

Corporation for National and Community Service

NationalService.gov



ANNUAL MANAGEMENT REPORT

FISCAL YEAR 2017

Contents

How to Serve

How this Report Is Organized

Section I: Agency Mission and Overview

Message from the Chief Executive Officer

Agency Mission and Overview

Assessment of Internal Controls

Trust Certification

Analysis of Financial Statements and Stewardship Information

Section II: Financial Section

Message from the Chief Financial Officer

Financial Statements and Footnotes

Independent Auditor's Report

Management's Response

Section III: Other Information

Donations and Contributions

National Service Trust Fund Status Report

Civil Monetary Penalty for Inflation

Improper Payments

How to Serve

If you are interested in joining or learning more about the Corporation for National and Community Service (CNCS) programs, go to www.nationalservice.gov. Click “Serve Your Community” to discover which opportunity is right for you.

About this Report

In lieu of a Performance and Accountability Report, CNCS will instead produce two reports that provide financial management and program performance information. Each report will be available on CNCS’s website as it is completed.

- This report, the Annual Management Report (AMR), focuses on CNCS’s financial management and the results of the agency’s annual financial audit. It includes management’s assurance statement regarding internal controls and compliance, CNCS’s improper payments report, and a response to the financial audit from management. This report can be found at:
www.nationalservice.gov/about/budget-and-performance/performance-andaccountability-reports
- The Annual Performance Report (APR) provides an overall assessment of agency performance. The APR will be included in CNCS’s fiscal year 2019 (FY 2019) Congressional Budget Justification, which will be transmitted to Congress in February 2018. Congressional Budget Justification reports can be found at www.nationalservice.gov/about/budget.

These reports meet requirements under the Government Performance and Results Act, the Federal Financial Management Improvement Act, the Federal Managers’ Financial Integrity Act, the Government Corporation Control Act, and the Federal Information Security Modernization Act, among others. These reports also follow applicable guidance from the Office of Management and Budget (OMB).

This report is in the public domain. Authorization to reproduce it in whole or in part is granted. The citation should be: Corporation for National and Community Service FY 2017 Annual Management Report, Washington, DC, 20525.

To request a printed copy of this report, obtain it in a format that is accessible to individuals with disabilities, or provide any related feedback, please contact the Office of the Chief Financial Officer at 202-606-5000 or at the mailing address noted below.

CNCS
250 E St., SW
Washington, D.C. 20525

How this Report is Organized

Section I – Agency Mission and Overview

Section I provides an overview of agency performance and financial information. It includes a brief history of CNCS, introduces its mission, and contains major agency and program performance accomplishments. This section also provides summary financial highlights and internal control assurances.

Section II – Financial Section

Section II provides the agency's financial details, including audited financial statements and footnotes.

Section III – Other Information

Section III provides supplementary reporting of Donations and Contributions, the National Service Trust Fund (Trust), and Improper Payments. Donations and Contributions reporting identifies the nature and amount of donations, as well as how they were used in support of CNCS's programs and activities.

Section I: Agency Mission and Overview

Message from the Acting Chief Executive Officer

Corporation for National and Community Service

NationalService.gov



Message from the Acting Chief Executive Officer

For nearly a quarter century, the Corporation for National and Community Service has leveraged our nation's greatest resource—the American people—to get things done. Working hand in hand with thousands of local partners, CNCS programs improve lives, expand opportunity, encourage personal responsibility, and strengthen civil society.

Our fiscal year 2017 (FY 2017) Annual Management Report summarizes agency accomplishments and financial information in accordance with relevant federal guidance and laws. Our efforts this past year demonstrate continued commitment to effective programs, targeted investments, community impact, evidence-based approaches, and operational efficiency and accountability.

Based on principles of local control, competition, and public-private partnership, CNCS supports local community solutions. Through AmeriCorps and Senior Corps, more than 300,000 trained, dedicated citizens provide intensive service at 50,000 sites across the country. They take on complex assignments, assume leadership roles, and deliver powerful results – including recruiting millions of additional volunteers to increase their impact.

Over the past year, our programs have helped millions of Americans improve academic success, prepare for 21st century jobs, increase self-sufficiency, and rebuild their lives after addiction or disasters. CNCS advances priorities of President Trump's Administration to promote economic mobility, develop workforce skills, revitalize cities, combat the opioid crisis, support veterans and military families, and grow the economy.

As they serve others, national service members expand their own economic and educational opportunity. Like apprenticeships, AmeriCorps members earn while they learn, gaining valuable career skills and experience to prepare them for work. The skills are both specific to their service (construction, teaching, STEM, firefighting) and general skills of leadership and problem-solving that all employers look for. At a time of record job openings, national service is a pathway to employment that helps close the skills gap – especially for low-income young adults facing the toughest prospects for employment. In addition, preliminary CNCS research released this year shows that service in Senior Corps helps improve health and well-being and decrease isolation and depression.

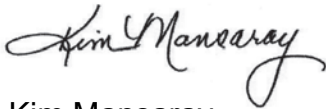
Over the past year, CNCS continued its close partnership with the nation's governors, mayors, and county leaders. Three-quarters of AmeriCorps grant funds were administered by Governor-appointed State Service Commissions, and 4,520 local elected officials representing 194 million Americans recognized the impact of Senior Corps and AmeriCorps members. CNCS also continued to leverage substantial resources from businesses, foundations, and other sources – more than \$1.25 billion in FY 2016 alone.

This local investment – which exceeds the federal appropriation - strengthens community impact, increases the return on taxpayer dollars, and shows strong confidence in our work.

In addition to administering programs, building partnerships, awarding and monitoring grants, and making a transition to a new Administration, CNCS continued to make strong progress on operational, financial, human capital, and internal controls priorities. We made workforce changes to increase efficiency, enhanced grants monitoring and oversight, strengthened our Enterprise Risk Management program, and received a 10 percent increase in employee satisfaction ratings on the Federal Employee Viewpoint Survey.

CNCS is committed to continuously improving its internal controls system and takes our responsibility to safeguard taxpayer dollars very seriously. We have devoted significant time and resources over the past year to assessing the effectiveness of internal controls. While we disagree with the auditor's findings regarding financial reporting of National Service Trust obligations, we will work with the Office of Inspector General and the auditors to appropriately address items that need to be addressed. CNCS will also continue to strengthen our Enterprise Risk Management program, building on the significant progress made in FY 2017 by the Office of the Chief Risk Officer.

Service has always been a vital part of the American character. For five decades, Administrations of both parties have invested in national service to tap the ingenuity and can-do spirit of the American people. With high-impact programs, an experienced field, strong appointed leaders, and hardworking staff, we look forward to achieving greater levels of efficiency, cost effectiveness, and community impact moving forward.



Kim Mansaray
Acting Chief Executive Officer

Agency Mission and Overview

As the federal agency for service and volunteering, the Corporation for National and Community Service (CNCS) improves lives, strengthens communities, and fosters civic engagement through service and volunteering. Through AmeriCorps, Senior Corps, and other programs, CNCS engages millions of Americans in results-driven service to solve local problems at 50,000 sites across the country.

Our work is based on smart, common-sense principles:

- Tapping the ingenuity and talents of the American people to solve problems
- Encouraging personal responsibility and self-sufficiency – a hand-up, not a hand-out
- Partnering with local leaders to support local community solutions
- Bolstering existing nonprofit, faith-based, and voluntary organizations
- Leveraging private sector resources to increase impact and stretch the taxpayer dollar
- Driving impact with business-like focus on competition, data, evidence, and results
- Uniting Americans from different backgrounds to achieve common goals for America.

Each year, CNCS and its partners engage hundreds of thousands of trained, skilled Senior Corps and AmeriCorps members in sustained service at thousands of schools, food banks, homeless shelters, veteran’s homes, and youth centers. CNCS strengthens America’s nonprofit and voluntary sector through human capital, grants, capacity-building support, research and evaluation to inform best practices, and public-private partnerships. CNCS helps create more engaged citizens, greater economic opportunity, safer neighborhoods, and stronger communities.

How Are We Organized?

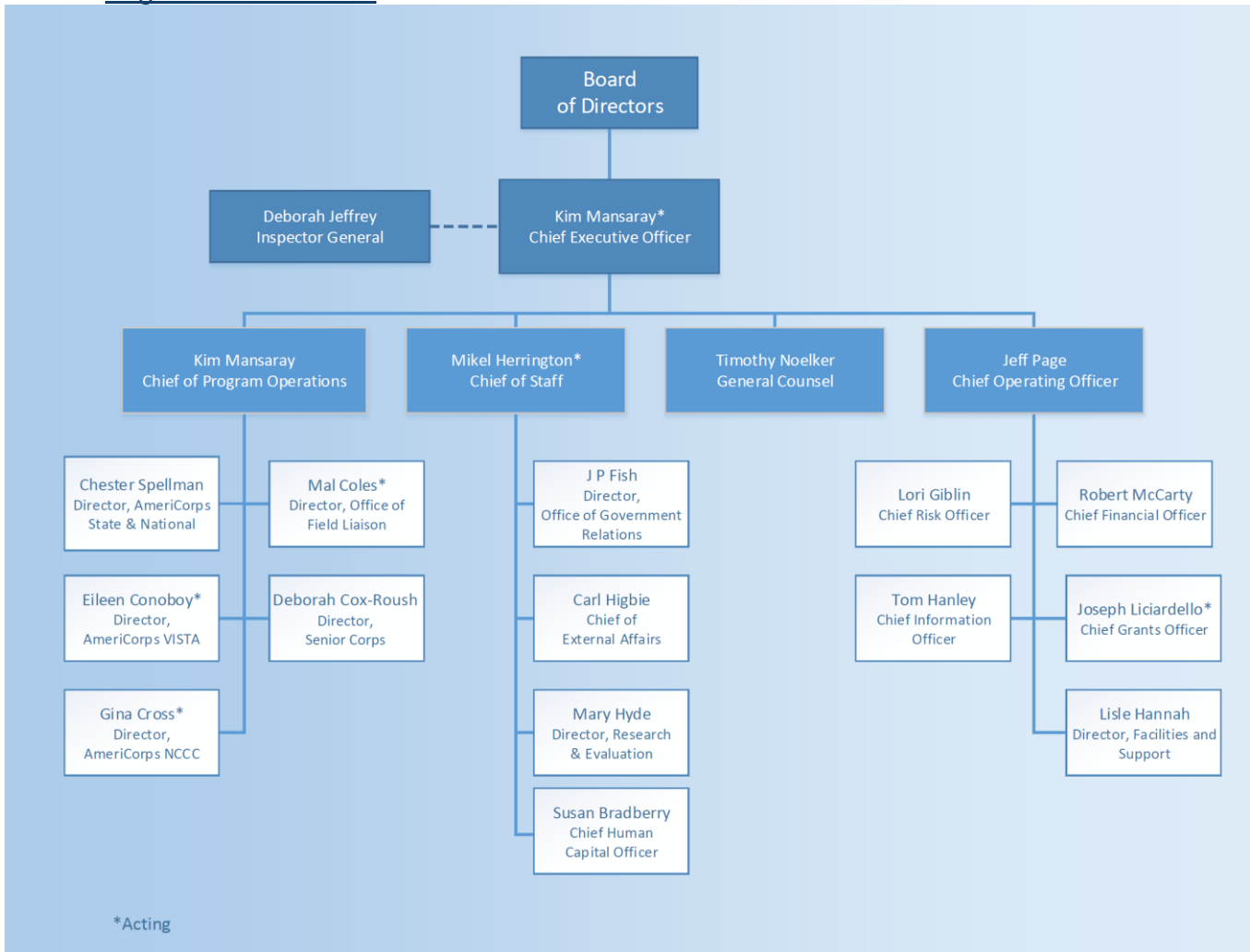
CNCS is led by a bipartisan Board of Directors and Chief Executive Officer (CEO) with independent oversight provided by an Inspector General – all of whom are appointed by the President.

The CEO provides overall organizational leadership for the agency’s programs and operations, including approximately 600 employees who work throughout the United States and its territories. The Board of Directors works with the CEO to set the direction for CNCS, advises the President and Congress concerning developments in national and community service, and conducts an evaluation of the CEO.

CNCS programs are operated through the combined efforts of the CNCS headquarter staff, CNCS State Office staff, and Governor-appointed State Service Commissions. The AmeriCorps program is a joint state-federal

undertaking, providing Governors with a key role in deciding where resources go. Three-quarters of AmeriCorps State and National grant funding is managed by State Service Commissions. The 52 State Service Commissions identify local needs, develop programs, monitor grantees, carry out Governor's service priorities, and lead citizen service efforts in their states.

Organizational Chart



Legislation

Congress created CNCS in 1993, merging the work and staff of two separate agencies that provided opportunities for Americans of all ages and backgrounds to serve their communities.

This authority was expanded in 2009 with the passage of the bipartisan Edward M. Kennedy Serve America Act, which amended the original National and Community Service Act (1990) and the

Domestic Volunteer Service Act (1973). Under this current authority CNCS manages the following major programs.¹

- AmeriCorps –including AmeriCorps State and National, AmeriCorps VISTA, and AmeriCorps National Civilian Community Corps (NCCC)
- State Service Commission Support Grants
- Senior Corps – RSVP, Foster Grandparents Program, and Senior Companion Program
- Volunteer Generation Fund
- Days of Service – Martin Luther King Jr. National Day of Service and September 11th National Day of Service and Remembrance
- Research and Evaluation.

Fiscal Year 2017 Accomplishments ²

In Fiscal Year (FY) 2017, CNCS continued to provide targeted, critical support through its national network of State Service Commissions, grantees, partners, and members to deliver vital services to individuals and communities throughout the country. CNCS's investment led to significant accomplishments in the agency's priority focus areas. A partial sample of these accomplishments is listed below, grouped by the agency's major goals.

Goal: Increase the impact of national service on community needs in communities served by CNCS-supported programs.

- Supported an estimated 72,000 AmeriCorps members and 232,000 Senior Corps positions to carry out results-driven service in the agency's statutory focus areas of disaster services, economic opportunity, education, environmental stewardship, healthy futures, and veterans and military families.
- Supported millions of youth through teaching, tutoring, mentoring, and after-school programs, helping more than 540,000 students demonstrate improved academic achievement in literacy and math. More than 88,000 Senior Corps and AmeriCorps members serve in nearly 12,000 schools, including 1 of 4 low-performing schools and more than 720 charter schools. Rigorous independent evaluations have demonstrated the positive impact of national service on early childhood education, third-

¹ CNCS also continues to manage funds previously awarded through the Social Innovation Fund, which did not receive an appropriation in FY17.

² All AmeriCorps and Senior Corps data is estimated. Final information will be available in the second quarter of FY 2018. Service and result estimates are approximately equal to prior year levels.

grade literacy, college access, and other key measures of educational success.³

- Provided independent living assistance to more than 350,000 adults – primarily frail seniors – helping them to live with dignity in their homes instead of more costly institutional care.
- Deployed more than 2,000 AmeriCorps and Senior Corps members who provided vital support to Americans affected by hurricanes Harvey, Irma, and Maria. Working with FEMA and local partners, members provided a range of services including blue roof tarping, debris removal, muck and gut operations, damage assessments, volunteer and donation management, and disaster survivor assistance. Over the last five years, CNCS programs have responded to more than 200 disasters including floods, fires, hurricanes, and tornadoes affecting millions of Americans.
- Significantly increased agency investment in opioid abuse prevention, education, and recovery programs by allocating \$10.5 million to support 96 opioids projects in more than 160 communities in 45 states. This investment supports 1,200 new Senior Corps and AmeriCorps members serving with nonprofits, police departments, and local agencies to prevent and reduce opioid abuse.
- Continued to support health, education, and other initiatives for military service members, veterans, and their families. AmeriCorps and Senior Corps members provided our service heroes and their families with employment services, benefits counseling, transportation to medical appointments, and more. More than 23,000 veterans serve in CNCS programs, applying the skills they gained in the military to address problems on the homefront.
- Partnered with mayors, police departments, and local nonprofits to reduce crime, rebuild housing, remove blight, and expand economic opportunity for individuals and families living in urban areas. For example, the AmeriCorps Urban Safety Corps worked with the Detroit Police Department (DPD) and residents in high-crime areas to board up vacant homes, create safe routes to schools, conduct home safety audits, and carry out neighborhood watch patrols. According to the DPD, in neighborhoods where AmeriCorps members served, crime declined by 26 percent and saved an estimated \$302 million in law enforcement costs.⁴

³ https://www.nationalservice.gov/sites/default/files/documents/Impact_Evaluation_MRC.pdf

⁴ <https://www.nationalservice.gov/urban-safety-program>

- Continued national Call to Service initiatives which engaged hundreds of thousands of Americans in projects on the Dr. Martin Luther King Jr. Day of Service and the September 11th National Day of Service and Remembrance, with many focused on supporting veterans, soldiers, and military families.

Goal: Strengthen national service so that participants engaged in CNCS-supported programs consistently find opportunity, satisfaction, and meaning.

- Continued to strengthen AmeriCorps as a pathway to employment and closing the skills gap. While there are six million job openings in the United States today -- the highest number in history - many of these jobs go unfilled because of a mismatch between available positions and prospective employees' job skills.
- National service is a proven pathway to employment that helps close the skills gap in high demand sectors including teaching, health services, IT, construction, and nonprofit. Similar to an apprenticeship, AmeriCorps members earn while they learn, gaining valuable career skills and experience to prepare them for work. The skills they gain are both specific to their service (construction, teaching, STEM, firefighting) and general skills of leadership, creativity, and problem-solving that all employers look for. This pathway is especially critical for low-income young adults facing the toughest prospects for employment. Eighty percent of alumni say AmeriCorps benefited their career path, and 42 percent of alumni employed within six months of service found a job through AmeriCorps.⁵ New research shows that national service helps create new jobs. Preliminary findings from an Arizona State University study found that 82.7 percent of AmeriCorps host organizations hired at least one AmeriCorps member.⁶ The positions are typically full-time, and more than half the jobs are newly created.
- Expanded the number of Employers of National Service, an initiative to recognize the valuable skills and experience gained by AmeriCorps and Peace Corps alumni and provide opportunities for them to apply their skills in the workplace. Employers of National Service connects national service alumni with leading employers to create recruitment, hiring, and advancement opportunities. More than 500 companies, nonprofits, and public agencies representing 2.4 million jobs have signed on as Employers of National Service, including Disney, Comcast, CSX, Sodexo, Accenture, Delta Airlines, New York City, and the states of Montana and Virginia.

⁵ https://www.nationalservice.gov/sites/default/files/evidenceexchange/FR_AmeriCorpsAlumniOutcomesFinalTechReport.pdf

⁶ https://www.nationalservice.gov/sites/default/files/evidenceexchange/FR_2017%20State%20of%20the%20Evidence%20Report_0.pdf

- Demonstrated the physical and mental health benefits of Senior Corps. Contributing to the belief that volunteering has health benefits, CNCS released preliminary results of two longitudinal studies to assess the impact of service on Foster Grandparent and Senior Companion volunteers and the caregivers of Senior Companion clients.⁷ The Senior Corps volunteer study showed that just after one year of service:
 - Nearly half of Senior Corps volunteers (46 percent) reported improved health and well-being, and more than one-third who initially reported they were in good health reported improved health at the end of the one-year period
 - Almost two-thirds of Senior Corps volunteers (63 percent) reported a decrease in feelings of isolation and 67 percent of those who first reported they “often” lack companionship reported improved social connections.
 - Seventy percent of Senior Corps volunteers who initially reported five or more symptoms of depression reported fewer symptoms at the end of the first year of service, and 63 percent of volunteers who initially reported three or four symptoms of depression also report fewer symptoms.

Goal: Maximize the value we add to grantees, partners, and participants.

- Through the funding of AmeriCorps programs across the nation, CNCS established an infrastructure that recruited and managed millions of community volunteers to multiply the impact of national service participants and strengthened nonprofit and faith-based organizations across the country. AmeriCorps VISTA members raised an estimated \$178 million in cash and in-kind resources in support of anti-poverty programs, nearly doubling every federal dollar invested. In addition, initial findings from twelve in-depth case analyses show that VISTA members build the capacity of organizations to serve communities, even within their first year of service. For example, VISTA members developed systems for increasing organizational efficiency, engaged in outreach and partnership development to expand the organization’s reach, and generated resources such as funding, volunteers, and in-kind donations.
- In addition to strengthening the capacity of organizations, there is compelling new evidence that national service contributes to the nation’s civic health.⁸ A team of researchers at the University of Texas at Austin developed two new county-level measures; one for civic engagement and one for subjective well-being. Statistical models were used to analyze

⁷ <https://www.nationalservice.gov/programs/senior-corps/senior-corps-and-health-benefits>

⁸ <https://www.nationalservice.gov/impact-our-nation/evidence-exchange/2017SOE>

these datasets to test whether or not national service programs strengthen the overall health of communities across the United States. This team of researchers found that the presence of AmeriCorps programs from 2005–2010 is significantly associated with levels of subjective well-being. More specifically, the AmeriCorps programming within a community buffers those communities so that citizens report fewer negative aspects of subjective well-being such as disengagement or negative relationships. The study also found that the presence of a VISTA member predicts increased civic engagement at the county level.

