently implemented. (Repeat)

Access Control

- Disabling accounts for separated users were not fully applied for an application managed by Microsoft Active Directory (AD). Although network accounts were disabled, accounts were not removed from the AD Organizational Unit.⁹ Access to the application is managed through AD; therefore, if the AD accounts were re-enabled, access to the application would be maintained. (Modified Repeat)
- CNCS did not implement Personal Identification Verification multifactor authentication for local and network access for privileged users and for network access for non-privileged users. (Repeat)
- CNCS did not capture the Momentum Oracle security logs into its event correlation tool used for audit log review, analysis and reporting. The event and trend analysis to investigate security events is required by National Institute of Standards and Technology (NIST) for information systems categorized as moderate. (Repeat)
- Management at two field offices did not ensure adequate physical access controls. (Modified Repeat)
- Access control issues reported last year related to mobile devices and protection of personally identifiable information at CNCS field offices were not remediated.¹⁰ (Repeat)

⁹ An Organizational Unit is a subdivision in Active Directory to hold users, groups, and computers with designated Group Policy settings and account permissions.

¹⁰ Although we did not revisit CNCS field offices where we originally found these issues in FY 2017, CNCS confirmed that it had not completed the related corrective actions. We did not find similar issues from the field offices we visited during FY 2018.

EXHIBIT B
Significant Deficiency

Security Management

- The new Authorizing Official (AO) for CNCS's General Support System did not sign a new authorization decision document when the AO assumed the new role. Based on review of the current authorization decision document, authorization package and updated documents related to continuous monitoring activities, the new AO did not explicitly accept the known risk and formally transfer responsibility and accountability for the GSS as required by NIST. (New)
- CNCS did not timely provide a risk register to record identified risks at the mission and business process level, or Tier 2, as defined by the National Institute of Standards and Technology (NIST). Additionally, although the risk register at the information system level, Tier 3, has been incorporated in the information system risk assessment and POA&M process, the information system level risk assessments for the GSS, Electronic-Systems for Program Agreements and National Service Participants (eSPAN), and Momentum did not address, as required by NIST, the risk management elements of likelihood and impact analysis. (Repeat)
- CNCS did not assess information security risks posed to CNCS through the use of the external systems managed by service providers. (Repeat)
- CNCS did not ensure certain employees had the proper background investigations in accordance with the risk associated with their assigned positions. (Modified Repeat)

Many of these weaknesses can be attributed to an inconsistent enforcement of the agency-wide information security program across the enterprise. These deficiencies can increase the risk of unauthorized access to CNCS's systems used to capture, process, and report financial transactions and balances. Effective system security begins with strong governance, including agency level oversight and controls monitoring of CNCS field offices.

Although CNCS had policies for the operation of its information security program, its implementation of those policies across the enterprise and managing information security risk need strengthening to preserve the confidentiality, integrity and availability of CNCS's information and information systems. CNCS should increase its efforts to mature its risk management program, monitor compliance with CNCS information security policies and procedures, and follow up with field offices to ensure remediation of identified control weaknesses.

By not effectively implementing and enforcing IT policies and procedures and working towards automation, continuous monitoring and consistent application of controls, there is an increased risk that financial and personally identifiable information may be inadvertently or deliberately misused and may result in improper disclosure or theft without detection. Without remediating all significant security vulnerabilities, systems could be compromised resulting in potential harm to confidentiality, integrity and availability of CNCS financial and sensitive data.

EXHIBIT B
Significant Deficiency

The information system security officer has detailed knowledge and expertise required to manage the security aspects of an information system and, in many organizations, is assigned responsibility for the day-to-day security operations of a system. Strengthening the implementation of CNCS information security policies and procedures requires the information system security officer, working in close collaboration with the information system owner to ensure that the appropriate operational security posture is maintained for CNCS information systems. In addition, the Chief Information Security Officer must ensure all facilities are monitored to validate controls operated as intended, and control weaknesses are remediated. Since CNCS has not implemented consistent automated processes to address continued control weaknesses in its information security program, we made the same prior year's recommendations to assist CNCS in holding individual stakeholders accountable for remediation of control weaknesses, and ensuring information technology security controls operate as intended agency-wide.

We recommend that CNCS:

60. Develop a multi-year strategy to better strategically prioritize and allocate resources to address the new and continuing weaknesses identified and work towards automation, continuous monitoring and consistent application of controls.
61. Enforce the agency-wide information security program across the enterprise and improve performance monitoring to ensure controls are operating as intended at all facilities.
62. Strengthen and refine the process for communicating CNCS facility specific control deficiencies to CNCS facility personnel, and coordinate remediation of the control deficiencies.
63. Strengthen and refine the process for holding system owners and information system security officers accountable for remediation of control deficiencies and ensuring that the appropriate security posture is maintained for CNCS information systems.
64. Strengthen and refine the process for holding contractors accountable for remediation of control deficiencies in CNCS information systems.
65. Implement all detailed recommendations in the FY 2018 FISMA Evaluation report.

2. Accounts Receivable (AR) and Allowance for Doubtful Accounts (Allowance) (new significant deficiency)

CNCS's AR balance at June 30, 2018 was misstated due to its failure to implement its policies and procedures and the ineffectiveness of its internal controls. Errors we reported in FY 2017 continued to exist in FY 2018. We found the following:

EXHIBIT B
Significant Deficiency

- CNCS did not follow its new CNCS Debt Management Policy by writing off AR items delinquent for two years or more. We identified approximately \$2.2 million in AR balances as of June 30, 2018 that were not written-off or should have been included in the allowance calculation.
- We identified \$1.6 million in stale AR balances dated as far back as FY 2004 that CNCS could not support.
- CNCS did not update its allowance methodology to reflect the new requirements in its Debt Management Policy.
- CNCS also did not update its assumptions used in the allowance calculation based on its current AR collection patterns.

We recommend that CNCS:

66. Strengthen internal controls over the entire AR process cycle to ensure that AR transactions are properly supported, documented, and readily available for examination.
67. Reconcile the AR subsidiary ledger to the general ledger monthly.
68. Reevaluate the policies and procedures for calculating the allowance for doubtful accounts. Related policies and procedures should include: (a) CFO Office's staff's periodic review of the accounts receivable aging report, (b) assessment of the collectability of outstanding balances based on the age of the debt, collections attempted and received thus far and other information about the debtor and (c) determination for possible write-offs.
69. Revise the Allowance for Doubtful Accounts methodology to be consistent with the Debt Management Policy.
70. Track and revise collection efforts based on data analysis. A reasonable timeframe for write-offs should be established for accounts receivable without any activity. Once an outstanding receivable is deemed uncollectible, it should be written off in accordance with management's established policy.

EXHIBIT C
Management's Response

Corporation for National and Community Service

NationalService.gov




Thank you for the opportunity to respond to the results of your audit of the Corporation for National and Community Service's (CNCS) financial statements, and the financial statements of the National Service Trust. This is a response to both of those reports. CNCS does not entirely concur with all of the conditions and recommendations in the reports.

The Office of the Chief Financial Officer (OCFO) experienced unprecedented turnover in Fiscal Year (FY) 2018. At one point an office within OCFO had 60% of management positions vacant. Those vacancies made it difficult to provide information sufficiently responsive to the auditor's inquiries leading them to conclude data did not exist or controls were not in place. CNCS addressed that condition by bringing in new senior leadership. Those leaders fully understand the Human Capital and policy and procedures challenges in ensuring that CNCS fully demonstrates it is appropriately accounting for its assets and funds, as well as, identifying and correcting weaknesses and deficiencies on an ongoing basis.

In FY 2018 CNCS made significant progress in redefining its approach to accounting for the National Service Trust (Trust). Close coordination with the Department of the Treasury and the Office of Management and Budget identified areas where the Trust's operations were unique. The process also identified a significant accounting policy question that remains under consideration at the Federal Accounting Standards Advisory Board. External resources were engaged to review Trust liability and grant accrual processes. CNCS has been redesigning our systems of summarizing and reporting Trust transactions, and anticipate fully completing those changes before June 30, 2019.

CNCS continues to demonstrate its commitment to improving its financial management operations and reporting. As part of CNCS's Transformation and Sustainability Plan the agency is exploring shared service for Accounting and Procurement functions. CNCS will work with CLA during the audit remediation process.


Robert McCarty
Chief Financial Officer
November 13, 2018

250 E Street, SW
Washington, D.C. 20525
202-606-5000 | 800-942-2677 | TTY 800-833-3722

Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

EXHIBIT D
Status of Prior Year Findings

Our assessment of the current status of prior year audit findings is presented below.

<i>Type of Finding</i>	<i>FY 2017 Finding</i>	<i>FY 2018 Status</i>
Material Weakness	Financial Reporting	Modified Repeat: Material Weakness
Material Weakness	Trust Fund Unpaid Obligations	Modified Repeat: Material Weakness
Material Weakness	Trust Service Award Liability	Modified Repeat: Material Weakness
Material Weakness	Grants Accrual Payable and Advances	Modified Repeat: Material Weakness
Significant Deficiency	Information Technology Security Controls	Modified Repeat: Significant Deficiency

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
FISCAL YEAR 2018 (UNAUDITED) AND 2017 (UNAUDITED)
CONSOLIDATED FINANCIAL STATEMENTS

(Extracted From Fiscal Year 2018 Annual Management Report)

Consolidated Financial Statements

Corporation for National and Community Service

BALANCE SHEETS

As of September 30, 2018 and 2017

(in thousands)