- Provided State Service Commissions with Commission Investment Funds to expand their capacity to improve service delivery by forging new partnerships, offering training and technical assistance to grantees, strengthening compliance, building evaluation capacity, and developing new skills and knowledge to increase community impact.
- Awarded Program Development grants to 22 State Commissions to support the development of AmeriCorps programs addressing the opioid and prescription drug abuse crisis and public safety in local communities.
- Strengthened the volunteer management practices of more than 600 organizations and supported recruitment of more than 250,000 volunteers through Volunteer Generation Fund grants to State Service Commissions. In FY 2017, CNCS awarded 15 new Volunteer Generation Fund grants to State Service Commissions, supporting effective approaches that expand the capacity of volunteer connector organizations to recruit, manage, support and retain individuals to serve in high quality volunteer assignments.
- Continued to develop a knowledge and evidence base to support the agency's mission, programs, and strategic goals through rigorous program evaluation and research initiatives. CNCS's emphasis on evaluation is aligned with federal guidance on the importance of using evidence and rigorous evaluation in budget, management, and policy decisions. Implementing a robust research and evaluation agenda is critical to the agency's ability to achieve and communicate the value that national service brings to communities across the country. All CNCS programs incorporated evidence and evaluation into their grant making practices and operational procedures.
- Strengthened relationships with governors, mayors, county, and tribal elected officials across the country. These officials are important partners in identifying local needs and ensuring national service resources are effectively meeting those needs. More than 4,520 mayors and county leaders representing 194 million Americans participated in the 2017 Mayor, County, and Tribal Recognition Day for National Service.

Goal: Fortify management operations and sustain a capable, responsive, and accountable organization.

- Continued to develop and strengthen the agency's Enterprise Risk Management framework.
- Continued to strengthen the agency's Internal Controls with a specific focus on grant monitoring and Information Technology assessment.
- Completed important project milestones for CNCS's new grants and member management system which will provide enhanced usability to the CNCS service community.

More agency and program impacts can be found at <https://www.nationalservice.gov/impact-our-nation>. The remainder of this report will highlight CNCS's payment integrity, financial management activities, and related information.

**Assessment of Internal Controls, Management Assurances Under FMFIA,
and Management Certification of Compliance Regarding National Service
Trust**



Assessment of Internal Controls

Section 306 of the Chief Financial Officers Act (CFO Act) established a reporting requirement related to the internal controls for corporations covered by the Government Corporation Control Act (GCCA), including CNCS. These corporations must submit an annual management report to the Congress that includes a statement by the CEO consistent with the requirement of the Federal Managers' Financial Integrity Act (FMFIA). The FMFIA requires federal agencies to annually evaluate and assert on the effectiveness and efficiency of their internal control and financial management systems. Agency heads must annually provide a statement on whether there is reasonable assurance that the agency's internal controls are achieving their intended objectives and the agency's financial management systems conform to government-wide requirements. Section 2 of FMFIA outlines compliance with internal control requirements, while Section 4 dictates conformance with systems requirements. Additionally, agencies must report on any identified material weaknesses and provide a plan and schedule for correcting the weaknesses.

In September 2014, the U.S. Government Accountability Office (GAO) released an updated edition of its Standards of Internal Control in the Federal Government, effective FY 2016. The document includes several new principles and priorities, including a focus on a framework for Enterprise Risk Management (ERM). In July 2016, OMB release an updated version of Circular A-123, titled *Management's Responsibility for Enterprise Risk Management and Internal Control*. The new Circular complements GAO's Standards, implements requirements of the FMFIA with the intent to improve accountability in federal programs and increase federal agencies' consideration of ERM. CNCS made improvements in its Internal Controls program consistent with GAO's Standards of Internal Control and OMB Circular A-123.

CNCS is in the process of continually assessing the effectiveness of its internal control system. In assessing the design, implementation and operating effectiveness of its internal controls, CNCS has identified a total of 18 key business processes. During FY 2016, CNCS completed an assessment of the most pervasive of those cycles (Entity Level Controls) and concluded that CNCS's controls were effective, with no significant deficiencies or material weakness being identified.¹ Of the 17 remaining cycles, the two that encompass the greatest part of CNCS's obligations are the Grants Life Cycle and the Procurement Processes, totaling approximately 79% of CNCS's total Operating Expense and Salaries and Expenses FY 2017 appropriations. For FY 2017 testing CNCS identified these as high-risk cycles, performed full evaluations of those two

¹ CNCS has identified Entity Level Controls as a medium risk cycle and therefore conducts its control assessments on a rotating two-year cycle.

business cycles and concluded that CNCS's controls were effective, with no significant deficiencies or material weakness being identified. In FY 2018 and beyond, CNCS will continue its process of implementing a robust, risk-based internal controls assessment program of all of its business processes.

Consistent with Section IV.B of OMB Circular A-123, and for many years, CNCS has been able to rely upon the work of its independent auditors as key evidence that its internal controls were operating effectively. This year, CNCS's new auditor identified four conditions as material weaknesses: Financial Reporting, Unpaid Obligations within the National Service Trust, the National Service Trust Award Liability, and Grant Accrual and Advances. In general, CNCS does not concur with all of the auditor's findings in these areas. In particular, CNCS believes that its auditors have an erroneous view of CNCS's statutory authorities regarding the National Service Trust (which leads directly to the auditors' conclusions regarding the reporting of unpaid obligations and the overall liability of the Trust). Moreover, the auditor's findings regarding the Trust do not call into question CNCS's safeguarding of taxpayer funds. In fact, the auditor's views are that CNCS has been too aggressive in ensuring that the National Service Trust has sufficient resources to meet its future outlays. Further, the findings in regard to financial reporting and grant accrual are almost exclusively concerns about how CNCS summarizes and reports the financial results of its operations. Those findings do not call into question how CNCS conducts its core business operations. Therefore, CNCS is not able to rely upon the results of its FY 2017 audit in providing assurances in regard to its internal controls.

Management Assurances Under FMFIA

CNCS management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act. CNCS conducted its assessment of risk and internal control in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of its assessments, CNCS can provide reasonable assurance that internal control over operations, reporting, and compliance in the areas of entity level controls, grants operations, procurement were operating effectively as of September 30, 2017. Because of the limitations discussed above, CNCS is unable to provide assurance that the balance of its internal control over operations, reporting, and compliance were operating effectively. CNCS remains committed to improving its operations, reporting and compliance. CNCS also maintains its strong commitment to improving its Internal Controls Program, building on the significant progress made in FY 2017 under the leadership of the Chief Risk Officer. Together, these actions will enable CNCS to resume providing unmodified assurances on the effectiveness of its internal controls.

Management Certification of Compliance Regarding National Service Trust

Section 149(a)(3) of the National and Community Service Act of 1990 (NCSA), as amended by the Edward M. Kennedy Serve America Act (PL 111-13), establishes the specific criteria for timing and recording obligations in the National Service Trust. Section 149(a)(3) of the NCSA requires the Chief Executive Officer of CNCS to

annually certify that CNCS is in compliance with the requirements of the NCSA with regard to the timing and recording of obligations within the Trust.

Based on CNCS' analysis and review of its National Service Trust activities, CNCS certifies that for FY 2017 it complied with the requirements for recording National Service Trust Obligations as described in section 149(a)(1) of the NCSA.



Acting Chief Executive Officer

Understanding the Financial Statements

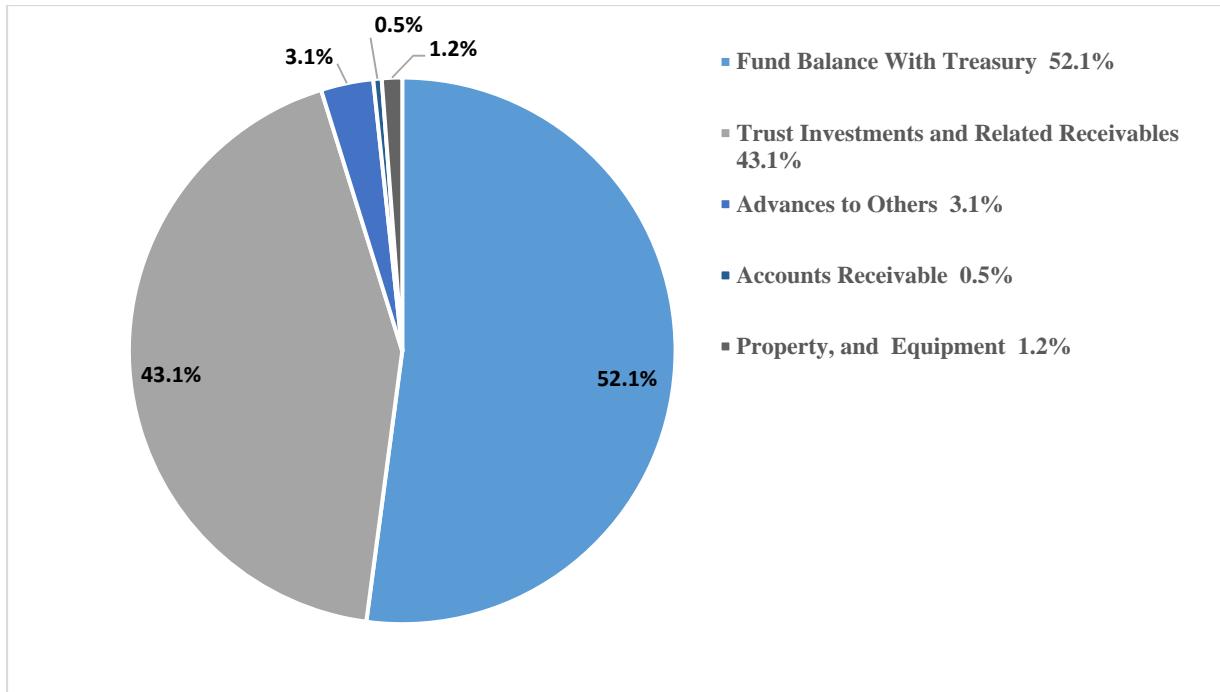
The Corporation for National and Community Service's (CNCS) consolidated financial statements outline its financial position, results of operations, cash flows, and budgetary resources, as required by the Government Corporation Control Act (GCCA) and Executive Order 13331, National and Community Service Programs. The Act requires government corporations to submit an annual report including the corporation's financial statements to Congress. As specified in the Act, the principal financial statements of CNCS are the:

- Statement of Financial Position (balance sheet), which reports the status of CNCS assets, liabilities, and net position
- Statement of Operations and Changes in Net Position (income statement), which reports CNCS's revenues and expenses for the year and the changes in net position that occurred during the year
- Statement of Cash Flows, which shows how changes in CNCS's financial position and results affected its cash (Fund Balance with Treasury), and presents analysis of operating, investing, and financing activities.

In addition, under the requirements of Executive Order 13331, CNCS prepares a Statement of Budgetary Resources (SBR) as a principal financial statement. The SBR provides information about the budgetary resources made available to CNCS and the status of those resources at the end of the fiscal year. CNCS's financial statements provide comparative information for Fiscal Year (FY) 2017 and 2016.

Composition of CNCS's Assets and Liabilities

Figure I CNCS's Assets as of September 30, 2017



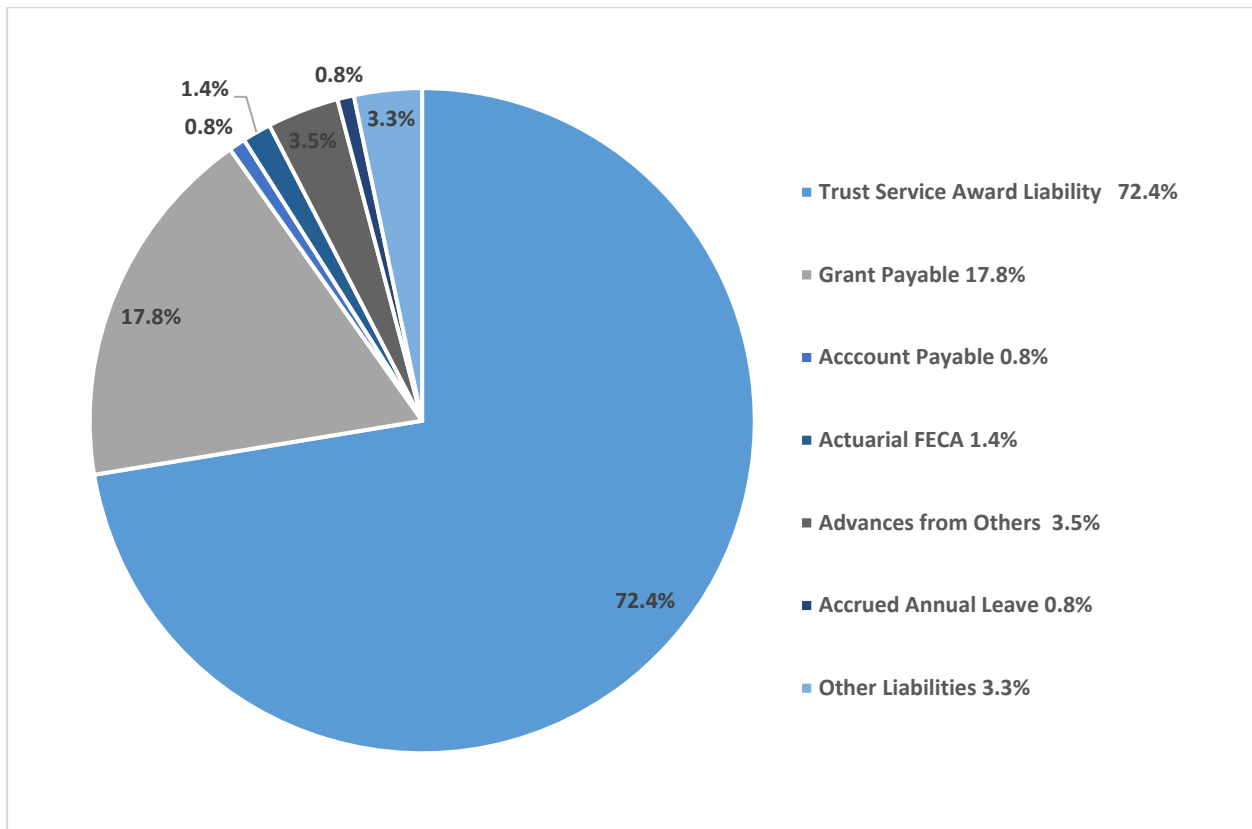
The Statement of Financial Position provides an overview of CNCS's financial position at the certain point in time. The fiscal year end statement displays the current and the future economic benefits owed or available for use (assets) and amounts owed (liabilities) and the residual amount (net position) at September 30th. In **Figure I**, the pie chart displays the FY 2017 assets by the asset classes aligned with the percentages of the total assets.

CNCS reported on its Statement of Financial Position total assets of \$2.0 billion at the end of FY 2017. The amount aforementioned above represents an increase of \$61.1 million (3.1 percent) over the FY 2016 total assets of \$ 1.9 million. The change is primarily due to \$44.2 million increase in Investments and Related Receivables and 10.7 million increase in Property and Equipment.

Fund Balance with Treasury (FBWT) is the largest asset class, representing 52.1% of the total asset. The FBWT equaled to \$1.0 billion for FY2017 and FY 2017, \$3.0 million change from FY 2016. The FBWT is increased through appropriations, transfers, recoveries, receipts and collections and decreased by expenditures and/or rescissions. CNCS is authorized to use FBWT to make expenditures for authorized expenses resulting from operational activity.

Investments and Related Receivables is second largest asset class, representing 43.1% percent of the total assets. Funding for the Trust investments comes from appropriations, interest earned, sponsorships, and proceeds from the sale or redemption of investments. Investments and Related Receivables are used to pay Education Awards for eligible participants who complete AmeriCorps service.

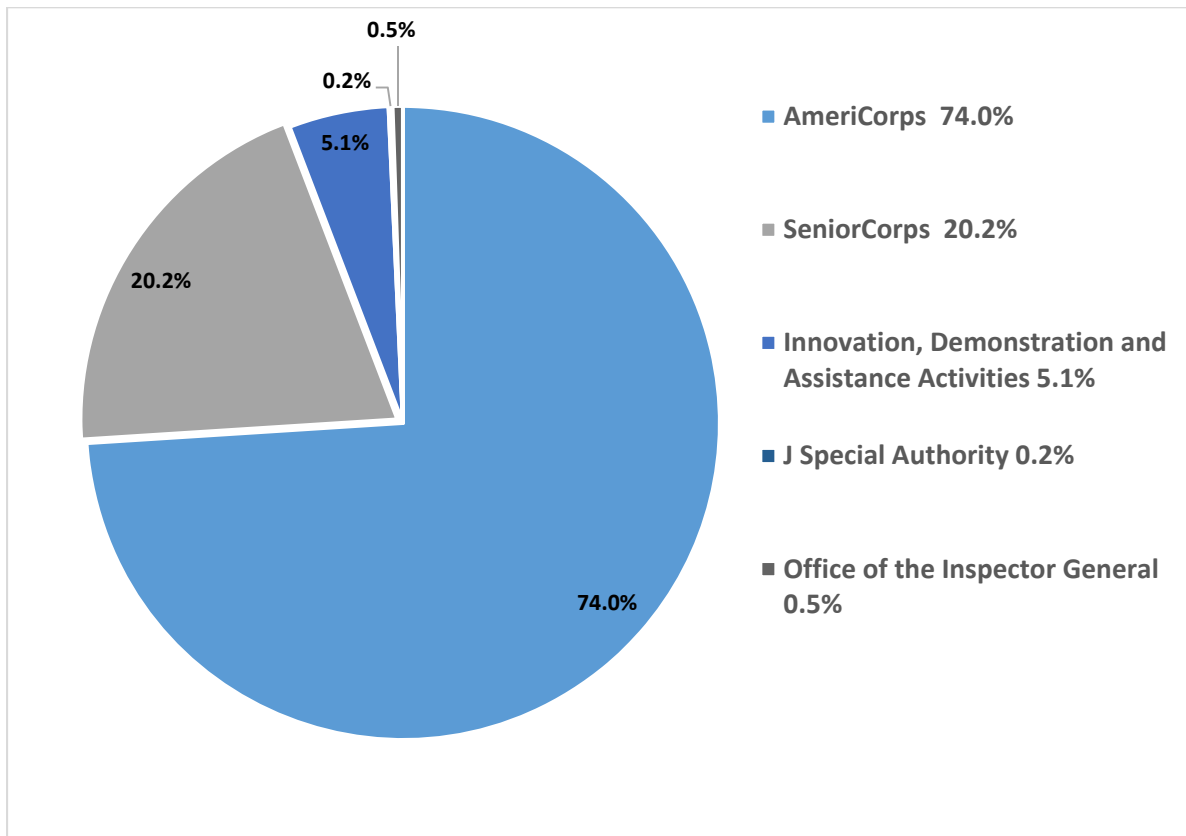
Figure II CNCS’s Liabilities as of September 30, 2017



As of September 30, 2017, CNCS total liabilities amounted to \$535.5 million, \$ 21.2 million decrease from the FY 2016. In **Figure II**, the chart displays the FY 2017 liabilities classes and percentages of the total liabilities. The major change in liabilities composed of a significant decrease in Trust Service Award Liability of \$ 8.2 million due to a revised statistical methods. In FY 2017, the Trust Service Award Liability amounted to 72.4 % of the Total Liabilities. The Trust Service Award Liability consisted of estimates of unpaid earned and expected to earned education award and interest forbearance costs that are likely to be paid.

In addition, Grants Payable represents funds due to grantees in payment of their performance under a grant. Grants Payable amounted to \$95.2 million, 17.8% of the FY 17 total liabilities. This liability decreased by 5.4% compared to the FY 2016 balance of \$ 100.7 million.

Figure III CNCS's Expenses for the Period Ended September 30, 2017



Results of Operations

The Statement of Operations and Changes in Net Position presents revenue earned by CNCS (primarily appropriations) and the annual cost of operating CNCS programs. CNCS recognizes its use of appropriated capital as revenue at the time it is expended or accrued to pay program or administrative expenses. Appropriations received for the Trust are recognized as revenue when received. In FY 2016, CNCS used a revised cost accounting methodology to allocate the expenses allocated among its major programs, at the sub-program level. Costs for each major CNCS program are reported separately. Program costs include grant expenses and direct and allocated personnel and administrative costs, including AmeriCorps recruitment and Trust operations. In **Figure III**, the pie chart displays the FY 2017 expenses by the major programs aligned with the percentages of the total program expenses.