	UNAUDITED 2018	UNAUDITED RESTATED 2017
Assets		
Federal:		
Fund Balance with Treasury (Note 2)	\$ 1,210,560	\$ 1,047,393
Investments and Related Receivables (Note 3)	792,816	866,834
Accounts Receivable, Net (Note 4)	1,142	835
Non-Federal:		
Cash and Other Monetary Assets	25	118
Advances to Others	66,662	62,560
Accounts Receivable, Net (Note 4)	7,460	8,741
Property and Equipment, Net (Note 5)	28,440	24,356
Total Assets	\$ 2,107,105	\$ 2,010,837
Liabilities		
Federal:		
Advances from Others (Note 9)	13,611	18,592
Other Liabilities (Note 10)	\$ 1,944	\$ 1,819
Non-Federal:		
Accounts Payable	482	3,864
Advances from Others (Note 9)	237	12
Grants Payable	130,773	95,228
Trust Service Award Liability (Note 6)	304,320	388,134
Accrued Annual Leave	3,938	4,350
Actuarial FECA Liability (Note 8)	7,168	7,328
Other Liabilities (Note 10)	9,219	8,065
Total Liabilities	\$ 471,692	\$ 527,392
Net Position		
Unexpended Appropriation	\$ 989,069	\$ 973,892
Cumulative Results of Operations	646,344	509,553
Total Net Position (Note 11)	1,635,413	1,483,445
Total Liabilities and Net Position	\$ 2,107,105	\$ 2,010,837

The accompanying notes are an integral part of these statements

Community for National and Community Services
STATEMENTS OF NET COST
For the Years Ended September 30, 2018 and 2017
(in thousands)

	UNAUDITED 2018	UNAUDITED RESTATED 2017
Gross Program Cost:		
AmeriCorps SN	\$ 360,866	\$ 328,618
AmeriCorps VISTA	89,944	88,567
State Commission	16,477	15,789
National Senior Service Corps	182,849	173,187
AmeriCorps NCCC		
Operating Cost	54,011	58,106
Less: Earned revenue	(24,375)	(29,075)
Net AmeriCorps NCCC	<u>29,636</u>	<u>29,031</u>
Other programs:		
Operating Cost	244,739	321,906
Less: Earned revenue	(27,971)	(21,227)
Net Other program cost	<u>216,768</u>	<u>300,679</u>
Net Cost of Operations (Note 13)	\$ <u>896,540</u>	\$ <u>935,871</u>

The accompanying notes are an integral part of these statements.

Corporation for National and Community Services
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2018 and 2017
(in thousands)

	UNAUDITED 2018	UNAUDITED RESTATED 2017
Unexpended Appropriations:		
Unexpended Appropriations - Cumulative	\$ 973,892	\$ 928,727
Unexpended Appropriations - Prior Period Adjustments -years preceding		7
Budgetary Financing Sources:		
Appropriations - Received	1,063,958	1,030,358
Appropriations - Adjusted	(20,061)	-
Appropriations - Used	<u>(1,028,720)</u>	<u>(985,200)</u>
Total Budgetary Financing Sources	<u>15,177</u>	<u>45,158</u>
Total Unexpended Appropriations	<u>989,069</u>	<u>973,892</u>
Cumulative Results from Operations		
Cumulative Results from Operations	509,553	434,658
Prior Period Adjustment due to correction of errors		(35)
Prior Period Adjustment due to correction of errors - years preceding prior year		<u>5,221</u>
Beginning Balance as Adjusted	<u>509,553</u>	<u>439,844</u>
Budgetary Financing Sources		
Appropriations Used	1,028,720	985,201
Donations	17	219
Transfers in/out	-	9,142
Other Financing Sources (non-exchange)		
Imputed Financing Source	5,426	11,034
Other Offset to Non Entity Collections	<u>(832)</u>	<u>(16)</u>
Total Financing Sources	<u>1,033,331</u>	<u>1,005,581</u>
Net Cost of Operations	<u>896,540</u>	<u>935,871</u>
Net Change	<u>136,791</u>	<u>69,709</u>
Cumulative Results of Operations	<u>646,344</u>	<u>509,553</u>
Net Position (Note 11)	<u>\$ 1,635,413</u>	<u>\$ 1,483,445</u>

The accompanying notes are an integral part of these statements.

Corporation for National and Community Service
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2018 and 2017
(in thousands)

	UNAUDITED 2018	UNAUDITED 2017
Budgetary Resources		
Unobligated Balance from Prior year Budget Authority, net (discretionary and mandatory)	\$ 323,903	\$ 306,954
Appropriations (discretionary and mandatory)	1,284,042	1,251,773
Spending Authority from Offsetting Collections (discretionary and mandatory)	40,084	39,619
Total Budgetary resources	\$ 1,648,030	\$ 1,598,346
Memorandum (non-add) entries		
Net Adjustment to Unobligated Balance brought forward, October 1	22,702	15,188
Status of Budgetary Resources		
New Obligations and Upwards Adjustments (total)	\$ 1,161,553	\$ 1,297,144
Unobligated Balance, end of year		
Apportioned, unexpired accounts	376,488	214,427
Unapportioned, unexpired	3,474	2,091
Unexpired Unobligated Balance, end of year	379,962	216,518
Expired Unobligated Balance, end of year	106,515	84,684
Unobligated Balance, end of year (total)	486,477	301,202
Total Budgetary Resources	\$ 1,648,030	\$ 1,598,346
Outlays, Net		
Outlays, Net (total) (discretionary and mandatory) (Note 20)	1,178,410	1,183,850
Distributed Offsetting Receipts	(215,321)	(218,202)
Agency Outlays, Net (discretionary and mandatory)	\$ 963,089	\$ 965,648

The accompanying notes are an integral part of these statements.

Consolidated Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Corporation for National and Community Service (CNCS) was created by the National and Community Service Trust Act of 1993 (Public Law 103-82). CNCS's mission is to improve lives, strengthen communities, and foster civic engagement through service and volunteering. To meet its mission, CNCS provides grants and other assistance to states, local communities, and nonprofit organizations to help communities meet critical challenges in the areas of education, healthy futures, environmental stewardship, economic opportunity, disaster services, and assisting veterans and military families through volunteer service. CNCS's major programs are as follows:

Senior Corps. Senior Corps offers a network of programs that tap into the rich experience, skills and talents of older citizens to meet community challenges. Senior Corps comprises the RSVP, the Foster Grandparent Program, and the Senior Companion Program.

AmeriCorps. AmeriCorps provides opportunities for Americans to make an ongoing, intensive commitment to service through the following programs:

- AmeriCorps State, National, Tribes, and Territories (State and National) offers grants supporting a broad range of local service programs that engage thousands of Americans in intensive service to meet critical community needs.
- AmeriCorps Volunteers in Service to America (VISTA) helps community organizations and public agencies create and expand programs that build capacity and ultimately bring low-income individuals and communities out of poverty.
- AmeriCorps National Civilian Community Corps (NCCC) strengthens communities while developing leaders through direct, team-based national and community service.

B. BASIS OF ACCOUNTING

CNCS financial statements and footnotes are prepared based on OMB guidance issued in Circular A-136, *Financial Reporting Requirements*. CNCS uses the accrual and budgetary basis of accounting based on U.S. Generally Accepted Accounting Principles (GAAP) issued by Federal Accounting Standard Advisory Board (FASAB). Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the actual collection or payment of cash. Federal budgetary accounting recognizes the obligation of appropriations and other funds upon the establishment of a properly documented commitment.

C. USE OF ESTIMATES

The preparation of financial statements in accordance with GAAP requires CNCS to make estimates and assumptions about future events. These estimates and assumptions affect the

amounts reported in CNCS's financial statements and accompanying notes. CNCS evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors that it believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made when facts and circumstances warrant. As future events and their effects cannot be determined with certainty, actual results could differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining the liability for service awards, grants payable, and grant advances. See Note 6 "Trust Service Award Liability" for more information about CNCS's use of estimates to record obligations in the Trust.

D. FUND BALANCE WITH TREASURY

Fund Balance with Treasury (FBWT) represents cash and cash equivalents in CNCS's account with the Department of the Treasury. Treasury processes cash receipts and disbursements on behalf of CNCS and CNCS's accounting records are reconciled with those of Treasury on a regular basis.

The FBWT maintained in the National Service Trust is restricted to specific purposes, such as paying service awards certified as payable to eligible participants, and is not available for use in the current operations of CNCS. In addition, the majority of the funds received from individuals and organizations for deposit in the Gifts and Contributions fund are restricted for particular uses, such as service projects (See Note 2).

E. OTHER MONETARY ASSETS

Other monetary assets consists of paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit.

F. INVESTMENTS

By law, CNCS may invest the funds of the National Service Trust in interest-bearing Treasury securities guaranteed by the United States as to principal and interest. These Treasury securities are referred to as "market-based," since they mirror actual Treasury securities sold on the open market. They consist of Treasury notes, bonds and bills. Since they are expected to be held-to-maturity, CNCS's investments are valued at cost and adjusted for the amortization of premiums and discounts. The premiums and discounts are recognized as adjustments to interest income, and are amortized using the level yield/effective interest method for the Notes and straight line method for the Bills.

G. PROPERTY AND EQUIPMENT

Property and Equipment is stated at full cost, including all costs related to acquisition, delivery, and installation, less accumulated depreciation/amortization. Normal maintenance and repair costs on capitalized property and equipment are expensed when incurred. CNCS capitalizes properties and equipment with an estimated useful life of two years or more based on the

thresholds. Capitalized properties are depreciated or amortized on a straight line over their estimated useful lives ranging from 2 to 10 years.

The CNCS's capitalization policy, *Accounting for Capital Property*, was updated with an effective date May of Fiscal Year 2016. Property and Equipment acquired before this policy was implemented that does not meet the new capitalization criteria will be fully depreciated. The primary change relates to the capitalization thresholds for each asset type. Prior to the May 2016 threshold change, CNCS capitalized items with a cost of \$50,000 or greater for all asset types.

Effective May 2016, CNCS capitalizes single items of property and equipment with a cost of \$50,000 or more. Also, CNCS capitalizes bulk purchases of property and equipment with an aggregate cost of \$250,000 or more. A bulk purchase is defined as the purchase of like items related to a specific project, or the purchase of like items occurring within the same fiscal year that have an estimated useful life of at least two years.

In addition, CNCS capitalizes Internal Use Software with an aggregate cost of \$250,000 or more. Internal Use Software is either purchased off the shelf, internally developed, or contractor developed solely to meet the CNCS's internal or operational needs. Internal Use Software developed to meet CNCS's internal or operational needs will be recognized as capitalized Internal Use Software in development if the estimated developmental cost obligated on the contract meets the capitalization criteria. Internal Use Software in development will be recorded at cost in the fiscal year when they are incurred and paid. The realization of Internal Use Software will be recognized in CNCS's financial records upon completion of the software development and when the title is passed to CNCS. (See Note 5)

H. TRUST SERVICE AWARD LIABILITY

The Trust Service Award Liability represents unpaid education awards and eligible student loan interest forbearance costs, which are expected to be used upon certification. These amounts relate to participants who have completed service based on CNCS's historical experience.