For FY 2017, CNCS's Total revenue totaled \$1.1 billion, an increase of \$ 38.0 million, or 3.5%, from FY 2016. Total expenses reported for FY 2017 totaled \$ 986.9 million, which represents a decrease of \$ 28.7 million, or 3.0 %, from FY 2016. CNCS's net revenue

over expenses for FY 2017 was \$ 68.1 million, which is a decrease of 66.7 million compared to FY 2016.

Budgetary Resources

The Statement of Budgetary Resources provides information on how budgetary resources were made available to CNCS for the year and the status of those budgetary resources at year-end.

Limitations of the Financial Statements

The principal financial statements have been prepared in compliance with the reporting requirements described above. CNCS's financial statements published herein are in addition to the financial reports it uses to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. An implication of this is that liabilities cannot be liquidated without legislation that provides the resources to do so.

Section II: Financial Section

Message from the Chief Financial Officer

Corporation for National and Community Service

NationalService.gov



Message from the Chief Financial Officer

The Corporation for National and Community Service improves lives, strengthens communities, and fosters civic engagement through service and volunteering. To accomplish this mission we rely on millions of dedicated Americans who serve across the nation. Agency-supported volunteers help our neighbors prepare for new economic opportunities, live with dignity in their own homes as they age, and recover from natural disasters.

We are proud to help lead this service. And we remain committed to working with our partners to ensure taxpayer resources are used appropriately. To this end, we partner closely with our OIG to resolve any concerns, such as those raised in this year's Independent Auditor's Report. For FY 2017 this report identified four material weaknesses, with which we do not wholly agree. Additional related details can be found later in our Management Response section.

During FY 2017, in addition to providing sound financial management, we continued to make significant progress on our operational priorities. For example, we completed key project milestones, including preliminary testing, necessary to launch our new grants and member management system. When implemented, it will significantly improve user experience by modernizing the previous system's interface and introducing new grant lifecycle management functionality such as a streamlined application process. .

This past fiscal year we also completed milestones that will allow us to prioritize and manage the uncertainty associated with achieving our agency objectives. Progress included the implementation of an agency-wide risk register, which identified six priority risks related to CNCS's reputation, organizational structure, enterprise view, grant making requirements, strategic alignment, and general decision making. These risks will inform agency resource alignment in upcoming years. And, they will help inform our ongoing efforts to develop a grants monitoring approach based primarily on the most relevant factors that influence success.

In closing, I would like to recognize all of the staff who made our success possible. You ensure we deliver the right resources to the right people at the right time. Our teams monitor funds, purchase critical services, and yes, keep the lights on. Without your dedication and hard work, we would not be able to get things done for America. Thank you.

A handwritten signature in black ink, appearing to read 'R.T. McCarty'.

Robert McCarty

Financial Statements and Footnotes

Consolidated Financial Statements

Corporation for National and Community Service
Consolidated Statements of Financial Position
As of September 30, 2017 and 2016
(Dollars in Thousands)

| | 2017 | 2016 |
|----------------------------------------------|---------------------|---------------------|
| | Unaudited | |
| Assets | | |
| Fund Balance with Treasury (Note 2) | \$ 1,047,393 | \$ 1,044,413 |
| Cash and Other Monetary Assets | 118 | - |
| Investments and Related Receivables (Note 3) | 866,834 | 822,652 |
| Advances to Others | 62,559 | 59,488 |
| Accounts Receivable, Net (Note 4) | 9,577 | 9,559 |
| Property and Equipment, Net (Note 5) | 24,356 | 13,638 |
| Total Assets | \$ 2,010,837 | \$ 1,949,750 |
| Liabilities | | |
| Trust Service Award Liability (Note 6) | \$ 388,134 | \$ 396,344 |
| Grants Payable | 95,228 | 100,664 |
| Accounts Payable | 4,113 | 8,250 |
| Actuarial FECA Liability (Note 8) | 7,328 | 7,573 |
| Advances from Others (Note 9) | 18,752 | 23,507 |
| Accrued Annual Leave | 4,112 | 4,130 |
| Other Liabilities (Note 10) | 17,822 | 16,200 |
| Total Liabilities | \$ 535,489 | \$ 556,668 |
| Contingencies (Note 16) | | |
| Net Position | | |
| Unexpended Appropriation | \$ 970,315 | 956,173 |
| Cumulative Results of Operations | 505,033 | 436,909 |
| Total Net Position (Note 11) | \$ 1,475,348 | \$ 1,393,082 |
| Total Liabilities and Net Position | \$ 2,010,837 | \$ 1,949,750 |

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

Corporation for National and Community Service
Consolidated Statements of Operations and Changes in Net Position
For the Periods Ended September 30, 2017 and 2016
(Dollars in Thousands)

| | 2017 | 2016 |
|-----------------------------------------------------------------|---------------------|---------------------|
| | Unaudited | |
| Revenue | | |
| Appropriated Capital Used | \$ 777,731 | \$ 794,222 |
| Appropriations Received by the National Service Trust (Note 12) | 215,985 | 241,352 |
| Interest | 6,726 | 3,964 |
| Revenue from Services Provided | 41,176 | 39,605 |
| Other | 13,441 | 13,893 |
| Total Revenue | \$ 1,055,059 | \$ 1,093,036 |
| Expenses | | |
| AmeriCorps | \$ 729,967 | \$ 682,390 |
| SeniorCorps | 199,581 | 211,217 |
| Innovation, Demonstration and Assistance Activities | 50,517 | 59,620 |
| J Special Authority | 1,803 | - |
| Office of the Inspector General | 5,067 | 4,964 |
| Total Expenses (Note 13) | 986,935 | 958,191 |
| Net of Revenue Over Expenses | \$ 68,124 | \$ 134,845 |
| Net Position | | |
| Net of Revenue Over Expenses | \$ 68,124 | \$ 134,845 |
| Increase/(Decrease) in Unexpended Appropriations, Net (Note 15) | 14,142 | 40,741 |
| Increase/Decrease in Net Position, Net | 82,266 | 175,586 |
| Cummulative Beginning Balance | 436,909 | 302,063 |
| Net Position, Beginning Balance | 1,393,082 | 1,217,496 |
| Net Position, Ending Balance (Note 11) | \$ 1,475,348 | \$ 1,393,082 |

Corporation for National and Community Service
National Service Trust Fund Statements of Cash Flows
For the Periods Ended September 30
(Dollars in Thousands)

| | 2017 | 2016 |
|--------------------------------------------------------------|-------------------------------|-------------------------------|
| | Unaudited | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net of Revenue Over Expenses | \$ <u>58,239</u> | \$ <u>125,280</u> |
| Adjustments Affecting Cash Flow: | | |
| Amortization of Premium/Discount on Investments | (719) | (197) |
| Appropriations Received in Trust | (215,985) | (241,352) |
| Decrease/(Increase) in Accounts Receivable | 47 | 61 |
| Decrease/(Increase) in Interest Receivable | (769) | (305) |
| Increase/(Decrease) in Trust Liability | <u>(8,209)</u> | <u>(58,546)</u> |
| Total Adjustments | <u>(225,635)</u> | <u>(300,339)</u> |
| Net Cash Provided/(Used) by Operating Activities | (167,396) | (175,059) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Sale of Securities | 1,286,762 | 1,129,620 |
| Purchase of Securities | <u>(1,329,457)</u> | <u>(1,200,306)</u> |
| Net Cash Provided/(Used) in Investing Activities | (42,695) | (70,686) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Appropriations Received, Net of Trust | <u>215,985</u> | <u>241,352</u> |
| Net Cash Provided by Financing Activities | 215,985 | 241,352 |
| Net Increase/(Decrease) in Fund Balance with Treasury | 5,894 | (4,393) |
| Fund Balance with Treasury, Beginning | <u>4,027</u> | <u>8,420</u> |
| Fund Balance with Treasury, Ending (Note 2) | <u><u>\$ 9,921</u></u> | <u><u>\$ 4,027</u></u> |

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

Corporation for National and Community Service
Combined Statements of Budgetary Resources
For the Periods Ended September 30, 2017 and 2016
(Dollars in Thousands)

| | 2017 | 2016 |
|------------------------------------------------------------------------------|---------------------|---------------------|
| | Unaudited | |
| Budgetary Resources | | |
| Unobligated, balance brought forward, October 1 | \$ 291,787 | \$ 230,979 |
| Recoveries of unpaid prior year obligations | 37,663 | 36,354 |
| Other changes in unobligated balance | (22,496) | (19,032) |
| Unobligated balance from prior year budget authority, net | 306,954 | 248,301 |
| | | |
| Appropriation Discretionary | 1,030,358 | 1,095,916 |
| Appropriation (special or trust funds) | 216,204 | 241,369 |
| Appropriation Discretionary (total) | 1,246,562 | 1,337,285 |
| Appropriation Mandatory (special or trust funds) | 5,211 | 3,461 |
| Appropriations (discretionary and mandatory) | 1,251,773 | 1,340,746 |
| Spending authority from offsetting collections (discretionary and mandatory) | 39,619 | 42,725 |
| Total Budgetary Resources | \$ 1,598,346 | \$ 1,631,772 |
| Status of Budgetary Resources | | |
| New obligations and upward adjustments (Note 19) | \$ 1,297,144 | \$ 1,339,985 |
| | | |
| Unobligated balance, end of year: | | |
| Apportioned, unexpired accounts (Note 2) | 214,427 | 221,756 |
| Unapportioned, unexpired accounts (Note 2) | 2,091 | 4 |
| Unexpired unobligated balance, end of year | 216,518 | 221,760 |
| Expired unobligated balance, end of year (Note 2) | 84,684 | 70,027 |
| Total unobligated balance, end of year | 301,202 | 291,787 |
| Total Budgetary Resources | \$ 1,598,346 | \$ 1,631,772 |
| Change in obligated balance | | |
| Unpaid obligations: | | |
| Unpaid obligations, brought forward, October 1 | \$ 1,577,151 | \$ 1,523,813 |
| New obligations and upward adjustments | 1,297,144 | 1,339,985 |
| Outlays (gross) | (1,223,121) | (1,250,293) |
| Recoveries of prior year unpaid obligations, actual | (37,663) | (36,354) |
| Unpaid Obligations, end of year | 1,613,511 | 1,577,151 |
| Uncollected payments: | | |
| Uncollected payments, Federal sources, brought forward, October 1 | (5,608) | (2,042) |
| Change in uncollected payments, Federal sources | (354) | (3,566) |
| Uncollected payments, Federal sources, end of year | (5,962) | (5,608) |
| Memorandum (non-add) entries: | | |
| Obligated balance, start of year | \$ 1,571,543 | \$ 1,521,771 |
| Obligated balance, end of year (Note 2) | \$ 1,607,549 | \$ 1,571,543 |
| Budget Authority and Outlays, net | | |
| Budgetary authority, gross (discretionary and mandatory) | \$ 1,291,392 | \$ 1,383,471 |
| Actual offsetting collections (discretionary and mandatory) | (39,271) | (39,728) |
| Change in uncollected payments, Federal sources | (354) | (3,566) |
| Recoveries of paid prior year obligations | 6 | 569 |
| Budget authority, net (discretionary and mandatory) | \$ 1,251,773 | \$ 1,340,746 |
| | | |
| Outlays, gross (discretionary and mandatory) | \$ 1,223,121 | \$ 1,250,293 |
| Actual offsetting collections (discretionary and mandatory) | (39,271) | (39,728) |
| Outlays, net (discretionary and mandatory) | 1,183,850 | 1,210,565 |
| Distributed offsetting receipts | (218,202) | (242,772) |
| Agency Outlays, net (discretionary and mandatory) | \$ 965,648 | \$ 967,793 |

Footnotes for Consolidated Financial Statements

NOTE 1—Summary of Significant Accounting Policies

A. REPORTING ENTITY

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 municipalities, 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:

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.

CNCS, for the most part, administered its programs in FY 2017 from the following funds:

Trust and Gift Funds:

- National Service Trust (Trust), from which CNCS provided education awards and interest forbearance for volunteers under the AmeriCorps members.
- Gifts and Contributions, into which CNCS deposited qualified gifts and contributions from individuals and organizations from which approved expenditures are made furthering CNCS's goals.

Appropriated Funds:

- Operating Expenses, from which CNCS funded Senior Corps, AmeriCorps, and other program activities
- Salaries and Expenses, from which CNCS funded its general administrative expenses.
- Office of Inspector General (OIG), from which CNCS funded the expenses of the Office of Inspector General.
- AmeriCorps VISTA Advance Payment Revolving Fund, from which sponsor paid the living allowances for AmeriCorps VISTA members enrolled under cost share

agreements with sponsoring organizations. CNCS is reimbursed for these costs by the sponsoring organization. Despite the account title, the AmeriCorps VISTA Advance Payment Revolving Fund is not a revolving fund, but rather a general fund expenditure account.

On February 17, 2009, the President signed into law the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Recovery Act included funding for the use of CNCS to support an expansion of the AmeriCorps State and National and VISTA programs. As a result of the passage of the Recovery Act, three additional appropriated funds were established. The only remaining fund from the Recovery Act in Fiscal Year 2017 is the “OIG, Recovery Act,” from which CNCS funded the expenses of the OIG’s Recovery Act oversight responsibilities.

B. BASIS OF ACCOUNTING

The accompanying financial statements include all funds administered by CNCS, as delineated in Note 1A—Reporting Entity. They include CNCS’s activities related to providing grants and other assistance to eligible states, local governments, and nonprofit organizations as well as education awards to eligible national service participants. All significant intra-entity transactions and balances are eliminated in consolidation.

C. FINANCIAL STATEMENT PRESENTATION AND CONSOLIDATION POLICY

The accompanying financial statements report CNCS’s financial position, results of operations, and cash flows, as required by the Government Corporation Control Act (GCCA). As required by GCCA, the principal financial statements of CNCS are the:

- Statement of Financial Position, which reports the status of CNCS’s assets, liabilities, and net position;
- Statement of Operations and Changes in Net Position, which reports CNCS’s revenues and expenses for the year and the changes in net position that occurred during the year; and
- Statement of Cash Flows, which shows how changes in CNCS’s financial position and results affected its cash (Fund Balance with Treasury), and present the analysis of operating, investing, and financing activities.

The financial statements are presented in accordance with the accounting principles generally accepted in the United States of America (GAAP), as applicable to federal government corporations. The Federal Accounting Standards Advisory Board (FASAB) is the standard setting body for the federal government. Statement of Federal Financial Accounting Standards Number 34 (SFFAS 34) provides that financial statements prepared by certain government corporations in conformity with the accounting standards issued by the Financial Accounting Standards Board (FASB) are regarded as being in conformity with GAAP. As provided by SFFAS 34, where there is no standard issued by FASB applicable to the federal corporation the financial statements are presented in accordance with the accounting standards issued by FASAB.

In addition, under Executive Order 13331, National and Community Service Programs, CNCS must prepare a Combined Statement of Budgetary Resources as a principal statement. The accompanying Combined Statements of Budgetary Resources have been prepared in accordance with GAAP, as prescribed by FASAB. The Combined Statement of Budgetary Resources presents additional details to include activity that is significant to CNCS.

CNCS's consolidation policy requires the consolidation of all funds administered by CNCS, as delineated in Note 1A—Reporting Entity.

D. BUDGETS AND BUDGETARY ACCOUNTING

The activities of CNCS are primarily funded through the annual Departments of Labor (DOL), Health and Human Services (HHS), Education and Related Agencies Appropriation Act. CNCS's accounting structure reflects both accrual and budgetary accounting transactions. 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 legal liability, which, in many cases, is different from the recording of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal controls over the use of federal funds.

E. ASSET AND LIABILITY VALUATION

CNCS values its investments at carrying value and discloses fair value. As of September 30, 2017, the carrying amounts of Fund Balance with Treasury, Cash and Other Monetary Assets, Accounts Receivable, Advances to Others, Accrued Interest Receivable, Accounts Payable and Other Liabilities approximate their fair value.

F. FUND BALANCE WITH TREASURY

CNCS considers Fund Balance with Treasury (FBWT) to represent cash and cash equivalents. It is CNCS's cash accounts with the Department of the Treasury (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. CNCS's FBWT includes all of its appropriated, gift, and trust funds.

The FBWT maintained in the National Service Trust is restricted to specific purposes, such as paying service awards earned by 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.

G. CASH AND OTHER MONETARY ASSETS

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

H. INVESTMENTS AND RELATED RECEIVABLES

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. Interest receivable represents amounts earned, but not received on investments held at year-end. Prepaid interest is the amount of interest earned on a security since the date of its last interest payment, up to the date the security is purchased by CNCS. Such interest, if any, at year-end is included in the interest receivable balance. For additional information, see Note 3

I. CASH EQUIVALENTS

For purposes of the statement of cash flows, CNCS considers all interest-bearing Treasury securities guaranteed by the United States to be cash equivalents.

J. ADVANCES TO OTHERS

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

K. ACCOUNTS RECEIVABLE

Accounts receivable represents amounts due to CNCS primarily under federal and non-federal 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.

L. GENERAL 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 May 2016 threshold change, CNCS capitalized items with a cost of \$50 thousand or greater for all asset types.

Effective May 2016, CNCS capitalizes single items of property and equipment with a cost of \$50 thousand or more. Also, CNCS capitalizes bulk purchases of property and equipment with an aggregate cost of \$250 thousand 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 thousand 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.

Refer to Note 5, General Property and Equipment, Net for additional information.

M. TRUST SERVICE AWARD LIABILITY

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

N. 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.

O. ACCOUNTS PAYABLE

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

P. 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.

Q. 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 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 undeposited collections, and accounts payable canceled appropriations.

R. ACCRUED ANNUAL LEAVE

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

S. ADVANCES FROM OTHERS

Advances from others consist of advances from other federal agencies and the public related to interagency and cost share agreements into which CNCS entered to provide services.

T. NET POSITION

Net Position represents Net Assets. It is comprised of CNCS's unexpended appropriations and its cumulative results of operations. Unexpended appropriations reflect the balance of appropriated authority granted to CNCS against which no expenditures have been made. Cumulative results of operations represent the net differences between revenues and expenses from the inception of CNCS.

U. REVENUE RECOGNITION

Appropriation Used. CNCS recognizes its use of appropriated capital as revenue at the time it is expended or accrued to pay program or administrative expenses. Appropriations expended for property and equipment are recognized as used when the property is purchased. Appropriated capital not expended within five fiscal years after it became available for obligation is cancelled. Unpaid obligations recorded against cancelled appropriated capital are paid from currently available appropriated funds as payments become due. Appropriations received for the CNCS Trust are recognized as revenue when received in the Trust Fund. Trust appropriations do not expire with the passage of time and are retained by CNCS in the Trust until used for eligible education service award purposes.

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

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

Gifts and Donations. Revenue is recognized at the time gifts and donations are received and deposited in Treasury to the credit of the Gifts and Contributions Fund.

V. 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 remained 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.

W. INCOME TAXES

As a federal entity, CNCS is exempt from all income taxes imposed by any governing body, Federal, State, commonwealth, local, or foreign government.

X. 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.

Y. CONCENTRATION OF RISKS

Congress annually considers whether to fund CNCS's program and operational activities. Should Congress opt not to enact appropriations to fund them, CNCS would be unable to continue operations. The President's Fiscal Year 2018 Budget proposes to eliminate CNCS, as part of the Administration's plans to move the Nation towards fiscal responsibility and to redefine the proper role of the Federal Government.

NOTE 2 – Fund Balance with Treasury

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

- **Appropriated Funds** – Appropriated funds are received through congressional appropriations to provide financing sources for the CNCS’s programs on an annual, multi-year, and no-year basis.
- **Trust Funds** – Trust funds are accounts designated by law for receipts earmarked for specific purposes and for the expenditure of these receipts. Funds from the National Service Trust may be expended for the purpose of providing an education award or student loan interest forbearance payment and are made directly to a qualified institution (college, university, or other approved educational institution, or a lending institution holding an existing student loan) as designated by the participant.
- **Gift Funds** – Gift Funds are funds received from individuals and organizations as donations in furtherance of the purposes of national service laws.

| Fund Balance with Treasury as of September 30, 2017 <i>(dollars in thousands)</i> (unaudited) | | | | | |
|---------------------------------------------------------------------------------------------------------|----------------------------|------------------------|----------------------|--|----------------------------|
| Type | Unrestricted | | Restricted | | Total |
| | Appropriated Funds | Trust Funds | Gift Funds | | |
| Obligated Not Yet Disbursed | \$ 938,414 | \$ 669,082 | \$ 53 | | \$ 1,607,549 |
| Unobligated Available | 9,728 | 204,198 | 501 | | 214,427 |
| Unobligated Unavailable | 86,322 | 453 | - | | 86,775 |
| Non Budgetary FBWT | 2,454 | - | - | | 2,454 |
| Investments * | - | (863,812) | - | | (863,812) |
| Total | <u>\$ 1,036,918</u> | <u>\$ 9,921</u> | <u>\$ 554</u> | | <u>\$ 1,047,393</u> |

NOTE 2 – Fund Balance with Treasury---Continued

| Fund Balance with Treasury as of September 30, 2016 | | | | |
|------------------------------------------------------------|-------------------------------|------------------------|-----------------------|----------------------------|
| | Unrestricted | | Restricted | |
| Type | Appropriated Funds | Trust Funds | Gift Funds | Total |
| Obligated Not Yet Disbursed | \$ 945,000 | \$ 626,512 | \$ 31 | \$ 1,571,543 |
| Unobligated Available | 22,764 | 198,628 | 364 | 221,756 |
| Unobligated Unavailable | 70,027 | 4 | - | 70,031 |
| Non Budgetary FBWT | 2,200 | - | - | 2,200 |
| Investments * | - | (821,117) | - | (821,117) |
| Total | <u>\$ 1,039,991</u> | <u>\$ 4,027</u> | <u>\$ 395</u> | <u>\$ 1,044,413</u> |

* Investments include purchases, sales, premiums and discounts

NOTE 3 – Investments and Related Receivables

| Investments and Related Receivables as of September 30 <i>(dollars in thousands)</i> (unaudited) | | | |
|------------------------------------------------------------------------------------------------------------|-------------|-----------------------|--------------------------|
| | 2017 | | 2016 |
| Investments, Carrying Value | \$ | 865,272 | \$ 821,860 |
| Interest Receivable | | 1,562 | 792 |
| Total | \$ | <u>866,834</u> | \$ <u>822,652</u> |

| Amortized Cost and Fair Value of Investment Securities as of September 30, 2017 (unaudited) <i>(dollars in thousands)</i> | | | |
|-------------------------------------------------------------------------------------------------------------------------------------|--------------------------|----------------------------------|--------------------------|
| Securities | Amortized Cost | Unrealized Gains/(Losses) | Fair Value |
| Notes | \$ 677,257 | \$ (1,403) | \$ 675,855 |
| Bills | 188,015 | (7) | 180,009 |
| Total | <u>\$ 865,272</u> | <u>\$ (1,410)</u> | <u>\$ 863,864</u> |

| Amortized Cost and Fair Value of Investment Securities as of September 30, 2016 <i>(dollars in thousands)</i> | | | |
|-------------------------------------------------------------------------------------------------------------------------|-------------------------|----------------------------------|--------------------------|
| Securities | Amortized Cost | Unrealized Gains/(Losses) | Fair Value |
| Notes | \$ 541,519 | \$ 463 | \$ 541,982 |
| Bills | 280,341 | 47 | 280,388 |
| Total | <u>\$821,860</u> | <u>\$ 510</u> | <u>\$ 822,370</u> |

NOTE 3 – Investments and Related Receivables--Continued

As of September 30, 2017 (*unaudited*), the notes held at year-end had an interest rate range of 0.625% to 0.875% and an outstanding maturity period of approximately 1 day to 2.5 years. The bills held at year-end had an interest rate of 0.00% and were all due to mature within 364 days. The par values of notes range from \$.2 million to \$100.5 million. The fair value of the bills and notes is based on bid and ask prices quoted by Treasury as of September 30, 2017 and 2016.

Since FY 2003, CNCS has set aside in reserve a portion of the funds in the National Service Trust for use in the event that its estimates used to calculate obligational amounts for education awards prove to be too low. This reserve was originally required by the Strengthen AmeriCorps Program Act, and is now required by section 149(b) of the National and Community Service Act (42 U.S.C. 12606(b)). As of September 30, 2017 (*unaudited*), \$50.2 million of CNCS’s investment account has been set aside for this reserve.

| Maturation of Securities Held as of September 30 <i>(dollars in thousands)</i> | | | | |
|------------------------------------------------------------------------------------------|----------------------------|-------------------|----------------------------|-----------------------|
| Held- to- Maturity Securities | 2017 (unaudited) | | 2016 | |
| | Amortized Costs | Fair Value | Amortized Costs | Fair Value |
| Due in 1 year or less | \$ 615,196 | \$ 615,957 | \$ 721,874 | \$ 722,133 |
| Due after 1 year up to 5 years | 250,076 | 248,907 | 99,986 | 100,237 |
| Total | \$ 865,272 | \$ 863,864 | \$ 821,860 | \$ 822,370 |

NOTE 4 – Accounts Receivable, Net

| Type | Appropriated Funds | Gift Funds | Trust Funds | Total |
|---------------------------------------|------------------------|--------------------|----------------------|------------------------|
| 2017 (unaudited) | | | | |
| Accounts receivable | \$ 11,362 | \$ 6 | \$ 271 | \$ 11,639 |
| Less: allowance for doubtful accounts | (1,944) | - | (118) | (2,062) |
| Accounts Receivable, Net | <u>\$ 9,418</u> | <u>\$ 6</u> | <u>\$ 153</u> | <u>\$ 9,577</u> |
| 2016 | | | | |
| Accounts receivable | \$ 10,774 | \$ - | \$ 305 | \$ 11,079 |
| Less: allowance for doubtful accounts | (1,415) | - | (105) | (1,520) |
| Accounts Receivable, Net | <u>\$ 9,359</u> | <u>\$ -</u> | <u>\$ 200</u> | <u>\$ 9,559</u> |

NOTE 5 – Property and Equipment, Net

| General Property and Equipment as of September 30, 2017 <i>(dollars in thousands)</i> (unaudited) | | | | |
|-------------------------------------------------------------------------------------------------------------|-----------------------------|-------------------------|---------------------------------|-------------------------|
| Major Class | Service Life (Years) | Cost | Accumulated Depreciation | Net Book Value |
| Equipment | 3 – 10 | \$ 2,167 | \$ (1,377) | \$ 790 |
| ADP software in development | N/A | 23,566 | - | 23,566 |
| ADP software | 2 | 13,847 | (13,847) | - |
| Total | | <u>\$ 39,580</u> | <u>\$ (15,224)</u> | <u>\$ 24,356</u> |
| General Property and Equipment as of September 30, 2016 <i>(dollars in thousands)</i> | | | | |
| Major Class | Service Life (Years) | Cost | Accumulated Depreciation | Net Book Value |
| Equipment | 3 – 10 | \$ 4,010 | \$ (3,009) | \$ 1,001 |
| ADP software in development | N/A | 11,907 | - | 11,907 |
| ADP software | 2 | 13,847 | (13,117) | 730 |
| Total | | <u>\$ 29,764</u> | <u>\$ (16,126)</u> | <u>\$ 13,638</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.

GAAP requires the recording of a liability, which is at a point in time estimate, for the unpaid earned and expected-to-be-earned education award and interest forbearance costs that are likely to be paid. GAAP estimates are for members who have already completed at least 15 percent of the minimum service requirement and who therefore, have served enough hours to qualify for at least a partial education awards. Actual qualification for awards, however, still depends upon additional contingencies. The award liability components related to education awards and interest forbearance have been adjusted, based on historical experience, to reflect two such contingencies: (1) some members who enroll and reach the initial 15 percent threshold later do not actually qualify for an education award, and (2) other members who qualify for education awards do not use their education awards. CNCS estimates that up to 86 percent of members earning an education award will eventually use it.

Because of unique requirements related to recording of obligations in the National Service Trust, the Service Award Liability is not directly related to the required levels of obligations in the Trust. Since 2003, CNCS has been required to record obligations based on the total amount of national service positions that have the potential to result in a legal liability of the Trust, rather than actual legal liabilities. Those obligations are recorded in advance of becoming genuine liabilities because the contingent events that determine whether an individual in an authorized national service position is or is not entitled to payments from the National Service Trust are beyond the control of CNCS. The amount reported as the Service Award Liability is a subset of the amounts required to be obligated under the National and Community Service Act of 1993, as amended. That subset is based on the satisfaction of enough of the contingencies related to becoming an actual liability to allow CNCS to reasonably estimate it's total liability under GAAP. In this sense, the Service Award Liability is a reasonable estimate of what CNCS would have to disburse out of the National Service Trust if all current grant operations were to cease as of September 30, 2017, but (1) without allowing currently authorized but unfilled national service positions to be filled, and (2) without allowing individuals currently serving in national service positions who have not yet qualified for education awards to meet the minimum requirements to qualify for an award.

The Service Award was composed of the following as of September 30

| Service Award Liability as of September 30 <i>(dollars in thousands)</i> | | |
|------------------------------------------------------------------------------------|--------------------------|--------------------------|
| | (unaudited) | |
| | 2017 | 2016 |
| Education awards | 2,948,138 | \$ 2,948,138 |
| Interest forbearance | 115,179 | 112,005 |
| Total estimated Service Award Liability | 3,063,317 | 2,870,595 |
| Less: cumulative awards paid | (2,675,183) | (2,474,251) |
| Total | <u>\$ 388,134</u> | <u>\$ 396,344</u> |

The Net Service Award Liability as of September 30, 2017 decreased by approximately \$ 8.21 million (*unaudited*) from the Net Service Award Liability as of September 30, 2016.

NOTE 7 – Operating 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.

| Estimated Operating Lease Commitments as of September 30 (dollars in thousands) | | | | | | | | |
|------------------------------------------------------------------------------------|-------------------------|------------------------|------------------------|------------------------|-------------------------|------------------------|-----------------------|------------------------|
| Fiscal Year | 2017 (unaudited) | | | | 2016 | | | |
| | Facilities Space | Vehicles | Other | Total | Facilities Space | Vehicles | Other | Total |
| 2017 | | | | | 7,916 | 818 | 482 | 9,216 |
| 2018 | 8,808 | 659 | 372 | 9,839 | 8,141 | 836 | 485 | 9,462 |
| 2019 | 9,052 | 666 | 373 | 10,091 | 8,372 | 855 | 498 | 9,725 |
| 2020 | 9,304 | 672 | 364 | 10,340 | 8,611 | 874 | 506 | 9,991 |
| 2021 | 9,565 | 679 | 365 | 10,609 | 8,856 | 895 | 521 | 10,272 |
| 2022 | 9,834 | 686 | 365 | 10,885 | | | | |
| Total | <u>\$ 46,563</u> | <u>\$ 3,362</u> | <u>\$ 1,839</u> | <u>\$51,764</u> | <u>\$ 41,896</u> | <u>\$ 4,278</u> | <u>\$2,492</u> | <u>\$48,666</u> |

NOTE 8 – Actuarial FECA Liability

CNCS's actuarial liability for future workers' compensation benefits under FECA was \$7.3 million (*unaudited*) and \$ 7.6 million as of September 30, 2017 and 2016, 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 from Others as of September 30 <i>(dollars in thousands)</i> | | | |
|---------------------------------------------------------------------------------|-----------|----------------------------|----------------------|
| | | (unaudited) 2017 | 2016 |
| Advances from Others-Federal | \$ | 18,740 | \$ 23,481 |
| Advances from Others-Non-Federal | | 12 | 26 |
| Total Advances from Others | \$ | <u>18,752</u> | <u>23,507</u> |

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 as of September 30 | | | |
|---------------------------------------------|-------------------------|------------------|----------------------|
| (dollars in thousands) | | | |
| | (unaudited) | | |
| | 2017 | | 2016 |
| Accrued Funded Payroll and Benefits | \$ 2,622 | \$ | 2,669 |
| Unfunded FECA Liability | 1,819 | | 1,977 |
| Member Payroll Related Liabilities | 4,867 | | 4,341 |
| Liability for Non-Entity Assets | 4,006 | | 3,991 |
| Other | 4,508 | | 3,222 |
| Total Other Liabilities | <u>\$ 17,822</u> | <u>\$</u> | <u>16,200</u> |

NOTE 11 – Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Component balances are separately maintained for the Gift Funds, Trust Funds and Appropriated Funds.

| Net Position by Fund Balance Component as of September 30, 2017 <i>(dollars in thousands)</i> (unaudited) | | | | |
|---------------------------------------------------------------------------------------------------------------------|-------------------------------|--------------------------|-----------------------|----------------------------|
| | Appropriated Funds | Trust Funds | Gift Funds | Total |
| Unexpended appropriations | \$ 970,315 | \$ - | \$ - | \$ 970,315 |
| Cumulative results of operations | 15,725 | 488,774 | 534 | 505,033 |
| Total Net Position | <u>\$ 986,040</u> | <u>\$ 488,774</u> | <u>\$ 534</u> | <u>\$ 1,475,348</u> |

| Net Position by Fund Balance Component as of September 30, 2016 <i>(dollars in thousands)</i> | | | | |
|---------------------------------------------------------------------------------------------------------|-------------------------------|--------------------------|-----------------------|----------------------------|
| | Appropriated Funds | Trust Funds | Gift Funds | Total |
| Unexpended appropriations | \$ 956,173 | \$ - | \$ - | \$ 956,173 |
| Cumulative results of operations | 5,983 | 430,535 | 391 | 436,909 |
| Total Net Position | <u>\$ 962,156</u> | <u>\$ 430,535</u> | <u>\$ 391</u> | <u>\$ 1,393,082</u> |

CNCS is required to report information regarding its financial position according to three classes of net assets (net position): unrestricted, temporarily restricted and permanently restricted.

NOTE 11 – Net Position ---Continued

CNCS has no permanently restricted assets. The following table presents the Corporation's unrestricted and temporarily restricted net assets.

| Restrictions on Net Position as of September 30, 2017 <i>(dollars in thousands)</i> (unaudited) | | | |
|-----------------------------------------------------------------------------------------------------------|--------------------------|-------------------------------|----------------------------|
| | Unrestricted | Temporarily Restricted | Total |
| Appropriated Funds | \$ 986,040 | \$ - | \$ 986,040 |
| Trust Funds | - | 488,774 | 488,774 |
| Gift Funds | - | 534 | 534 |
| Total Net Position | <u>\$ 986,040</u> | <u>\$ 489,308</u> | <u>\$ 1,475,348</u> |

| Restrictions on Net Position as of September 30, 2016 <i>(dollars in thousands)</i> | | | |
|-----------------------------------------------------------------------------------------------|--------------------------|-------------------------------|----------------------------|
| | Unrestricted | Temporarily Restricted | Total |
| Appropriated Funds | \$ 962,156 | \$ - | \$ 962,156 |
| Trust Funds | - | 430,535 | 430,535 |
| Gift Funds | - | 391 | 391 |
| Total Net Position | <u>\$ 962,156</u> | <u>\$ 430,926</u> | <u>\$ 1,393,082</u> |

NOTE 12 – Appropriations Received by the National Service Trust

As of September 30, 2017 and 2016, the National Service Trust received \$206.8 million (*unaudited*) and \$220 million, respectively. 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 \$9.1 million (*unaudited*) and \$ 21.4 million to the Trust in FY 2017 and FY 2016, respectively. Accordingly, the National Service Trust received a total funding of \$ 215.9 million (*unaudited*) in FY 2017, and \$241.4 million in FY 2016, respectively.

NOTE 13 – Expenses

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, National, Tribes, and*

Territories (State/National); *National Civilian Community Corps* (NCCC); and *Volunteers In Service To America* (VISTA) programs. The State/National sub-program includes grant expenses, as well as direct and allocated personnel and administrative costs including AmeriCorps recruitment and 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. The most significant program is 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 FY2017.

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.

| Expenses by Major Responsibility Segment for the Period Ended September 30 <i>(dollars in thousands)</i> 2017 (unaudited) | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| AmeriCorps | | |
| State/National | \$ 510,145 | \$ 480,375 |
| NCCC | 72,261 | 65,315 |
| VISTA | <u>147,561</u> | <u>136,700</u> |
| Subtotal | \$ 729,967 | \$ 682,390 |
| Senior Corps | | |
| RSVP | 49,196 | 50,998 |
| Foster Grandparent Program | 104,730 | 111,721 |
| Senior Companion Program | <u>45,655</u> | <u>48,498</u> |
| Subtotal | 199,581 | 211,217 |
| Innovation, Demonstration, & Assistance Activities | 50,517 | 59,620 |
| J Special Authority | 1,803 | - |
| Office of Inspector General (OIG) | 5,067 | 4,964 |
| Total Expenses | <u>\$ 986,935</u> | <u>\$ 958,191</u> |

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, 2017 (*unaudited*) and 2016, respectively, has been adjusted to reflect the fact that earned awards are not always used.

| National Service Award Expense for the Period Ended September 30 | | |
|-------------------------------------------------------------------------|--------------------|-------------------|
| (dollars in thousands) | (unaudited) | |
| | 2017 | 2016 |
| Estimated education awards | \$ 159,331 | \$ 113,828 |
| Estimated interest forbearance | 7,918 | 9,331 |
| National Service Award Expense | \$ 167,249 | \$ 123,159 |

NOTE 15 – Change in Unexpended Appropriations, Net

| Unexpended Appropriations, Net as of September 30 | | |
|----------------------------------------------------------|--------------------------|--------------------------|
| <i>(dollars in thousands)</i> | 2017 | 2016 |
| Unexpended appropriations, beginning balance | \$ 956,173 | \$ 915,432 |
| Increases: | | |
| Appropriations received | 1,030,358 | 1,094,916 |
| Decreases: | | |
| Appropriated capital used | (777,731) | (794,222) |
| Appropriations transferred to Trust Fund | (206,841) | (220,000) |
| Program funds transferred to Trust Fund | (9,143) | (21,352) |
| Appropriations transferred to other federal | - | 1,000 |
| Rescissions and cancellations | (22,501) | (19,601) |
| Total decreases | (1,016,216) | (1,054,175) |
| Change in Unexpended Appropriations | 14,142 | 40,741 |
| Unexpended Appropriations, Ending Balance | <u>\$ 970,315</u> | <u>\$ 956,173</u> |

NOTE 16 – 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 17 – Subsequent Events

CNCS has evaluated subsequent events through November 8, 2017, 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 18 – Undelivered Orders at the End of the Period

CNCS's undelivered orders as of September 30, 2017 and 2016 were \$1.2 billion (*unaudited*) and \$1.1 billion, respectively.

NOTE 19 – Apportionment Categories of New Obligations and Upward Adjustments: Direct vs. Reimbursable Obligations

An apportionment is a distribution by OMB of amounts available for obligation. OMB apportions CNCS's funds on both a quarterly and annual basis. New Obligations and Upward Adjustments as of September 30, 2017 (*unaudited*) and 2016 were:

| Consolidated New Obligations and Upward Adjustments through September 30 | | | |
|---------------------------------------------------------------------------------|----|-------------------------|----------------------------|
| (dollars in thousands) | | | |
| Fiscal Year | | 2017 (unaudited) | 2016 |
| Direct | | | |
| Category A | \$ | 92,542 | \$ 110,722 |
| Category B | | \$1,165,015 | 1,186,362 |
| Reimbursable | | | |
| Category A | | (\$817) | - |
| Category B | | \$40,404 | 42,901 |
| Total | \$ | <u>1,297,144</u> | \$ <u>1,339,985</u> |

NOTE 20 – Contributed Capital (Donations)

Under CNCS's authorizing legislation, donated funds may be accepted and used in furtherance of the purposes of the national service laws (42 U.S.C. 12651g (a) (2) (A)). Donated funds received by the CNCS as of September 30, 2017 and 2016 were \$218.5 thousand (*unaudited*) and \$17.1 thousand, respectively.

Note 21 Explanation of Differences between the SBR and the Budget of the US Government

The FY 2019 Budget of the United States Government (President's Budget), which presents the actual amounts for the year ended September 30, 2017, has not been published as of the issue date of these financial statements. The FY 2019 President's Budget is scheduled for release in February 2018 and can be found on the OMB website: <http://www.whitehouse.gov/omb> at that time.

A reconciliation of the FY 2016 SBR to the FY 2018 President's Budget (FY 2016 actual amounts) for budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and net outlays is presented below:

| <i>Amounts in millions</i> | <u>Budgetary Resources</u> | <u>New Obligations and Upward Adjustment total</u> | <u>Distributed Receipts</u> | <u>Net Outlays</u> |
|------------------------------------|----------------------------|----------------------------------------------------|-----------------------------|--------------------|
| Combined SBR | 1,631 | 1,340 | 243 | 1,211 |
| Budget of the US Government | 1,530 | 1,309 | - | 1,210 |
| Difference | 101 | 31 | 243 | 1 |

*The differences between the SBR and the President Budget represents expired funds, distributed offsetting receipts and rounding issues reported on the SBR but not in the President Budget.