I. GRANTS PAYABLE

CNCS awards grants to nonprofit organizations, educational institutions, states, municipalities, and other external organizations. Grants become budgetary obligations, but not liabilities, at the time they are awarded.

Although most grantees request funds prior to incurring expenses, some incur expenditures prior to initiating a request for disbursement, based on the nature of the expenditures. At the end of the fiscal year, CNCS computes and reports an estimate of the amount of unreimbursed grantee expenses as grants payable. This accrual is based on an analysis of the amounts actually disbursed to grantees in the third quarter.

J. FEDERAL EMPLOYEE BENEFITS

ACTUARIAL FECA LIABILITY

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees, AmeriCorps NCCC and VISTA members 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 CNCS's employees and members under FECA are determined and paid by the Department of Labor (DOL) and later billed to CNCS. CNCS's actuarial liability for workers' compensation includes costs incurred, but unbilled as of year-end, as calculated by DOL. CNCS reimburses DOL for FECA claims out of current appropriations upon receipt of a bill from DOL.

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 also expensed when used.

RETIREMENT BENEFITS

CNCS'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 remain in the CSRS.

For employees covered by CSRS, CNCS contributes 7.0 percent of their basic pay. For those employees covered by FERS, CNCS contributes 11.2 percent of their gross pay towards retirement. Employees are allowed to participate in the Federal Thrift Savings Plan (TSP). For employees under FERS, CNCS 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 CNCS contribution amounting to 5 percent of pay. Employees under CSRS may participate in the TSP, but will not receive either CNCS's automatic or matching contributions.

K. RESTATEMENTS

Certain prior year amounts have been restated to correct errors in the Balance Sheet, Statement of Net Costs and Statement of Changes in Net Positions and Notes to the Financial Statements.

NOTE 2 – FUND BALANCE WITH TREASURY

The CNCS is funded with appropriations from Trust Funds and General Funds. While amounts appropriated from the General Fund of the Treasury are included in the FBWT, Trust Funds investments are not. The Trust Funds investments are redeemed, as needed to meet the cash disbursement needs, at which time the funds are transferred from the Trust Fund to FBWT. The

FY 2018 Annual Management Report

Trust Fund is for providing education award or student loan interest forbearance expense, whereas the General Fund is for operating expenses. The CNCS also uses a Deposit Funds for withholding taxes on payments made to contractors. The FBWT for the periods ended September 30, 2018 and 2017 are as follows:

<i>(in thousands)</i>	UNAUDITED 2018	UNAUDITED 2017
Fund Balances		
Trust Funds – National Service Trust	\$ 134,897	\$ 9,921
Trust Funds – Gifts and Contribution	420	825
General Funds	1,072,512	1,034,464
Deposit Funds	2,731	2,453
Total	<u>1,210,560</u>	<u>1,047,393</u>
Status of Funds Balance with Treasury		
Unobligated Balance		
Available	471,529	296,701
Obligated Balance not yet Disbursed	736,300	748,238
Non Budgetary FBWT	2,731	2,454
Total	\$ <u>1,210,560</u>	\$ <u>1,047,393</u>

CNCS's FBWT is classified as unobligated balance available, obligated not yet disbursed and non-budgetary fund balance. Unobligated Balance available represents apportionment for obligations in current and unexpired appropriations available for new obligations. Obligated Balance not yet disbursed, represents undelivered orders and those delivered but not paid offset by Trust Funds investments. Therefore, the unobligated and obligated balances presented may not equal related amounts reported on the Consolidated Statement of Budgetary Resources. Non budgetary funds refers to deposits funds with no budget authority.

NOTE 3 – Investments

By law, CNCS may invest the funds of the National Service Trust in interest-bearing Treasury securities guaranteed by the United States as to principal and interest. CNCS's investments are valued at cost and adjusted for the amortization of premiums and discounts Investment are held to maturity. Interest income are paid by Treasury semi-annually. As of September 30, 2018 and 2017, Investment composition was as follows:

UNAUDITED 2018 <i>(in thousands)</i>					
U.S. Treasury Marketable Securities:	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value
Bills	\$ 30,000	\$ 254	\$ -	\$ 30,254	\$ 30,252

FY 2018 Annual Management Report

Notes	<u>756,493</u>	<u>3,752</u>	<u>2,317</u>	<u>762,562</u>	<u>757,820</u>
Total U.S. Treasury Marketable Securities	\$ <u>786,493</u>	\$ <u>4,006</u>	\$ <u>2,317</u>	\$ <u>792,816</u>	\$ <u>788,072</u>

UNAUDITED 2017 (in thousands)					
U.S. Treasury Marketable Securities:	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value
Bills	\$ 187,421	\$ 584	\$ -	\$ 188,005	\$ 187,997
Notes	<u>676,391</u>	<u>877</u>	<u>1,561</u>	<u>678,829</u>	<u>675,902</u>
Total U.S. Treasury Marketable Securities	\$ <u>863,812</u>	\$ <u>1,461</u>	\$ <u>1,561</u>	\$ <u>866,834</u>	\$ <u>863,899</u>

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable represents amounts due to CNCS primarily under federal and nonfederal reimbursable agreements, grantee audit resolution determinations, outstanding travel advances due from employees and Criminal History Check requirements. An allowance for doubtful accounts is established for reporting purposes based on past experience.