Independent Auditor's Report

CORPORATION FOR NATIONAL & COMMUNITY SERVICE

OFFICE OF INSPECTOR GENERAL

AUDIT OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S FISCAL YEAR 2017 CONSOLIDATED FINANCIAL STATEMENTS

OIG Report 18-01

Prepared by:

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



This report was issued to Corporation management on November 15, 2017. 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, 2018, and complete its corrective actions by November 15, 2018. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



November 15, 2017

TO: Kim Mansaray
Acting Chief Executive Officer

FROM: Stuart Axenfeld /s/
Assistant Inspector General for Audit

SUBJECT: Audit of the Corporation for National and Community Service's
Fiscal Year 2017 Consolidated Financial Statements, OIG Report 18-01

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, 2017 and for the year then ended. The contract required that the audit be performed in accordance with the *Government Auditing Standards* and applicable Office of Management and Budget guidance. In its audit, CLA found:

- 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 (disclaimer);
- Four material weaknesses (Financial Reporting; Trust Fund Unpaid Obligations; Trust Service Award Liability Model; and Grant Advances and Accrual) and one significant deficiency (Information Technology Security Controls) in CNCS's internal control over financial reporting; and
- No instances of noncompliance with applicable provisions of laws, regulations, contracts, and grant agreements.

Had the scope of CLA's work been sufficient to enable CLA to express an opinion on the CNCS consolidated financial statements, other material weaknesses or significant deficiencies, or 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 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; 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 8, 2017, 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: Jeffrey Page, Chief Operating Officer
Robert McCarty, Chief Financial Officer
Tom Hanley, Chief Information Officer
Lori Giblin, Chief Risk Officer
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 consolidated statements of financial position as of September 30, 2017 and 2016, and the related consolidated statements of operations and changes in net position, the consolidated statements of cash flows and the combined statements of budgetary resources, for the years then ended, and the related notes to the consolidated 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. 17-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 17-03). 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 year ended September 30, 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 Trust Service Award Liability, Grant Accrual and Advances, Other Liabilities, Prior Year Recoveries and Unpaid Obligations.

INDEPENDENT AUDITORS' REPORT (Continued)

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.

Other Matters

Fiscal Year 2016 Financial Statements

The accompanying financial statements of CNCS as of September 30, 2016 and for the year then ended were audited by other auditors whose report thereon dated November 14, 2016, expressed an unmodified opinion on those consolidated financial statements.

Required Supplementary Information

Accounting principles generally accepted in the U.S. require that the information in the Management Discussion and Analysis (MD&A), and Required Supplementary Information (RSI) be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB), which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the MD&A and the RSI in accordance with the auditing standards generally accepted in the United States of America because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph. We do not express an opinion or provide any assurance on the information.

Other Information

Our engagement was conducted for the purpose of forming an opinion on the financial statements as a whole. All other information exclusive of the financial statements, MD&A and RSI as listed in the Table of Contents of the Annual Management Report (AMR) are presented for purposes of additional analysis and are not a required part of the financial statements. In addition, management has included references to information on websites or other data outside of the AMR. This information has not been subjected to any procedures, and accordingly, we do not express an opinion or provide any assurance on it.

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*.

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

INDEPENDENT AUDITORS' REPORT (Continued)

deficiencies may exist that have not been identified. However, as described in Exhibit A, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. Financial Reporting
2. Trust Fund Unpaid Obligations
3. Trust Service Award Liability Model
4. Grants Accrual Payable and Advances

CNCS management did not report the material weaknesses noted above in its *Fiscal Year 2017 Statement of Assurance Under FMFIA*, included in the Management's Discussion and Analysis section of the accompanying AMR.

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 a significant deficiency.

5. Information Technology Security Controls

Had the scope of our work been sufficient to enable us 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 performed tests of its 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. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin 17-03.

Had the scope of our work been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

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 *Federal Managers' Financial Integrity Act* (FMFIA) and GAO's *Standards for Internal Control in the Federal Government*, (2) providing

INDEPENDENT AUDITORS' REPORT (Continued)

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.

We did not test compliance with all laws, regulations, contracts, and grant agreements applicable to CNCS. We limited our tests to certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

CNCS's Response to Findings

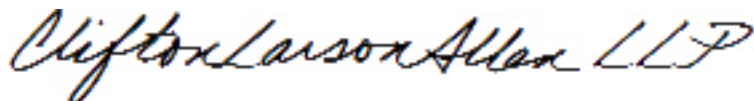
CNCS's response to the audit findings in our report is included in Exhibit C. In its response, CNCS management concurred with some but not all of the conditions and recommendations contained in the report. Specifically, CNCS management discussed its non-concurrence with the material weakness related to the Trust Fund unpaid obligations. CLA stands by our conclusion in reporting the material weaknesses and significant deficiency. We did not audit CNCS's response and, accordingly, we express no opinion on the response.

Status of Prior Year's Control Deficiencies

We have reviewed the status of CNCS's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 14, 2016. The status of prior year findings 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 8, 2017

EXHIBIT A

Material Weaknesses

- 1. Financial Reporting:** As part of our testing of the Corporation for National and Community Service's (CNCS or the Corporation) financial reporting process, we noted the following three conditions:
- A. The financial statements were not prepared and presented in accordance with Federal standards;
 - B. Internal control deficiencies in the financial accounting and reporting process
 - C. Non-compliance with OMB Circular A-11, *Preparation, Submission, and Execution of Budget*, on the use of object classification (object class) to record transactions.

OMB Circular A-123, *Management's Responsibility for Internal Control in Federal Agencies*, makes management responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

A. The financial statements were not prepared and presented in accordance with Federal standards.

A1. Incomplete financial statements at June 30, 2017 increase inherent and control risks and the overall risk of misstatement.

The interim (June 30) financial statements developed by CNCS Accounting and Financial Management Services (AFMS) group are incomplete. Certain line items, statements, and notes are either not prepared or updated until the year-end. For example:

- The Property and Equipment and Accounts Payable (accrual portion) on the Statement of Financial Position are not updated until year end.
- Program expenses reported on the Statement of Operations are not updated with the most accurate data at June 30, 2017. The allocation of indirect costs is based on employee head count for each program and is only updated at year-end.
- The Consolidated Statement of Cash Flows and the notes for the consolidated financial statements were not prepared at June 30, 2017.
- The Trust Fund financial statements were not prepared at June 30, 2017.

Preparing complete and accurate financial statements and supporting notes at the interim periods provides management with an opportunity to assess the effectiveness of its controls over financial reporting process and to detect and correct errors timely. The risk of material misstatement increases when basic financial statements are only prepared at the end of the year with time constraints.

A2. Financial statements were not in compliance with Federal reporting requirements.

CNCS's financial reporting process states that CNCS opted to apply the form and content of OMB Circular A-136 to the Statement of Budgetary Resources (SBR). However, during our review of the prior year (FY 2016) financial statements footnotes, we noted multiple instances of non-compliance with OMB Circular A-136, *Financial Reporting Requirements – Revised*, as it relates to the SBR. Furthermore, we identified various inconsistencies in the financial statements and notes that raise concern about management's review of OMB and Treasury guidance for the financial statements and footnotes' form and content.

EXHIBIT A (Continued)

Material Weaknesses

A3. Management was not able to properly delineate whether Financial Accounting Standards Board (FASB) or Federal Accounting Standards Advisory Board (FASAB) standards were used in the financial reporting process.

Note 1 C to the CNCS financial statement states that CNCS applies Generally Accepted Accounting Principles (GAAP) in accordance with the FASB standards. When FASB has no applicable standard, CNCS uses the accounting standards issued by the FASAB. When CNCS's management elected to use FASB standards, the FASAB standards were less developed than they now are. Since then, FASAB has emerged as the promulgating body for Federal financial reporting standards, and there have been significant changes in Federal reporting requirements. CNCS Management has not reconsidered its reliance on FASB standards, nor was it able to explain clearly where its financial reporting process uses FASB versus FASAB standards.

We recommend that:

1. The AFMS team prepares complete sets of financial statements and related notes for CNCS and the National Service Trust Fund at the interim periods.
2. CNCS evaluate and decide on the accounting standards to be followed in preparing the CNCS financial statements. Management should reassess the initial basis for using FASB and document its decision to continue to use FASB or transition to full FASAB reporting.
3. Notwithstanding the standards management elects to apply, the information presented in the Statement of Budgetary Resources (SBR) and notes should be in accordance with OMB Circular A-136 guidance. For instance, the attribute for Federal or Non Federal transactions should be recorded to support the "Uncollected Payments, Federal Sources."

B. Internal control deficiencies in CNCS's financial accounting and reporting process.

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

- CNCS's financial statements were prepared in Excel spreadsheets with embedded formulas. The Excel spreadsheets were inherently susceptible to manipulation and human error as the cells in those spreadsheets were not protected.
- Although AFMS performs an analysis of the trial balance, it does not document any explanation for known and recurring differences in the analysis, such as reversal of standard voucher (SV) transactions, leading to unexplained and abnormal balances. Moreover, some differences marked for research by management were either not performed or their resolution was not documented. Nevertheless, the trial balance analysis was approved by the AFMS supervisor. These exceptions were evidence of ineffective implementation of controls to prevent and detect financial statements errors.

B2. Review of discontinued document types with balances were not performed.

CNCS did not perform the necessary research to determine the validity of the legacy balances in the "TJ" (used to report Trust Fund commitments and obligations) and "JV" (journal voucher) document types to determine if they represent valid undelivered orders as of June 30, 2017. TJ

EXHIBIT A (Continued)

Material Weaknesses

and JV document types have not been used since FY 2007 and FY 2011, respectively. Our review of the June 30, 2017 unliquidated order report identified the following:

- A TJ document type for \$8.6 million dating back to when obligation was initially recorded in FY 2007
- A JV document type with a net balance of \$6 million dating back to FY 2004

B3. Fluctuation analysis was not robust and the process was not properly documented.

CNCS does not have complete, accurate, and updated policies and procedures that describes how the fluctuation analysis is actually performed and the key controls that protect it. We noted the following deficiencies when reviewing management's fluctuation analysis at June 30, 2017:

- The CNCS Financial Statement Preparation Guide described fluctuation analysis procedures at a high-level only and does not include the specific procedures performed or controls in place.
- There were no documented fluctuation expectations based on the Corporation's operations nor was there any standard or comparison by which to assess the reasonableness of particular fluctuations.
- The supporting documentation to validate the research and analysis performed by management to substantiate the significant changes in financial statements line items are not maintained and made readily available.
- The explanations provided for significant fluctuations in the interim fluctuation analysis were generic.

B4. The cost allocation process was not documented and properly supported.

The Financial Reporting Cost Allocation process memorandum did not address the process to allocate the indirect costs among CNCS's programs or any of the associated controls. Also, CNCS was unable to provide CLA with a walkthrough of how the indirect costs were allocated to the programs or the bases or studies performed supporting the indirect cost allocation percentages.

B5. The controls around the use of Standard Vouchers (SVs) need to be strengthened.

As of June 30, 2017, CNCS recorded \$4.4 billion in SVs (absolute value). CNCS explained that SVs are necessary because of system limitations and staff processing inaccurate and incorrect document type and transaction activity. As part of our SV population review, we noted generic descriptions for significant SVs processed. The explanations for the SVs were inadequate. In many cases, SVs were being used to correct other SVs. Considering the magnitude of the SVs and the minimal descriptions of these transactions, this process increases the risks of recording errors. Also, CNCS appears to use the SV process to address significant recurring financial reporting issues across multiple funds, instead of addressing the root causes of the issues and avoiding the need for future SVs.

B6. Lack of segregations of duties in the SV preparation and approval process.

The Director of AFMS and the Lead Accountant of the Accounting and Reports division are the only two CNCS staff with authority to approve SVs in Momentum. CLA noted that the Lead Accountant can both prepare and approve the same SV, precluding any effective supervisory review or control. Effective segregation of duties is required to prevent overrides of financial reporting controls. In addition, the Momentum user log only shows the approvers of the SVs. As a result, management cannot readily assess if proper segregation of duties was exercised during

EXHIBIT A (Continued)

Material Weaknesses

processing of the SV transactions. Management's review process to ensure proper segregation of duties was not documented nor performed consistently over all SVs.

We recommend that:

4. The financial statement preparation process be automated to the greatest extent possible to reduce the potential for human error in the financial statement template. The Corporation should review and protect the formulas used in the Excel spreadsheet to ensure accuracy and prevent inadvertent or intentional manipulations. Access to the Excel spreadsheets should be limited to key personnel in AFMS.
5. AFMS develop detailed policies and procedures to reflect the financial statement preparation process. The policies and procedures developed should address the key processes and controls such as preparation of a quarterly fluctuation analysis, preparing and approving SVs; preparation and approval of the quarterly financial statements; and review of the trial balance. The procedures should clearly delineate responsibilities for the various AFMS groups and team leads.
6. Management review and research discontinued document types such as TJs and JVs to determine whether unliquidated order balances are still valid. Furthermore, management should work with the system support team to remove any document types that are no longer used.
7. Management update the Financial Reporting Cost Allocation process memorandum to explain the methodology by which it allocates indirect costs among the various CNCS programs.
8. Management work with Momentum's developer to identify and remediate the causes that give rise to the recurring needs for SV's and user functionality issues that may be causing errors that can be addressed through training.

C. Non-compliance with OMB Circular A-11 regarding the use of object class to record transactions

Management explained that object classes associated with obligation transactions may not accurately reflect the proper classification for the accounting event taking place. Older transactions in Momentum were erroneously set up using the "250 Other Contractual Services" object class. These transactions require further research by management at the transaction level in order to update and correct the object classes for reporting. CNCS is currently using general ledger accounts and sub-accounts as well as document type and transaction type codes to classify transactions for reporting. There were transactions processed without associated object class. This process is not consistent with OMB Circular A-11 guidance that object class codes should be associated with US Standard General Ledger (USSGL) transactions.

We recommend that:

9. CNCS continue its efforts to be fully compliant with OMB Circular A-11 as CNCS is in the process of becoming fully compliant with the object class reporting requirements.

EXHIBIT A (Continued)
Material Weaknesses

2. Trust Fund Unpaid Obligations

Our review of the Trust Fund's SF 133, *Report on Budget Execution and Budgetary Resources*, as of June 30, 2017, noted that CNCS did not report downward adjustments to unpaid obligations. We inquired further and learned from management that CNCS has not reported downward adjustments since the Trust Fund's inception. Also, CNCS does not separately track and record transactions for upward adjustment to prior year unpaid obligations. In our review of the relationship between unpaid obligations of the trust fund and the service award liability on the Statement of Financial Position (SFP), we noted significant variances, as shown in the table below, and management could not provide adequate transaction detail to support the entire amount of these differences.

| Financial Statement Line Item | 9/30/2017 \$'000 | 6/30/2017 \$'000 | 9/30/2016 \$'000 |
|---------------------------------------------|---------------------|---------------------|---------------------|
| Unpaid Obligations, End of Period (per SBR) | \$669,082 | \$616,853 | \$626,512 |
| Less: Service Award Liability (per SFP) | \$397,631 | \$391,499 | \$396,344 |
| Difference | \$271,451 | \$225,354 | \$230,168 |

CNCS also recorded an obligation when it received interest on the Trust Fund's Investment balance, rather than recording the interest revenue as an unobligated budgetary resource.

Amounts reported in the SBR may not be properly supported as required by OMB Circular A-11 guidance. Given the lack of reconciliations and quality control reviews, material misstatements can occur and not be detected and corrected timely.

Timely de-obligation, procurement and payment of invoices; timely recording of transactions based on adequate source documents; and periodic and timely reconciliation of the subsidiary system to the general ledger are key control activities within an entity's internal control environment that help achieve management's responsibility required by OMB Circular A-123.

We recommend that CNCS management:

10. Document the authority that allows for the automatic obligation of interest and its compliance with the budget execution guidance in OMB Circular A-11, or modify its practices with respect to the treatment of interest revenue.
11. Implement policies and procedures to address the following:
 - a) review obligation amounts to ensure amounts accurately reflect the status of the obligation;
 - b) review the time frame for the obligation recorded in Momentum to be considered as valid (i.e., grant dates are correctly reflected in the obligation);
 - c) ensure obligations are sufficiently supported (i.e., by documentary evidence) to ensure proper accounting;
 - d) reconcile obligations to source documents (such as grant agreements);
 - e) ensure aged obligations are valid and accurately recorded; and
 - f) perform complete reconciliations of all outstanding obligations monthly, and ensure any discrepancies identified are promptly researched and resolved.

EXHIBIT A (Continued)
Material Weaknesses

12. Perform a documented assessment to validate the transactions currently included in the unpaid obligations balance. Ensure those obligations are related to valid claims and supported by documentary evidence.
13. Coordinate with the Office of Grants Management to implement a process to correctly account for the unpaid obligations balance at the grant transaction level. Unused education slots past the grant's performance period should be promptly removed from the unpaid obligations balance. The process should ensure that prior year recoveries are recorded as the transaction occurs (e.g., expiration of grants by program by year compared to actual enrollments/outlays by year, etc.). Prior year recoveries should be recorded in the USSGL accounts for upward and downward adjustments to prior year unpaid obligations, in order to account for differences in the amounts initially obligated.

3. Trust Service Award Liability (TSAL)

A. *Lack of quality controls resulting in input and calculation errors in TSAL liability and TSAL model deficiencies*

The TSAL is the largest liability balance on CNCS's financial statements as of September 30, 2017 (\$397 million). CNCS developed a TSAL model to estimate quarterly the anticipated service awards to be paid by the Trust Fund. The model was updated in FY 2011 by a consulting firm and reviewed in by another consulting firm in FY 2016 to assess the appropriateness, validity, and use of the statistics for determining benefits usage, earning statistics, usage patterns, interest forbearance, and any other factor affecting the calculation of the liability.

CLA identified the following errors in the June 30, 2017 TSAL model that significantly impacted the accuracy of the liability calculated:

- Management's quality review process did not identify an error in the TSAL calculation prior to completing the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) reporting for the third quarter. The "number of months of actual data in the current year" (which was nine months) was not updated in the TSAL model at June 30, 2017. As a result, the liability was overstated by \$9.2 million.
- CNCS's consultant recommended in FY 2016 that CNCS correct erroneous codes in the TSAL model from Part Time (PT) to Half Time (HT). We noted that CNCS did not implement the recommendation. When the PT codes are replaced with HT codes, the liability is reduced by approximately \$17 million. Management subsequently acknowledged this error and corrected it in the September 30, 2017 version of the TSAL model.
- CNCS did not follow the consultant's recommendation to update the assumptions used in the TSAL and Calculator for the Education Award Earning Percentage to be used for estimating future awards to be earned for open program years (i.e., program years for which there are no reported members "earning" education awards) We noted that management did not conduct a study to determine the historical data of education awards earned by members, based on each program and program year, to support the TSAL calculation.

EXHIBIT A (Continued)

Material Weaknesses

We also noted the following deficiencies related to the TSAL model:

- The TSAL Model liability is estimated using an Excel-based spreadsheet, which could be prone to human errors. Management had to manually copy and paste data from eSPAN reports into the Excel-based model each quarter. Further, management has the ability to override some assumptions significant to the model.
- Several Excel worksheets/tabs and some input data were included in the TSAL Model, but were not used to calculate the TSAL. Management was unable to clearly explain the relevancy of the data.
- The TSAL Model business process narrative was not adequately documented. It included a list of key controls, but the narrative did not clearly describe the control activities; identify any process risks; describe how the key controls were used to mitigate risk; nor include procedures or controls to ensure that key assumptions used in the TSAL model were validated.
- The TSAL Standard Operating Procedures (SOP) or desk procedures did not clearly describe or identify the raw data inputs, nor did it identify the source of the raw data; it did not include documentation of how the raw data was validated.

B. CNCS did not use discount rates in its TSAL calculation.

CNCS did not use discount rates in the TSAL calculation and management did not document its rationale for not discounting the TSAL. CNCS stated that the cash flows for the obligations are discounted but no discount rate is applied to the liability, since management considers the timing of future payments to be uncertain and therefore it intentionally did not discount the liability. The liability not being discounted may not be recorded in accordance with GAAP.

C. CNCS staff was not knowledgeable regarding certain key assumptions and inputs

The only individual with sufficient knowledge to perform the actuarial model calculations is a single retired annuitant working on a part-time basis, leaving this key process vulnerable and subject to minimal supervision. CNCS staff members have not been cross-trained in how to use the model to calculate the TSAL nor had knowledge of the actuarial model calculations and inputs. In addition, the CNCS staff responsible for the actuarial modelling was not knowledgeable of certain key assumptions, as well as several aspects of the inputs and calculations. Estimation of TSAL is at risk due to the lack of a permanent and knowledgeable staff to manage the TSAL modelling and calculation.