(in thousands)	UNAUDITED 2018	UNAUDITED 2017
Federal:		
Accounts Receivable	\$ <u>1,142</u>	\$ <u>835</u>
Non-Federal:		
Accounts Receivable	<u>9,094</u>	<u>10,806</u>
Allowance for uncollectible	<u>(1,634)</u>	<u>(2,065)</u>
Total	<u>7,460</u>	<u>8,741</u>
Accounts Receivable, Net	\$ <u>8,602</u>	\$ <u>9,576</u>

NOTE 5 – PROPERTY AND EQUIPMENT, NET

CNCS components of property and equipment for the period ending September 30, 2018 and 2017 are as follows:

<i>(in thousands)</i>		UNAUDITED 2018		
	Service Life (years)	Cost	Accumulated Depreciation	Net Book Value
Equipment ADP - Internal Use	3 - 10	\$ 1,264	\$ (684)	\$ 580
Software ADP - Internal Use	2	1,092	(1,092)	(0)
Software in Development	N/A	<u>27,860</u>	<u>-</u>	<u>27,860</u>
Total Property and Equipment, Net		<u>\$ 30,216</u>	<u>\$ (1,776)</u>	<u>\$ 28,440</u>

<i>(in thousands)</i>		UNAUDITED 2017		
	Service Life (years)	Cost	Accumulated Depreciation	Net Book Value
Equipment ADP - Internal Use	3 - 10	\$ 2,166	\$ (1,376)	\$ 790
Software ADP - Internal Use	2	13,847	(13,847)	(0)
Software in Development	N/A	<u>23,566</u>	<u>-</u>	<u>23,566</u>
Total Property and Equipment, Net		<u>\$ 39,579</u>	<u>\$ (15,223)</u>	<u>\$ 24,356</u>

NOTE 6 – TRUST SERVICE AWARD LIABILITY

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 education award generally must be used within seven years of completion date of an approved term of national service. If the education award is transferred to an eligible individual or is a Summer of Service award (which was available to youth enrolled in grades 6 through 9), the use period is ten years. These awards, as well as interest forbearance payments on qualified student loans during the period members perform their service, are paid from the National Service Trust Fund. The Service Award was composed of the following as of September 30:

(in thousands)	UNAUDITED 2018	UNAUDITED 2017
Education Awards	\$ 3,011,939	\$ 2,948,138
Interest Forbearance	120,197	115,179
Total estimated service award liability	3,132,136	3,063,317
Less: cumulative awards paid	(2,827,816)	(2,675,183)
Total	\$ 304,320	\$ 388,134

NOTE 7 – LEASES

CNCS leases office space through the General Services Administration (GSA). GSA charges CNCS a Standard Level Users Charge that approximates commercial rental rates for similar properties. The NCCC also leases housing facilities for its campuses. Additionally, CNCS leases motor vehicles on an annual basis through GSA under an Interagency Fleet Management Service agreement for the NCCC. The leases are renewable with no purchase or escalation clause. The following schedule presents future minimum rental commitments under operating leases as of September 30 of each year.

UNAUDITED 2018 (in thousands)					
Fiscal Year	Facilities			Other	Total
	Space	Vehicles			
2019	\$ 10,236	\$ 624	\$ 224	\$ 11,084	
2020	10,565	633	125	11,323	
2021	10,905	643	126	11,674	
2022	11,257	653	78	11,988	
2023	11,619	663	78	12,360	
Total	\$ 54,582	\$ 3,216	\$ 631	\$ 58,429	

UNAUDITED 2017 (in thousands)					
Fiscal Year	Facilities			Other	Total
	Space	Vehicles			
2018	\$ 8,808	\$ 659	\$ 372	\$ 9,839	
2019	9,052	666	373	10,091	
2020	9,304	672	364	10,340	
2021	9,565	679	365	10,609	
2022	9,834	686	365	10,885	
Total	\$ 46,563	\$ 3,362	\$ 1,839	\$ 51,764	

NOTE 8 – ACTUARIAL FECA LIABILITY

CNCS’s actuarial liability for future workers’ compensation benefits under FECA was unaudited \$7.1 million and \$ 7.3 million as of September 30, 2018 and 2017, respectively. The amount includes the expected liability for death, disability, medical, and miscellaneous costs for

approved compensation cases. As with all Federal agencies CNCS’s FECA liability is determined by DOL. 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 (OMB’s) economic assumptions for 10-year Treasury notes and bonds.