We recommend that CNCS Management:

14. Implement the consulting firm's recommendation to correct the erroneous member record types in the Raw Data Section 2, from PT to HT.
15. Develop or update the TSAL model documentation, document modelling assumptions, SOPs, and business process narratives relevant to the Trust Fund's accounting and financial reporting of education awards.
16. Protect cells within the TSAL model (Excel spreadsheet).

EXHIBIT A (Continued)

Material Weaknesses

17. 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.
18. Assess the need and document management's position regarding the discounting factors for the TSAL in accordance with applicable FASAB standards.
19. Cross-train staff and develop a succession plan to ensure the required expertise is available in the event of employee turnover.

4. Grants Accrual Payable and Advances

The written "CNCS Grant Accrual Methodology," dated 6/9/17, does not reflect the grant accrual process actually followed by CNCS. The "FY 2017 Grants Payable and Expense Business Process Narrative" (i.e. audit cycle memorandum), dated 5/17/17, validated by Corporation management, reflects the same information in the "CNCS Grant Accrual Methodology."

Moreover, CNCS's grant accrual methodology does not include the estimate of costs Incurred But Not Yet Reported (IBNR) by the grantees provided to the Corporation by its service provider (Department of Health and Human Service, HHS). For example, a grantee may have incurred costs during a quarter that were not yet reported in the Federal Financial Report (FFR) until the subsequent quarter. CNCS management's justification for not accounting for IBNR costs is that the inclusion of IBNR could result in significantly overstating the grant accrual. However, CNCS's justification was based on the management's comparison of its accrual between the HHS calculated IBNR and the actual quarterly disbursements reported in the following quarter. CNCS's methodology did not consider an actual projection of the IBNR costs (through validation with the grantees) and compare such projection directly with the IBNR estimated costs.

In addition, CNCS does not perform any lookback analysis or validation of its grant accrual at the individual grant level. A grant accrual validation should be used as the basis for its analysis of the grantees' spending pattern by accrual components (i.e. FFR reporting and IBNR). The lookback analysis and validation should be conducted separately to determine the accuracy of its grant accrual estimate. When management's key assumptions are not validated and properly documented based on historical data analysis and grantee 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.

Lastly, CNCS grant advances was not supported by historical analysis of grantee drawdown and spending patterns.

Federal Accounting Standards Advisory Board (FASAB), *Accrual Estimates for Grant Programs, Federal Financial Accounting Technical Release 12* (August 4, 2010), Preparing Accrual Estimates for Grant Programs, Paragraph 12, states:

Agencies should document and maintain support for the data and assumptions used to develop grant accrual estimates. The documentation will facilitate the agency's review of the assumptions, a key internal control, and will also facilitate the auditor's testing of the estimates. Documentation should be complete and stand on its own, i.e., a knowledgeable independent person could perform the same steps and replicate the same results. If the documentation were from a source that would normally be

EXHIBIT A (Continued)

Material Weaknesses

destroyed, then copies should be maintained in the file for the purpose of reconstructing the estimates.

We recommend that CNCS management:

20. Revise the grant accrual methodology so that:
 - It is based on historically reported expenses;
 - All sources of information and calculations are clearly identified and the source disclosed;
 - The method for calculating the IBNR costs for the accrual is separately calculated and identified;
 - A validation process is established to verify the accuracy of the grant accrual, so that management can make any necessary adjustments to improve the precision of the grant accrual; and
 - It addresses how the calculations are used to arrive at the Grants Payable and Advances to Other line items in the Consolidated Statements of Financial Position.

21. Develop a process to validate grant advances, IBNR and payable estimates. Such validation should be performed for all program elements included in the estimation process and over a few years to show a trend of the estimates. Unusual fluctuations, if any, should be investigated and the research conclusions documented by management.

22. Coordinate with the program and grant officers to gather and analyze its key grant programs' (AmeriCorps State and National and Senior Corps) historical data and the grantees' spending patterns to develop the following key factors:
 - Percentage of CNCS grantees who draw down funds in advance versus those on a reimbursable basis, and the relationship of those grant amounts to its grant spending as a whole. If different key programs have different spending patterns, perform this analysis at the program level;
 - An inventory of relevant and reliable grant data to be used for the grant accrual assumptions and documentation to support what data is to be considered relevant and reliable.
 - Grantees' IBNR reporting pattern from when the expenses have been incurred to the time those expenses are included the grantees' FFRs. Grantee surveys may be conducted to confirm the IBNR methodology (i.e. validation that two weeks of IBNR is a well-based assumption). When alternative procedures are used, management should provide its data-based analysis to validate its assertion
 - Post-accrual analysis to compare the accrual (without the IBNR) and the expenditures reported in the FFRs for the same quarter. When grantees' reported spending patterns deviates from its methodology, an analysis should be performed to determine whether any deviation is acceptable or the methodology should be further refined to reflect the actual grantees' reported expenditure pattern. This is a cyclical exercise that should be performed when there are legislation, regulation or program changes that could impact the characteristics of the grant population (i.e., new grant program, ending a grant program, significant changes in funding, etc.).

EXHIBIT B

Significant Deficiency

1. CNCS Needs to Mitigate Information Technology Control Deficiencies.

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 (OIT) has outsourced the operation, maintenance and support of most of the Corporation's IT systems. While outsourcing is not inherently detrimental to the security posture of an organization, it introduces different considerations and new risks regarding the protection of information and information systems. Despite this outsourcing, 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, 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: establishment of security assessment standards to ensure consistency and quality, development of business impact assessments for each critical system, implementation of the United States Government Configuration Baseline (USGCB) for desktops and monitoring for compliance with those approved settings.

While the Corporation is taking a number of steps to remediate previously identified information security weaknesses, we identified new and continued control weaknesses in the information security program that need to be addressed, most importantly pertaining to configuration management, access controls, security management and contingency planning. 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 CNCS field offices networks to critical and high severity vulnerabilities. CNCS's vulnerability management program needs to improve to effectively identify, monitor and remediate known vulnerabilities to reduce the risk of security breaches.
- Standard baseline configurations for all platforms in the CNCS information technology environment were not fully implemented. For example, standard baseline configurations have not been implemented for CNCS operating systems, databases, servers, network devices, VMware, and Web browsers.
- Change management policies and procedures for testing and evaluating risk for network changes were not consistently implemented.
- The CNCS inventory tracking system did not reflect accurately the inventory of OIT devices and locations at Headquarters (HQ) and field offices. The HQ and field office inventories were maintained independently by the respective parties and the FasseTrack system was not integrated with the Headquarters inventory. As a result, a manual reconciliation is required to update the respective inventories.

EXHIBIT B (Continued) Significant Deficiency

Access Control

- The account access review process was not effective at identifying inactive accounts or accounts belonging to separated employees or contractors. In addition, user access reviews and recertification of user accounts was not consistently performed for all systems.
- CNCS had not implemented Personal Identification Verification multifactor authentication for local and network access for privileged users and for network access for non-privileged users.
- Mobile devices provided to two CNCS field office's personnel such as Team Lead laptops were not securely configured and managed.
- CNCS did not capture the Momentum Oracle security logs into its event¹ 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.²
- Although one field office has implemented two instances of continuous monitoring for its public wireless network and campus Computer Lab computers, the events detected were not being acted upon, as no one was monitoring the logs.
- Management at one field office did not ensure adequate protective controls were in place to protect personally identifiable information in a storage room to validate who was accessing the room.

Segregation of Duties

- Momentum application controls for managing user profiles do not prevent a user from both preparing and approving the same SV.
- The Momentum transaction log only records the approvers of the SV. As a result, management can not readily assess if proper segregation of duties was exercised during processing of the SVs.

Security Management

- CNCS did not maintain current system authorizations to operate for all its information systems. Specifically, the Electronic-Systems for Program Agreements and National Service Participants (eSPAN)/My AmeriCorps Portal's Authorization to Operate (ATO) expired on July 31, 2017 and management was not planning on issuing a new ATO until December 2017.
- CNCS did not ensure two external interconnections to the General Support System (GSS) were listed in the GSS System Security Plan (SSP). In addition, four external interconnections listed in the GSS SSP did not have properly signed agreements.
- CNCS did not complete the development, documentation and communication of an entity-wide program for managing risk associated with the operation and use of the Corporation's information systems in accordance with NIST standards. During FY 2017, a risk register was developed and submitted to the Risk Management Council for review and concurrence. In order to complete the entity-wide risk management program in accordance with NIST, CNCS needs to perform the following:

¹ A security event is a change from what is expected in how an information system functions, signifying that a security policy may have been breached or security measures may have failed.

² Federal Information Processing Standards 199, *Standards for Security Categorization of Federal Information and Information Systems*, provides guidance determining the security category (i.e., low, moderate, high) of federal information systems based on confidentiality, integrity and availability.

EXHIBIT B (Continued)

Significant Deficiency

- Finalize the risk register
- Establish the risk tolerance for the Corporation and communicate the risk tolerance throughout the organization
- Develop, document and implement acceptable risk assessment methodologies, risk mitigation strategies, and a process for consistently evaluating risk across the organization with respect to the organization's risk tolerance
- Develop, document and implement approaches for monitoring risk over time

Once CNCS completes and communicates an organization-wide risk tolerance, OIT will need to align its strategic goals and requirements for protecting its information and information systems with the risk tolerance that supports the Corporation's mission. This will assist CNCS in managing risk associated with the operation and use of the Corporation's information systems.

- CNCS did not adequately assess information system risks. For example:
 - The Security Assessment Report (risk assessment) for the GSS did not take into account assessed risk for entire system environment.
 - The Security Assessment Report (risk assessment) for Momentum conducted did not address all of the risk assessment elements such as threat/vulnerability identification, likelihood, impact analysis, risk determination and control recommendation.
 - Information security risks to the Corporation from the use of external systems were not assessed. For example, management did not review the Service Organization Control Reports or risk assessments performed for these systems to gain an understanding of the information security risks identified, and assess and document the risks and impact to CNCS from the use of external systems.
- The Plan of Action and Milestones (POA&Ms) for the GSS, Momentum and eSPAN did not include all known control weaknesses.
- CNCS did not ensure employees had the proper background investigations. Specifically, privileged users had background investigations at a lower level than the risk associated with their assigned positions.

Contingency Planning

- CNCS did not complete an after action report that specified whether Recovery Time Objectives were met, and any lessons learned for the GSS/eSPAN disaster recovery test conducted in June 2017.
- The CNCS Continuity of Operations Plan was not up-to-date. Specifically it did not reflect the Business Impact Analysis or updates to the Disaster Recovery Plan that were completed since last year.
- CNCS did not document and implement a Service Level Agreement or performance metrics to ensure that GSS backups are performed in accordance with contractual requirements.
- CNCS did not ensure adequate environmental controls were implemented. For example, a malfunctioning Uninterruptable Power Supply at two CNCS facilities was not noticed by management and reported for error resolution. In addition, a fire extinguisher or smoke detector was not in place at another CNCS facility due to management oversight.

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 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. Designing and implementing effective corporation level policies is the responsibility of the Chief Information Officer. In addition, managing

EXHIBIT B (Continued) **Significant Deficiency**

the information and system security program across the Corporation is primarily the responsibility of the Chief Information Security Officer.

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 the CNCS's information and information systems. CNCS should increase its efforts to mature its risk management program and monitor compliance with CNCS information security policies and procedures.

By not effectively implementing and enforcing IT policies and procedures, 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.

The information system security officer is an individual responsible for ensuring that the appropriate operational security posture is maintained for an information system and as such, works in close collaboration with the information system owner. The information system security officer also serves as a principal advisor on all matters, technical and otherwise, involving the security of an information system. The information system security officer has the 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.

We recommend CNCS:

1. Enforce the agency-wide information security program across the enterprise and improve performance monitoring to ensure controls are operating as intended at all facilities.
2. Strengthen and refine the process for communicating CNCS facility specific control deficiencies to CNCS facility personnel, and coordinate remediation of the control deficiencies.
3. 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.
4. Strengthen and refine the process for holding contractors accountable for remediation of control deficiencies in CNCS information systems.
5. Implement all detailed recommendations in the FY 2017 Federal Information Security Modernization Act (FISMA) Evaluation report.

EXHIBIT C
Management's Response

Corporation for National and Community Service

NationalService.gov



Memorandum

Date: November 13, 2017

To: Deborah Jeffrey, Inspector General

From: Robert McCarty, Chief Financial Officer

Subject: Independent Auditor's Report

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 consolidated response to both of the reports. CNCS does not concur with all of the conditions and recommendations contained in the two reports.

Although the report on CNCS's financial statements concludes that CNCS has four material weaknesses, by far the most significant relates to CliftonLarsonAllen's (CLA's) findings regarding the levels of unobligated balances in the National Service Trust. Throughout the course of this audit, CNCS has diligently worked with CLA to ensure that the audit consider the unique nature of the National Service Trust, its authorities and operations. Despite these efforts, CLA has cited general requirements for recording obligations of the National Service Trust that conflict with specific statutory provisions regarding the Trust. Additionally, by applying incorrect criteria, CLA reached incorrect conclusions regarding periodic adjustments to obligations of the National Service Trust. Those conclusions conflict with two GAO decisions. Specifically, CLA's continued expectation that CNCS must adjust obligations based on past due (and never capable of being claimed) education awards raises significant concern about CLA's lack of understanding regarding CNCS's statutory requirements. If CNCS followed CLA's obligation adjustment recommendations, it would actually increase the risk of insufficient obligations within the National Service Trust to pay future education awards.

The issue regarding the National Service Trust is illustrative of the critical need for continued worked with CLA so they sufficiently understand CNCS, its operating environment (including its governing laws), and its policies and procedures. CNCS has a long history of being able to work with auditors to provide public assurance that its core financial operations are meeting their objectives and that CNCS's public financial information is appropriate and reliable. It is unfortunate, in this case, that a change in auditing firms has placed an unnecessary and unwarranted cloud over CNCS's stewardship of federal funds.

CNCS remains committed to improving its operations, financial management and reporting. CNCS will work with CLA to appropriately address those findings that have merit. CNCS also maintains its strong commitment to improving its Enterprise Risk Management program, building on the significant progress made in Fiscal Year 2017 within the Office of the Chief Risk Officer. The Office of Management and Budget has also been supportive of increased resources for that office.

EXHIBIT D
Status of Prior Year Findings

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

| <i>Type of Finding</i> | <i>FY 2016 Finding</i> | <i>Fiscal Year 2017 Status</i> |
|-------------------------------|-----------------------------------------|----------------------------------------------------------------------|
| Significant Deficiency | Internal Controls Program (FMFIA/A-123) | Potential Repeat Finding – Status verification not completed in 2017 |

CORPORATION FOR NATIONAL & COMMUNITY SERVICE

OFFICE OF INSPECTOR GENERAL

AUDIT OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S FISCAL YEAR 2017 NATIONAL SERVICE TRUST FUND FINANCIAL STATEMENTS

OIG Report 18-02

Prepared by:

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



This report was issued to Corporation management on November 15, 2017. 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, 2018, and complete its corrective actions by November 15, 2018. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



November 15, 2017

TO: Kim Mansaray
Acting Chief Executive Officer

FROM: Stuart Axenfeld /s/
Assistant Inspector General for Audit

SUBJECT: Audit of the Corporation for National and Community Service's
Fiscal Year 2017 National Service Trust Fund Financial Statements,
OIG Report 18-02

We contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP (CLA) to audit the Corporation for National and Community Service's (CNCS's) National Service Trust Fund financial statements (Trust financial statements) as of September 30, 2017 and for the year then ended. The contract required that the audit be performed in accordance with the *Government Auditing Standards* and applicable Office of Management and Budget guidance.

In its audit of the fiscal year 2017 Trust financial statements, CLA found that 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 (disclaimer).

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 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 the Trust financial statements.

CLA is responsible for the attached independent auditors' report, dated November 8, 2017, 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: Jeffrey Page, Chief Operating Officer
Robert McCarty, Chief Financial Officer
Tom Hanley, Chief Information Officer
Lori Giblin, Chief Risk Officer
Mia Leswing, Principal-in-charge, CliftonLarsonAllen LLP



CliftonLarsonAllen

CliftonLarsonAllen LLP
901 North Glebe Road, Suite 200
Arlington, VA 22203
571-227-9500 | fax 571-227-9552
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Trust Financial Statements

We were engaged to audit the accompanying financial statements of the Corporation for National and Community Service (CNCS), National Service Trust Fund (Trust), which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of operations and changes in net position, the statements of cash flows and the combined statements of budgetary resources, for the years then ended, and the related notes to the financial statements (referred to herein as Trust financial statements).

Management's Responsibility for the Trust 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 the Trust financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Trust 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. 17-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 17-03). 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 significant transactions and account balances, as presented in the accompanying Trust financial statements as of and for the year ended September 30, 2017, due to inadequate processes and controls to support accounting for 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 Service Award Liability and Unpaid Obligations.

INDEPENDENT AUDITORS' REPORT

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 Trust financial statements referred to in the first paragraph.

Other Matters

Fiscal Year 2016 Trust Financial Statements

The accompanying Trust financial statements as of September 30, 2016 and for the year then ended were audited by other auditors whose report thereon dated November 14, 2016, expressed an unmodified opinion on those Trust financial statements.

Required Supplementary Information

Accounting principles generally accepted in the U.S. require that the information in the Management's Discussion and Analysis (MD&A), and Required Supplementary Information (RSI) be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB), which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the MD&A and the RSI in accordance with the auditing standards generally accepted in the United States of America because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph. We do not express an opinion or provide any assurance on the information.

Other Information

Our engagement was conducted for the purpose of forming an opinion on the Trust financial statements taken as a whole. The information contained in the section - National Service Trust Fund Status Report – September 30, 2017 - of the fiscal year 2017 Annual Management Report is presented for purposes of additional analysis and is not a required part of the Trust financial statements. Such information has not been subjected to any procedures, and accordingly, we do not express an opinion or provide any assurance on it.

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 CNCS consolidated financial statements, we have issued reports, dated November 8, 2017, on our consideration of 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 Trust 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*.

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

INDEPENDENT AUDITORS' REPORT

material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that have not been identified.

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, described in Exhibit A of the Independent Auditors' Report for the CNCS consolidated financial statements, to be material weaknesses.

1. Financial Reporting
2. Trust Fund Unpaid Obligations
3. Trust Service Award Liability Model

CNCS management did not report the material weaknesses noted above in its *Fiscal Year 2017 Statement of Assurance* under FMFIA included in the Management's Discussion and Analysis section of the accompanying AMR.

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 deficiency in the area below, and described in Exhibit B of the Independent Auditors' Report for the CNCS consolidated financial statements, to be a significant deficiency.

4. Information Technology Security Controls

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

In connection with our engagement to audit the CNCS's consolidated financial statements, we performed tests of its 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. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin 17-03.

Had the scope of our work been sufficient to enable us to express opinions on the Trust and the CNCS consolidated financial statements, other material weaknesses or significant deficiencies, or other instances of noncompliance or other matters may have been identified and reported in the Independent Auditors' Report for the CNCS consolidated financial statements dated November 8, 2017.

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 *Federal Managers' Financial Integrity Act* (FMFIA) and GAO's *Standards for Internal Control in the Federal Government*, (2) providing

INDEPENDENT AUDITORS' REPORT

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.

We did not test compliance with all laws, regulations, contracts, and grant agreements applicable to Trust. We limited our tests to certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

CNCS's Response to Findings

CNCS's response to the audit findings in our report is included in Exhibit C of the Independent Auditors' Report for the CNCS consolidated financial statements dated November 8, 2017. In its response, CNCS management concurred with some but not all of the conditions and recommendations contained in the report. Specifically, CNCS management discussed its non-concurrence with the material weakness related to the Trust Fund unpaid obligations. CLA stands by our conclusion in reporting the material weaknesses and significant deficiency. We did not audit CNCS's response and, accordingly, we express no opinion on the response.

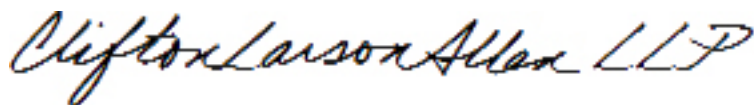
Status of Prior Year's Control Deficiencies

We have reviewed the status of CNCS's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 14, 2016. The status of prior year findings is included in Exhibit D of the Independent Auditors' Report for the CNCS consolidated financial statements dated November 8, 2017.