NOTE 9 – ADVANCES FROM OTHERS

Advances from Others consists of advances from other federal government entities and nonfederal entities related to the interagency and cost share agreements into which CNCS entered to provide services. Advances from others primarily consist of Federal Emergency Management Agency (FEMA), Environmental Protection Agency (EPA), Department of Justice (DOJ), Department of Housing and Urban Development (HUD), and Department of Agriculture (USDA) related reimbursable activities. Advances as at September 30, 2018 and 2017 are as follows:

<i>(in thousands)</i>	UNAUDITED 2018	UNAUDITED RESTATED 2017
Federal		
Advances from Others	\$ 13,611	\$ 18,592
Non-Federal		
Advances from Others	237	12
Total Other Assets	\$ 13,848	\$ 18,604

NOTE 10 – OTHER LIABILITIES

Other liabilities include amounts owed but not paid at the end of the fiscal year for payroll and benefits, AmeriCorps VISTA stipends, the amount of claims for benefits for CNCS’s employees under FECA that have been paid by DOL and billed to CNCS but have not yet been reimbursed to DOL, other unfunded employment related liability, liability for non-fiduciary deposit funds and un-deposited collections, and accounts payable canceled appropriations. Other liabilities for the periods ending September 30, 2018 and 2017 are as follows:

FY 2018 Annual Management Report

<i>(in thousands)</i>	UNAUDITED 2018		
	Non-Current Liabilities	Current Liabilities	Total Liabilities
Federal:			
Unemployment Benefits	\$ -	\$ 106	\$ 106
Unfunded FECA	-	1,838	1,838
Total Federal Liabilities	-	1,944	1,944
Non Federal:			
Accrued Funded Payroll & Benefits	-	2,486	2,486
Accrued Volunteer Benefits	-	2,653	2,653
Member Payroll Withholding Taxes	-	2,756	2,756
Accrued Unfunded Member Benefits	889	-	889
Other Accrued Expenses	338	97	435
Total Non Federal Liabilities	1,227	7,992	9,219
Total Other Liabilities	\$ 1,227	\$ 9,936	\$ 11,163

<i>(in thousands)</i>	UNAUDITED 2017		
	Non-Current Liabilities	Current Liabilities	Total Liabilities
Federal:			
Unemployment Benefits	\$ -	\$ -	\$ -
Unfunded FECA	-	1,819	1,819
Total Federal Liabilities	-	1,819	1,819
Non Federal:			
Accrued Funded Payroll & Benefits	-	2,622	2,622
Accrued Volunteer Benefits	-	2,414	2,414
Member Payroll Withholding Taxes	-	2,572	2,572
Accrued Unfunded Member Benefits	270	-	270
Other Accrued Expenses	-	187	187
Total Non Federal Liabilities	270	7,795	8,065
Total Other Liabilities	\$ 270	\$ 9,614	\$ 9,884

NOTE 11 – FUNDS FROM DEDICATED COLLECTIONS

Funds from dedicated collections are presented on a combined basis. The table below shows the balances as of September 30, 2018 and 2017.

Consolidating Net Position (in thousands)	UNAUDITED 2018	UNAUDITED RESTATED 2017
	Unexpended Appropriations - Dedicated Collections	\$ 572,917
Unexpended Appropriations - Other Funds	416,152	395,274
Cumulative Results of Operations - Dedicated Collections	620,171	481,219
Cumulative Results of Operations - Other Funds	26,173	28,334
Total Net Position	\$ 1,635,413	\$ 1,483,445

NOTE 12 – APPROPRIATIONS RECEIVED BY THE NATIONAL SERVICE TRUST

As of September 30, 2018 and 2017, the National Service Trust received unaudited \$206.8 million and \$206.8 million, respectively. Under the provisions included in its annual appropriations and under 42 U.S.C. 12601a, CNCS is also authorized to transfer additional amounts from subtitle C program funds to the National Service Trust to support the activities of national service participants. Under the provisions of the law, CNCS transferred unaudited \$5.1 million and \$ 9.1 million to the Trust in FY 2018 and FY 2017, respectively. Accordingly, the National Service Trust received a total funding of unaudited \$212 million in FY 2018, and unaudited \$215.9 million in FY 2017, respectively.

NOTE 13 – COST AND EXCHANGE REVENUE

Costs for each sub-program are reported on separately:

AmeriCorps engages members in intense, impact-oriented service to address local community needs in areas of education, healthy futures, environmental stewardship, economic opportunity, disaster services, and assisting veterans and military families. AmeriCorps includes the State and National, NCCC, VISTA programs. The State and National sub-program includes grant expenses, as well as direct and allocated personnel and administrative costs including National Service Trust operations. The NCCC sub-program includes member stipend and benefits, and direct and allocated personnel and administrative costs including AmeriCorps recruitment and National Service Trust operations.

The VISTA sub-program includes grant expenses, member stipend and benefits, as well as direct and allocated personnel and administrative costs including AmeriCorps recruitment and National Service Trust operations.