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 8, 2017

National Service Trust Financial Statements

Corporation for National and Community Service
National Service Trust Statement of Financial Position
As of September 30, 2017 and 2016
(Dollars in Thousands)

| | 2017 | 2016 |
|----------------------------------------------|--------------------------|--------------------------|
| | Unaudited | |
| Assets | | |
| Fund Balance with Treasury (Note 2) | \$ 9,921 | \$ 4,027 |
| Investments and Related Receivables (Note 3) | 866,834 | 822,652 |
| Accounts Receivable, Net (Note 4) | 153 | 200 |
| Total Assets | \$ <u>876,908</u> | \$ <u>826,879</u> |
| Liabilities | | |
| Service Award Liability (Note 5) | \$ 388,134 | \$ 396,344 |
| Net Position | | |
| Cumulative Results of Operations (Note 6) | <u>488,774</u> | <u>430,535</u> |
| Total Liabilities and Net Position | \$ <u>876,908</u> | \$ <u>826,879</u> |

Corporation for National and Community Service
National Service Trust Statements of Operations and Changes in Net Position
For the Periods Ended September 30, 2017 and 2016
(Dollars in Thousands)

| | 2017 | 2016 |
|----------------------------------------------------------------|-------------------|-------------------|
| | Unaudited | |
| Revenue | | |
| Appropriations Received by the National Service Trust (Note 7) | \$ 206,842 | \$ 220,000 |
| Transfer in Program Funds | 9,143 | 21,352 |
| Interest | 6,726 | 3,964 |
| Other Revenue | 2,851 | 3,185 |
| Total Revenue | \$ 225,562 | \$ 248,501 |
| Expenses | | |
| Service Award Expense (Note 8) | \$ 167,249 | \$ 123,159 |
| Write off/Recovery of Receivables | 47 | 62 |
| Other Expenses | 27 | - |
| Total Expenses | 167,323 | 123,221 |
| Net of Revenue Over Expenses | \$ 58,239 | \$ 125,280 |
| Net Position | | |
| Net of Revenue Over Expenses | 58,239 | 125,280 |
| Net Position, Beginning Balance | 430,535 | 305,255 |
| Net Position, Ending Balance (Note 6) | \$ 488,774 | \$ 430,535 |

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

Corporation for National and Community Service
National Service Trust Fund Statements of Cash Flows
For the Periods Ended September 30
(Dollars in Thousands)

| | 2017 | 2016 |
|--------------------------------------------------------------|------------------------|------------------------|
| | Unaudited | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net of Revenue Over Expenses | \$ <u>58,239</u> | \$ <u>125,280</u> |
| Adjustments Affecting Cash Flow: | | |
| Amortization of Premium/Discount on Investments | (719) | (197) |
| Appropriations Received in Trust | (215,985) | (241,352) |
| Decrease/(Increase) in Accounts Receivable | 47 | 61 |
| Decrease/(Increase) in Interest Receivable | (769) | (305) |
| Increase/(Decrease) in Trust Liability | <u>(8,209)</u> | <u>(58,546)</u> |
| Total Adjustments | <u>(225,635)</u> | <u>(300,339)</u> |
| Net Cash Provided/(Used) by Operating Activities | (167,396) | (175,059) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Sale of Securities | 1,286,762 | 1,129,620 |
| Purchase of Securities | <u>(1,329,457)</u> | <u>(1,200,306)</u> |
| Net Cash Provided/(Used) in Investing Activities | (42,695) | (70,686) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Appropriations Received, Net of Trust | <u>215,985</u> | <u>241,352</u> |
| Net Cash Provided by Financing Activities | 215,985 | 241,352 |
| Net Increase/(Decrease) in Fund Balance with Treasury | 5,894 | (4,393) |
| Fund Balance with Treasury, Beginning | <u>4,027</u> | <u>8,420</u> |
| Fund Balance with Treasury, Ending (Note 2) | <u><u>\$ 9,921</u></u> | <u><u>\$ 4,027</u></u> |

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

Corporation for National and Community Service
National Service Trust Statements of Budgetary Resources
For the Periods Ended September 30, 2017 and 2016
(Dollars in Thousands)

| | 2017 | 2016 |
|------------------------------------------------------------|--------------------|--------------------|
| | Unaudited | |
| Budgetary Resources | | |
| Unobligated, balance brought forward, October 1 | \$ 198,632 | \$ 123,532 |
| Appropriation Discretionary (trust funds) | 215,985 | 241,352 |
| Appropriation Mandatory (trust funds) | 5,211 | 3,461 |
| Appropriations (discretionary and mandatory) | 221,196 | 244,813 |
| Spending authority from offsetting collections | 2,851 | 3,185 |
| Total Budgetary Resources | \$ 422,679 | \$ 371,530 |
| Status of budgetary resources | | |
| New obligations and upward adjustments | \$ 218,028 | \$ 172,898 |
| Unobligated balance, end of year | | |
| Apportioned, unexpired accounts (Note 2) | 204,198 | 198,628 |
| Unapportioned, unexpired accounts (Note 2) | 453 | 4 |
| Total unobligated balance, end of year | 204,651 | 198,632 |
| Total Budgetary Resources | \$ 422,679 | \$ 371,530 |
| Change in Obligated Balance | | |
| Unpaid obligations | | |
| Unpaid obligations, brought forward, October 1 | \$ 626,512 | \$ 635,320 |
| New obligations and upward adjustments | 218,028 | 172,898 |
| Outlays (gross) | (175,458) | (181,706) |
| Unpaid Obligations, end of year | \$ 669,082 | \$ 626,512 |
| Memorandum (non-add) entries: | | |
| Obligated balance, start of year | \$ 626,512 | \$ 635,320 |
| Obligated balance, end of year (Note 2) | \$ 669,082 | \$ 626,512 |
| Budget Authority and Outlays, net | | |
| Budgetary authority, gross (discretionary and mandatory) | \$ 224,047 | \$ 247,998 |
| Actual offsetting collections | (2,851) | (3,185) |
| Budget authority, net (discretionary and mandatory) | \$ 221,196 | \$ 244,813 |
| Outlays, gross (discretionary and mandatory) | 175,458 | 181,706 |
| Actual offsetting collections | (2,851) | (3,185) |
| Outlays, net (discretionary and mandatory) | \$ 172,607 | \$ 178,521 |
| Distributed offsetting receipts | (215,985) | (241,352) |
| Agency outlays, net (discretionary and mandatory) | \$ (43,378) | \$ (62,831) |

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

Footnotes for National Service Trust Financial Statements

NOTE 1—Summary of Significant Accounting Policies

A. REPORTING ENTITY

The National Service Trust Fund (the Trust) was established by the National and Community Service Trust Act of 1993 (The Act), 42 USC 12601, et seq. to provide funds for Segal AmeriCorps Education Awards (education awards) to eligible participants who complete AmeriCorps service. The activities of the Trust are funded primarily through the annual Departments of Labor, Health and Human Services, Education and Related Agencies Appropriations Act, which funds National and Community Service Act programs. Appropriations are provided on a no-year basis for the Trust, a fund within the Corporation for National and Community Service (CNCS) used to provide education awards and student loan interest forbearance to eligible participants. Trust appropriations do not expire with the passage of time and are retained by CNCS in the Trust until used for eligible purposes.

The Trust provides education awards for AmeriCorps members serving in approved national service positions in AmeriCorps State and National (ASN), AmeriCorps NCCC, and AmeriCorps VISTA programs. ASN is a grant program where CNCS provides an education award and, depending on the grant award, varying amounts of additional program costs. ASN programs have up to two years after receiving a grant award to enroll members in positions for which the members earn an education award upon successful completion of their term of service. One component of the AmeriCorps VISTA program is a cost-share program where sponsoring organizations are responsible for providing member subsistence and other costs.

Funds from the Trust may be expended for the purpose of providing an education award or student loan interest forbearance payment on behalf of a successful member and must always be paid directly to a qualified institution (college, university, or other approved educational institution, or a lending institution holding an existing student loan) as designated by the participant.

B. BASIS OF ACCOUNTING

The Statements of Financial Position; Operations and Changes in Net Position, Cash Flows and Budgetary Resources have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as required by the Government Corporation Control Act (Act) and Executive Order 13331, National and Community Service Programs.

C. FINANCIAL STATEMENT PRESENTATION

The accompanying financial statements report the Trust's financial position, results of operations, and cash flows, as required by the Government Corporation Control Act (GCCA). As required by GCCA, the principal financial statements of the Trust are the:

- Statement of Financial Position, which reports the status of Trust assets, liabilities, and net position;

- Statement of Operations and Changes in Net Position, which reports the Trust's revenues and expenses for the year and the changes in net position that occurred during the year; and
- Statement of Cash Flows, which shows how changes in the Trust's financial position and results affected its cash (Fund Balance with Treasury), and breaks the analysis down according to operating, investing, and financing activities.

The financial statements are presented in accordance with the Generally Accepted Accounting Principles in the United States of America (GAAP), as applicable to federal government corporations. The Federal Accounting Standards Advisory Board (FASAB) is the standard setting body for the federal government. Statement of Federal Financial Accounting Standards Number 34 (SFFAS 34) provides that financial statements prepared by certain government corporations in conformity with the accounting standard issued by the Financial Accounting Standards Board (FASB) are regarded as being in conformity with GAAP. As provided by SFFAS 34, where there is no standard issued by FASB applicable to the federal corporation the financial statements are presented in accordance with the accounting standards issued by FASAB.

In addition, under Executive Order 13331, National and Community Service Programs, CNCS must prepare a Combined Statement of Budgetary Resources as a principal statement. The accompanying Combined Statements of Budgetary Resources have been prepared in accordance with GAAP, as prescribed by FASAB. The Combined Statement of Budgetary Resources presents additional details to include activity that is significant to the CNCS.

CNCS's consolidation policy requires the consolidation of all funds administered by CNCS, as delineated in Note 1A – Reporting Entity.

D. BUDGETS AND BUDGETARY ACCOUNTING

The activities of the National Service Trust Fund are primarily funded through the annual Departments of Labor, Health and Human Services, Education and Related Agencies Appropriation Act. CNCS's accounting structure reflects both accrual and budgetary accounting transactions.

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 legal liability, which, in many cases, is different from the recording of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal controls over the use of federal funds.

E. ASSET AND LIABILITY VALUATION

CNCS values its investments at carrying value and discloses fair value. As of September 30, 2017, the carrying amounts of Fund Balance with Treasury, Accounts Receivable, Accrued Interest Receivable, and Liabilities approximate their fair value.

F. FUND BALANCE WITH TREASURY

CNCS considers Fund Balance with Treasury (FBWT) to represent cash and cash equivalents. The Treasury processes cash receipts and disbursements on behalf of CNCS and CNCS's accounting records are reconciled with those of the Treasury on a regular basis. The FBWT maintained in the National Service Trust is restricted to specific purposes, such as paying service awards earned by eligible participants, and is not available for use in the current operations of CNCS.

G. INVESTMENTS AND RELATED RECEIVABLES

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, bills and one-day certificates.

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

H. CASH EQUIVALENTS

For purposes of the statement of cash flows, CNCS considers all interest-bearing Treasury securities guaranteed by the United States to be cash equivalents.

I. ACCOUNTS RECEIVABLE

Accounts receivable represents amounts due to CNCS primarily related to grantee audit resolution determinations. An allowance for doubtful accounts is established for reporting purposes based on past experience.

J. TRUST SERVICE AWARD LIABILITY

The Trust Service Award Liability represents unpaid earned, and expected to be earned, education awards and eligible student loan interest forbearance costs expected to be used. These amounts relate to participants who have completed service or are currently enrolled in a national service program and are expected to earn an education award, based on CNCS's historical experience.

K. ACCOUNTS PAYABLE

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

L. NET POSITION

Net Position represents Net Assets and is comprised of cumulative results of operations. Cumulative results of operations represent the net differences between revenues and expenses from the inception of the Trust Fund.

M. REVENUE RECOGNITION

Appropriations received for CNCS's Trust are recognized as revenue when received in the Trust Fund. Trust appropriations do not expire with the passage of time and are retained by CNCS in the Trust until used for eligible education service award purposes.

Transfer in of Program Funds. Transfers in of program funds are recognized as revenue when funds are transferred from subtitle C pursuant to 42 USC 1260.

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

Other Revenue. CNCS's engagements in federal partnerships allow the Trust Fund to be reimbursed for Segal AmeriCorps Education Awards earned by members supporting activities of the partnership. The revenue from these partnerships is recognized as other revenue when earned.

N. INCOME TAXES

As a federal entity, CNCS is exempt from all income taxes imposed by any governing body, Federal, State, commonwealth, local, or foreign government.

O. USE OF ESTIMATES

The preparation of financial statements in accordance with GAAP requires the Trust Fund to make estimates and assumptions about future events. These estimates and assumptions affect the amounts reported in the Trust Funds' 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. See Notes 5 and 11 for more information about CNCS's use of estimates to record obligations in the Trust.

P. CONCENTRATION OF RISKS

Congress annually considers whether to fund CNCS's program and operational activities. Should Congress opt not to enact appropriations to fund them, CNCS would be unable to continue operations. The President's Fiscal Year 2018 Budget proposes to eliminate CNCS, as part of the Administration's plans to move the Nation towards fiscal responsibility and to redefine the proper role of the Federal Government.

NOTE 2 – Fund Balance with Treasury

U.S. Government cash is accounted for on an overall consolidated basis by the U.S. Department of Treasury. The Fund Balance with Treasury line on the Statement of Financial Position consists of Trust Funds of \$9.9 million (*unaudited*) in FY 2017 and \$4.0 million in FY 2016 that are considered restricted.

Trust funds are accounts designated by law for receipts earmarked for specific purposes and for the expenditure of these receipts. Funds from the National Service Trust may be expended for the purpose of providing an education award or student loan interest forbearance payment and are made directly to a qualified institution (college, university, or other approved educational institution, or a lending institution holding an existing student loan) as designated by the participant. The National Service Trust also pays awards under the Summer of Service programs.

| Fund Balance with Treasury as of September 30 | | | |
|------------------------------------------------------|-----------|---------------------|---------------------|
| (dollars in thousands) (unaudited) | | | |
| Type | | 2017 | 2016 |
| Obligated Not Yet Disbursed | \$ | 669,082 | \$ 626,512 |
| Unobligated Available | | 204,198 | 198,628 |
| Unobligated Unavailable | | 453 | 4 |
| Investment* | | (863,812) | (821,117) |
| Total | \$ | <u>9,921</u> | <u>4,027</u> |

* *Investments include purchases, sales, premiums, and discounts*

NOTE 3 – Investments and Related Receivables

| Investments and Related Receivables as of September 30 <i>(dollars in thousands)</i> (unaudited) | | | |
|------------------------------------------------------------------------------------------------------------|-------------|-----------------------|--------------------------|
| | 2017 | | 2016 |
| Investments, Carrying Value | \$ | 865,272 | \$ 821,860 |
| Interest Receivable | | 1,562 | 792 |
| Total | \$ | <u>866,834</u> | \$ <u>822,652</u> |

| Amortized Cost and Fair Value of Investment Securities as of September 30, 2017 (unaudited) <i>(dollars in thousands)</i> | | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------------------|--------------------------|
| Securities | Amortized Cost | Unrealized Gains/(Losses) | Fair Value |
| Notes | \$ 677,257 | \$ (1,403) | \$ 675,855 |
| Bills | 188,015 | (7) | 180,009 |
| Total | <u>\$ 865,272</u> | <u>\$ (1,410)</u> | <u>\$ 863,864</u> |

| Amortized Cost and Fair Value of Investment Securities as of September 30, 2016 <i>(dollars in thousands)</i> | | | |
|-----------------------------------------------------------------------------------------------------------------------------------|-------------------------|--------------------------------------|--------------------------|
| Securities | Amortized Cost | Unrealized Gains/(Losses) | Fair Value |
| Notes | \$ 541,519 | \$ 463 | \$ 541,982 |
| Bills | 280,341 | 47 | 280,388 |
| Total | <u>\$821,860</u> | <u>\$ 510</u> | <u>\$ 822,370</u> |

NOTE 3 – Investments and Related Receivables--Continued

As of September 30, 2017 (*unaudited*), the notes held at year-end had an interest rate range of 0.625% to 0.875% and an outstanding maturity period of approximately 1 days to 2.5 years. The bills held at year-end had an interest rate of 0.00% and were all due to mature within 364 days. The par values of notes range from \$.2 million to \$100.5 million. The fair value of the bills and notes is based on bid and ask prices quoted by Treasury as of September 30, 2017 and 2016.

Since FY 2003, CNCS has set aside in reserve a portion of the funds in the National Service Trust for use in the event that its estimates used to calculate obligational amounts for education awards prove to be too low. This reserve was originally required by the Strengthen AmeriCorps Program Act, and is now required by section 149(b) of the National and Community Service Act (42 U.S.C. 12606(b)). As of September 30, 2017 (*unaudited*), \$50.2 million of CNCS's investment account has been set aside for this reserve.

| Maturation of Securities Held as of September 30 <i>(dollars in thousands)</i> | | | | |
|------------------------------------------------------------------------------------------|----------------------------|-------------------|----------------------------|-----------------------|
| Held- to- Maturity Securities | 2017 (unaudited) | | 2016 | |
| | Amortized Costs | Fair Value | Amortized Costs | Fair Value |
| Due in 1 year or less | \$ 615,196 | \$ 615,957 | \$ 721,874 | \$ 722,133 |
| Due after 1 year up to 5 years | 250,076 | 248,907 | 99,986 | 100,237 |
| Total | \$ 865,272 | \$ 863,864 | \$ 821,860 | \$ 822,370 |

NOTE 4 –Accounts Receivables, Net

| | | Trust Fund |
|---------------------------------------|--|----------------------|
| 2017 (unaudited) | | |
| Accounts receivable | | \$ 271 |
| Less: allowance for doubtful accounts | | (119) |
| Accounts Receivable, Net | | <u>\$ 153</u> |
| 2016 | | |
| Accounts receivable | | \$ 305 |
| Less: allowance for doubtful accounts | | (105) |
| Accounts Receivable, Net | | <u>\$ 200</u> |

NOTE 5 – 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.

GAAP requires the recording of a liability, which is at a point in time estimate, for the unpaid earned and expected-to-be-earned education award and interest forbearance costs that are likely to be paid. GAAP estimates are for members who have already completed at least 15 percent of the minimum service requirement and who therefore, have served enough hours to qualify for at least a partial education awards. Actual qualification for awards, however, still depends upon additional contingencies. The award liability components related to education awards and interest forbearance have been adjusted, based on historical experience, to reflect two such contingencies: (1) some members who enroll and reach the initial 15 percent threshold later do not actually qualify for an education award, and (2) other members who qualify for education awards do not use their education awards. CNCS estimates that up to 86 percent of members earning an education award will eventually use it.

Because of unique requirements related to recording of obligations in the National Service Trust (see Note 11), the Service Award Liability is not directly related to the required levels of obligations in the Trust. Since 2003, CNCS has been required to record obligations based on the total amount of national service positions that have the potential to result in a legal liability of the Trust, rather than actual legal liabilities. Those obligations are recorded in advance of becoming genuine liabilities because the contingent events that determine whether an individual in an authorized national service position is or is not entitled to payments from the National Service Trust are beyond the control of CNCS. The amount reported as the Service Award Liability is a subset of the amounts required to be obligated under the National and Community Service Act of 1993, as amended. That subset is based on the satisfaction of enough of the contingencies related to becoming an actual liability to allow CNCS to reasonably estimate its total liability under GAAP. In this sense, the Service Award Liability is a reasonable estimate of what CNCS would have to disburse out of the National Service Trust if all current grant operations were to cease as of September 30, 2017, but (1) without allowing currently authorized but unfilled national service positions to be filled, and (2) without allowing individuals currently serving in national service positions who have not yet qualified for education awards to meet the minimum requirements to qualify for an award.

The Service Award was composed of the following as of September 30

| Service Award Liability as of September 30 <i>(dollars in thousands)</i> | | |
|------------------------------------------------------------------------------------|--------------------------|--------------------------|
| | (unaudited) | |
| | 2017 | 2016 |
| Education awards | 2,948,138 | \$ 2,948,138 |
| Interest forbearance | 115,179 | 112,005 |
| Total estimated Service Award Liability | 3,063,317 | 2,870,595 |
| Less: cumulative awards paid | (2,675,183) | (2,474,251) |
| Total | <u>\$ 388,134</u> | <u>\$ 396,344</u> |

The Net Service Award Liability as of September 30, 2017 decreased by approximately \$ 8.21 million (*unaudited*) from the Net Service Award Liability as of September 30, 2016.

NOTE 6 – Net Position

Net position consists of cumulative results of operations. The cumulative result of operations for the Trust Fund was \$488.8 million (*unaudited*) in FY 2017 and \$430.5 million in FY 2016, respectively.

CNCS is required to report information regarding its financial position according to three classes of net assets (net position): unrestricted, temporarily restricted and permanently restricted. CNCS has no permanently restricted assets. The financial position of the Trust Fund in the amounts of \$488.8 million (*unaudited*) in FY 2017 and \$430.5 million in FY 2016 is temporarily restricted.