The Senior Corps programs provide opportunities for members 55 and older to address local community needs in the areas of education, assisting veterans and military families, disaster response, and healthy futures. Senior Corps includes the Foster Grandparent Program (FGP); Senior Companion Program (SCP); and RSVP. The Senior Corps programs include grant expenses, as well as direct and allocated personnel and administrative costs for RSVP, FGP, and SCP. CNCS also has reimbursable agreements with several state agencies whereby CNCS awards and administers grants to a list of grantees selected and funded by the State (pass-through grants). The activity related to pass-through grants has been reclassified to be associated with the related Senior Corps program.

The National Service Award Expense component consists of the CNCS's estimated expense for education awards based on the increase in its service award liability during the year and interest forbearance costs on qualified student loans during the period members perform community service. No indirect costs have been allocated to the National Service Award expense component.

Innovation, Demonstration, & Assistance Activities (ID&A Activities) include grants to support and encourage new forms of service and volunteering, including the Social Innovation Fund

(SIF). The primary objective of the SIF is to improve the lives of people in low-income communities by mobilizing public and private resources to grow innovative nonprofit organizations that have evidence of compelling impact in the areas of economic opportunity, youth development, and healthy futures. No indirect costs have been allocated to the Innovation, Demonstration, & Assistance Activities component. SIF did not receive funding in FY2018.

The “J Special Authority” is referred to Section 179(j) of the National and Community Service Act, as amended (NCSA). This section allows CNCS to reserve not more than 1 percent of the total funds appropriated for a fiscal year under section 501 of the NCSA to support program accountability activities.

The Office of Inspector General (OIG) receives a separate appropriation. No indirect costs have been allocated to OIG.

NOTE 14 – NATIONAL SERVICE AWARD EXPENSE

Members serving in approved national service positions are eligible to earn a service award to pay for qualified education expenses. The National Service Trust also pays interest forbearance costs on qualified student loans during the period members perform community service.

CNCS 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, 2018 and 2017, respectively, has been adjusted to reflect the fact that earned awards are not always used.

(in thousands)	UNAUDITED 2018	UNAUDITED 2017
Estimated Education Awards	\$ 167,139	\$ 159,331
Estimated Interest Forbearance	7,884	7,918
National Service Award Expense	\$ 175,023	\$ 167,249

NOTE 15 – CONTINGENCIES

CNCS 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 CNCS. In the opinion of CNCS’s management and legal counsel, there are no proceedings, actions, or claims outstanding or threatened that would materially impact the financial statements of CNCS.

Certain legal matters to which CNCS is 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 the Treasury Judgment Fund (TJF). Although the ultimate disposition of any potential TJF proceedings cannot be determined, management does not expect that any liability or expense that might ensue would be material to CNCS’s financial statements.

NOTE 16 – SUBSEQUENT EVENTS

CNCS has evaluated subsequent events through November 5, 2018, which is the date these financial statements were available to be issued. As a consequence of its evaluation, CNCS has determined that no subsequent events need to be recognized or disclosed.

NOTE 17 - UNDELIVERED ORDERS AT THE END OF THE PERIOD

CNCS’s undelivered orders as of September 30, 2018 and 2017 are as follows:

<i>(in thousands)</i>	UNAUDITED 2018	UNAUDITED 2017
Federal		
Undelivered Orders - Unpaid	\$ 9,737	\$ 14,311
Undelivered Orders - Paid	772	1,461
Total Federal Undelivered Orders	<u>10,509</u>	<u>15,772</u>
Non Federal		
Undelivered Orders - Unpaid	1,066,658	1,106,543
Undelivered Orders - Paid	65,890	61,098
Total Non Federal Undelivered Orders	<u>1,132,548</u>	<u>1,167,641</u>
Total Undelivered Orders	\$ <u>1,143,057</u>	\$ <u>1,183,413</u>

NOTE 20 – EXPLANATION OF THE DIFFERENCES BETWEEN STATEMENT OF BUDGETARY RESOURCES AND THE PRESIDENTS BUDGET

The FY 2020 Budget of the United States Government (President’s Budget), which presents the actual amounts for the year ended September 30, 2018, has not been published as of the issue date of these financial statements. The FY 2020 President’s Budget is scheduled for release in February 2019 and can be found on the OMB website: <http://www.whitehouse.gov/omb> at that time.

A reconciliation of the FY 2017 Statement of Budgetary Resources to the FY 2019 President’s Budget (FY 2017 actual amounts) for budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and net outlays is presented below:

<i>(in millions)</i>	Unaudited Budgetary Resources	Unaudited Obligations Incurred	Unaudited Distributed Offsetting Receipts	Unaudited Net Outlays
Combined Statement of Budgetary Resources	\$ 1,598	\$ 1,297	\$ 218	\$ 1,184
Expired Funds	(92)	(7)		
Budget of the United States Government	\$ 1,506	\$ 1,290	\$ 218	\$ 1,184

OFFICE OF INSPECTOR GENERAL



CORPORATION FOR
NATIONAL & COMMUNITY SERVICE



CORPORATION FOR NATIONAL & COMMUNITY SERVICE
250 E ST SW, WASHINGTON, DC 20525
202.606.5000 | WWW.NATIONALSERVICE.GOV

OFFICE OF INSPECTOR GENERAL
HOTLINE: 1.800.452.8210
HOTLINE@CNCISOIG.GOV | WWW.CNCISOIG.GOV