NOTE 7 – Appropriations Received by the National Service Trust

For FY 2017, the National Service Trust received \$206.8 million (*unaudited*) under the Consolidated Appropriations Act, 2017 (Public Law 114-113). For FY 2016, the National Service Trust received \$220.0 million under the Consolidated Appropriations Act, 2016 (Public Law 113-235). The acts also authorized CNCS to transfer additional amounts from subtitle C program funds to the National Service Trust to support the activities of national service participants. CNCS transferred \$9.1 million (*unaudited*) and \$21.4 million to the Trust under this provision in FY 2017 and FY 2016, respectively. Accordingly, the National Service Trust received a total funding of \$215.9 million (*unaudited*) in FY 2017, and \$241.4 million in FY 2016, respectively.

NOTE 8 – Expenses

The National Service Award Expense component consists of 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.

| Expenses by Sub-Program for the Period Ended September 30, 2017 <i>(dollars in thousands)</i> (unaudited) | | | | | |
|---------------------------------------------------------------------------------------------------------------------|-----------------------|------------------|------------------|-------------------|--|
| Type | AmeriCorps | | | Total | |
| | State/National | NCCC | VISTA | | |
| Service Award Expense | \$ 112,559 | \$ 20,237 | \$ 34,453 | \$ 167,249 | |
| Total Expenses | \$ 112,559 | \$ 20,237 | \$ 34,453 | \$ 167,249 | |

| Expenses by Sub-Program for the Period Ended September 30, 2016 <i>(dollars in thousands)</i> | | | | | |
|---------------------------------------------------------------------------------------------------------|-----------------------|------------------|------------------|-------------------|--|
| Type | AmeriCorps | | | Total | |
| | State/National | NCCC | VISTA | | |
| Service Award Expense | \$ 82,886 | \$ 14,902 | \$ 25,371 | \$ 123,159 | |
| Total Expenses | \$ 82,886 | \$ 14,902 | \$ 25,371 | \$ 123,159 | |

NOTE 9 – Subsequent Events

CNCS has evaluated subsequent events through November 8, 2017 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 10—Undelivered Orders at Fiscal Year-End

Trust Fund undelivered orders at September 30, 2017 and 2016 were \$280.9 million (*unaudited*) and \$230.2 million, respectively.

NOTE 11 – Trust Obligation Balances

Section 149 of the National and Community Service Act of 1993, as amended, (NCSA) controls the obligations of the National Service Trust by CNCS. Under section 149, CNCS is required to record obligations at specific times and in specific amounts. This requirement differs from the general practices of obligating federal appropriations in two specific respects. First, CNCS must record obligations in the Trust in advance of any *actual* legal liability for the Trust to pay an eligible education award or to pay allowable deferred student loan interest. In CNCS's various AmeriCorps programs, individuals enroll in national service positions that are authorized by CNCS. However, the vast majority of those individuals are selected, enrolled, supervised by, and perform their service for, third-party grantee organizations. Thus, the events and contingencies which control whether a national service position authorized by CNCS will result in a legal liability of the National Service Trust (Trust) are not within CNCS's control. In order to ensure that there are sufficient obligated balances with the National Service Trust to deal with the *potential* legal liabilities created by authorizing national service positions, Congress has required CNCS to record obligations based upon the number of national service positions that have been authorized (even though not all of those authorized positions will become actual legal liabilities).

Second, Congress does not require CNCS to record as its obligation the full amount of the possible legal liability for education awards or student loan forbearance payment that could potentially be paid for each position. Rather, historical trends which show that: (1) not all authorized positions are filled; (2) not all positions filled are completed resulting in an entitlement to education awards; and, (3) not all individuals entitled to education awards redeem those awards; are each taken into account in determining CNCS's obligation. In addition, the structure of CNCS's AmeriCorps programs, including the extended time during which individuals may qualify and claim their education awards, means that there are often significant delays from the time that CNCS authorizes national service positions until the disbursement of those awards. Both because of the historical trends which result in lower actual disbursements from the Trust, and the significant delay between CNCS's authorization of future Trust payments and the actual disbursement of those payments, Congress has directed CNCS to record its obligations for each national service position based on a net present value basis, as specified in section 149(a)(1)(B) of the NCSA. CNCS records the net present value of its obligations monthly, based on the numbers of individuals who are enrolled in AmeriCorps VISTA and NCCC positions, and the numbers of national service positions authorized to be filled by grants awarded in the AmeriCorps State and National program. Because the net present value amount used to record the obligations assumes historical rates of non-enrollment, non-completion of terms of service, and non-redemption of qualified education awards, CNCS records the initial net present value obligations in gross, rather than position-by-position. In addition, CNCS adjusts its obligation upward as it recognizes interest earned on the Trust's U.S. Treasury investments (as authorized under section 145(b) of the NCSA). By recording its

obligations on the authorized net present value basis, and obligating interest revenue when recognized, CNCS ensures that it has sufficient obligated balances to meet the Trust's future needs for disbursements.

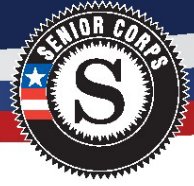
Upon completion of a term of service, section 146A of the NCSA, individuals who successfully complete a term of service are certified as eligible to receive a national service education award (and associated payment of interest forbearance). Those certifications are made by the entity that selected the individual for and supervised the individual in the approved national service position. Under section 148(b)(2) of the NCSA, eligible individuals (those who have been certified as having successfully completed a term of service) may apply for disbursement of their education award. After review of an application for disbursement, CNCS pays education awards to educational institutions or the holders of qualified student loans. Because of the nature of the certification and application for payment processes, CNCS records its disbursements from the Trust on a payment-by-payment basis. However, because of the distinct bases on which obligations of and disbursements from the Trust are based, individual disbursements are not accounted for as liquidations of specific prior obligations. Accordingly, the amounts shown as unpaid obligations of the Trust are differences between the Trust's obligations (recorded en gross, as discussed above) and the Trust's disbursements (recorded for each individual authorized payment, as discussed above). The unpaid obligation balances do not represent the sum of unliquidated individual obligations for each originally authorized national service position.

The unpaid obligated balances include both those amounts that are *actual* current legal liabilities of the Trust (which is reported by CNCS as the Service Trust Liability), and those *potential* future legal liabilities of the Trust which may result from national service positions that CNCS has authorized, but which have not yet matured into legal liabilities of the Trust. As discussed in Note 5, the Service Trust Liability is a reasonable estimate of what CNCS would have to disburse out of the National Service Trust if all current grant operations were to cease as of September 30, 2017, but (1) without allowing currently authorized but unfilled national service positions to be filled, and (2) without allowing individuals currently serving in national service positions who have not yet qualified for education awards to meet the minimum requirements to qualify. In contrast, the unpaid obligated balance represents a reasonable estimate of what CNCS would have to disburse out of the National Service Trust based on (1) the Service Trust Liability, (2) all currently authorized national service positions being allowed to be filled and (3) the associated terms of service being completed and the education awards being claimed - at historical rates.

Management's Response

Corporation for National and Community Service

NationalService.gov



Memorandum

Date: November 13, 2017

To: Deborah Jeffrey, Inspector General

From: Robert McCarty, Chief Financial Officer

Subject: Independent Auditor's Report

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 consolidated response to both of the reports. CNCS does not concur with all of the conditions and recommendations contained in the two reports.

Although the report on CNCS's financial statements concludes that CNCS has four material weaknesses, by far the most significant relates to CliftonLarsonAllen's (CLA's) findings regarding the levels of unobligated balances in the National Service Trust. Throughout the course of this audit, CNCS has diligently worked with CLA to ensure that the audit consider the unique nature of the National Service Trust, its authorities and operations. Despite these efforts, CLA has cited general requirements for recording obligations of the National Service Trust that conflict with specific statutory provisions regarding the Trust. Additionally, by applying incorrect criteria, CLA reached incorrect conclusions regarding periodic adjustments to obligations of the National Service Trust. Those conclusions conflict with two GAO decisions. Specifically, CLA's continued expectation that CNCS must adjust obligations based on past due (and never capable of being claimed) education awards raises significant concern about CLA's lack of understanding regarding CNCS's statutory requirements. If CNCS followed CLA's obligation adjustment recommendations, it would actually increase the risk of insufficient obligations within the National Service Trust to pay future education awards.

The issue regarding the National Service Trust is illustrative of the critical need for continued worked with CLA so they sufficiently understand CNCS, its operating environment (including its governing laws), and its policies and procedures. CNCS has a long history of being able to work with auditors to provide public assurance that its core financial operations are meeting their objectives and that CNCS's public financial information is appropriate and reliable. It is unfortunate, in this case, that a change in auditing firms has placed an unnecessary and unwarranted cloud over CNCS's stewardship of federal funds.

CNCS remains committed to improving its operations, financial management and reporting. CNCS will work with CLA to appropriately address those findings that have merit. CNCS also maintains its strong commitment to improving its Enterprise Risk Management program, building on the significant progress made in Fiscal Year 2017 within the Office of the Chief Risk Officer. The Office of Management and Budget has also been supportive of increased resources for that office.

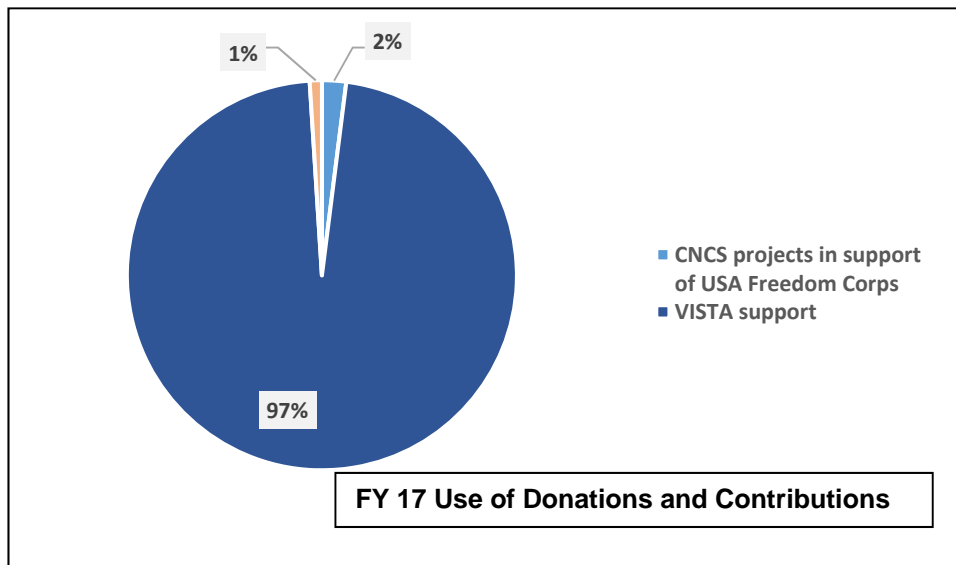
Section III: Other Information

Donations and Contributions

Under CNCS’s authorizing legislation, donated funds may be accepted and used in furtherance of the purposes of the national service laws (42 USC 12651g (a)(2)(A)). The law allows CNCS to “solicit, accept, hold, administer, use, and dispose of, in furtherance of the purpose of the national service laws, donations of any money or property, real, personal, or mixed, tangible or intangible, received by gift, devise, bequest, or otherwise.” The legislation also requires that CNCS report to Congress on the nature and amount of donations, as well as on how they were used and disposed of (in the case of donated property) in support of its programs and activities. This report fulfills these requirements for FY 2016. CNCS also utilizes Pay.gov, a Treasury program that allows federal agencies to conduct transactions online. Under the Pay.gov program, CNCS collects donations by credit card or direct debit from donors. Pay.gov facilitates the process of collecting gift funds from donors online through a secure website with real-time identification verification and provides the reporting necessary for processing transactions.

| Status of Gift Fund Balance as of September 30, 2016 <i>(dollars in thousands)</i> | |
|----------------------------------------------------------------------------------------------|----------------------|
| Fund Balance with Treasury (FBWT) | \$ 554 |
| Obligation & Commitments | (65) |
| Funds Available | <u>\$ 490</u> |

The total FBWT of \$ 554 thousand included \$196 thousand of current year receipts and \$36 thousand of current year expenses during FY 2017. The donations were from various sources from the public. The single largest donation was \$98 thousand from Walmart. Below is the summary of the spending activities:



National Service Trust Fund Status Report

Part 1: General Discussion

Part 2: Trust Fund Financial Statements and Footnotes

National Service Trust Fund Status Report

Part 1: General Discussion

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

National Service Trust Fund Status Report

September 30, 2017

The National Service Trust Fund (the Trust) was established by the National and Community Service Trust Act of 1993 (the Act), 42 USC 12601, et seq. to provide funds for Segal AmeriCorps Education Awards for eligible participants who complete AmeriCorps service. Funding comes from appropriations, interest earned, transfer of program dollars, proceeds from the sale or redemption of Trust investments, partnerships with other agencies, and funds collected from disallowed or improperly awarded Education Awards. The Trust is also authorized to accept gifts or bequests, Sponsorships, and funds from federal partners. Under the Act, funds are available to repay qualified student loans, pay educational expenses at qualified educational institutions, and repay eligible interest expense on student loans.

The value of an education award depends on the term of service performed by an AmeriCorps member. For Program Year 2017, completion of a full-time term of service, requiring a minimum of 1,700 hours of service, entitles an AmeriCorps member to an education award of \$5,815. Completion of a part-time term, requiring a minimum of 900 hours of service, entitles an AmeriCorps member to an education award of \$2,907. Reduced part-time terms, which provide awards of \$500 to \$2,215, are also offered. The education award is indexed to the maximum federal Pell grant; therefore these amounts may change each year.

Education awards earned by AmeriCorps members are generally available to be used for seven years from the completion of the service. Payments are made directly to the educational institutions and the loan holders as directed by the members and by the institutions. Trust funds are not used to pay member stipends or other grant costs. Beginning in Program Year 2010, AmeriCorps State and National and Silver Scholar members who are age 55 or older when they begin service may also transfer the education award to a qualified child, grandchild, or foster child.

Table 1a shows the planned activity for the current Program Year and actual enrollments to date against the plan. Table 1b includes similar data on the prior Program Year for comparative purposes. Member positions (slots) classified as “Certified Not Awarded” have been approved by CNCS’s Chief Executive Officer (CEO) for award to grantees, but for which the final grant award has not been executed. For budgetary purposes these positions are considered commitments in the Trust Fund. Positions classified as Planned not Certified have not yet been approved by the CEO.

| Table 1a | | | | | |
|--------------------------------------------------|-----------------|---------------------|----------------------|--------------------|---------------|
| AmeriCorps Member Position Award Activity | | | | | |
| Program Year 2017 | | | | | |
| Program | Awarded | | Certified Not | Planned Not | Total |
| | Enrolled | Not Enrolled | Awarded | Certified | |
| <i>State & National</i> | 26,530 | 38,027 | 4,999 | - | 69,556 |
| <i>VISTA</i> | 7,050 | - | 1,236 | - | 8,286 |
| <i>NCCC</i> | 1,192 | - | 8 | - | 1,200 |
| Total | 34,772 | 38,027 | 6,243 | 0 | 79,042 |

Table 1b

AmeriCorps Member Position Award Activity

Program Year 2016

| Program | Awarded | | Certified Not | Planned Not | Total |
|-----------------------------|---------------|--------------|---------------|-------------|---------------|
| | Enrolled | Not Enrolled | Awarded | Certified | |
| <i>State & National</i> | 60,789 | 4,715 | 3,541 | - | 69,045 |
| <i>VISTA</i> | 7,054 | - | - | - | 7,054 |
| <i>NCCC</i> | 1,240 | - | - | - | 1,240 |
| Total | 69,083 | 4,715 | 3,541 | - | 77,339 |

The 79,042 Trust positions planned for Program Year 2017 do not include an estimated 1,500 AmeriCorps VISTA members (1300 full time and 200 Summer Associates) who elected an end-of-service stipend instead of an education award. Total estimated member positions for Program Year 2017, including VISTA members electing a stipend, is 9,786. Member enrollment and slot data are periodically adjusted to reflect corrections and slot reconfigurations by grantees; therefore they may change slightly from month to month.

The 77,339 Trust positions for Program Year 2016 do not include an estimated 1,650 AmeriCorps VISTA members (1,329 full time and 321 Summer Associates) who elected an end-of-service stipend instead of an education award. Total estimated member positions for Program Year 2016, including VISTA members electing a stipend, is 8,704. Of the 7,054 VISTA member positions in the Trust for 2016, 1,835 positions are for Summer Associates who receive a Trust award of \$1,175.

Trust Awards

Since CNCS's inception in 1993, AmeriCorps members have earned over \$3.54 billion in Segal AmeriCorps Education Awards and used over \$2.54 billion of that amount to fund their education and repay student loans. In addition, CNCS has made \$14.31 million in interest forbearance payments. Approximately \$404.83 million in education awards earned have expired without being used. The Trust obligation formula has been adjusted to reflect these expired awards.

Refilled Positions

CNCS policy allows grantees limited flexibility to refill positions vacated by a member who has served less than 30 percent of his or her service term, provided that the departing member had not earned a pro-rated education award. To prevent over-enrollment, the policy includes “fail safe” triggers that restrict the overall number of refills to no more than 5 percent of awarded positions and suspends refilling altogether if total AmeriCorps enrollment reaches 97 percent of awarded positions. Table 3 provides information on the number of positions refilled. Positions in Program Years 2010 and earlier can no longer be refilled.

| | Number of Refilled Positions | | | | | | Fail-safe Trigger |
|------------------------------------------------------------------|------------------------------|-------|-------|-------|-------|-------|-------------------|
| | Program Years | | | | | | |
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | |
| Number of Refilled Positions | 1,381 | 1,200 | 1,131 | 1,158 | 25 | 0 | N/A |
| Refills as a Percent of Awarded State & National Positions | 2.05% | 1.88% | 1.81% | 1.87% | 0.04% | 0.00% | 5% |
| State & National Enrollment as a Percentage of Awarded Positions | 98.8% | 98.5% | 99.3% | 98.1% | 92.8% | 92.8% | 97% |

Table 4 shows the most significant factors used to calculate Trust obligations on a historical basis. It is important to note that Program Year refers to positions awarded with a particular fiscal year’s grant funds. Positions are often filled in time periods after the year in which they are awarded. For example, a grantee may receive a grant in fiscal year 2016 but not fill all positions until fiscal 2017. All positions related to this grant would be considered Program Year 2016 positions, irrespective of the fiscal year in which they are filled.

| | Factors Affecting the National Service Trust Fund | | | | |
|--------------------------------------------------|---------------------------------------------------|--------|--------|--------|--------|
| | Program Year | | | | |
| | 2013 | 2014 | 2015 | 2016 | 2017 |
| Member enrollments in the Trust | 71,144 | 70,653 | 68,963 | 69,667 | 35,289 |
| Percent of members who earned an education award | 83.85% | 83.47% | 83.33% | 83.02% | 72.12% |
| Percent of earned education awards used | 68.75% | 60.63% | 47.61% | 25.05% | 16.92% |
| Breakout of enrollment by term type: | | | | | |
| Full-time | 52% | 54% | 54% | 51% | 77% |
| Part-time | 12% | 12% | 13% | 13% | 7% |
| Reduced Part-time | 36% | 34% | 33% | 36% | 15% |

The Program Year data used throughout these tables reflect all enrollments recorded through the reporting period. Prior year enrollment numbers may change slightly from time to time due to corrections or late reporting by grantees. The percentage of members who earned an award in Table 4 is calculated by taking the number of members who earned an award divided by the total number of members who have ended service. For example, for 2016 :

| | |
|----------------|---------------------------------------------|
| Enrolled: | 69,083 |
| Still Earning: | 4,715 |
| Completed: | 64,368 (Enrolled less Still Earning) |
| Awards Earned: | 57,116 |
| % Earned: | 88.73% (Awards Earned divided by Completed) |

Tables 5 and 6 present information on the budgetary resources and obligations of the Trust, including the Trust Reserve. The schedules present information on a budgetary basis, which represents the accounting used to determine compliance with the Anti-Deficiency Act. CNCS records Trust obligations at the time it awards AmeriCorps State & National grants or at the time it enters into an enforceable agreement with AmeriCorps VISTA and NCCC members.

The amounts obligated in the Trust are based on the estimated value of the education benefit discounted for the estimated enrollment, earning and usage rate and the time value of money. For fiscal 2017 , these factors are the full value of the Segal AmeriCorps Education Award, a 100 percent enrollment rate (which allows for refills), an average earning rate of 84 percent (which ranges from 77 to 86 percent depending on term type), and an average usage rate of 87 percent. Under the National and Community Service Act, as amended, awards earned by members over age 55 can be transferred to an eligible beneficiary. For budgetary purposes we project that all transferable awards will eventually be used. Obligations are periodically adjusted to reflect current earning and usage projections."

FEMA Corps is a unit of AmeriCorps' National Civilian Community Corps (NCCC) whose members are devoted solely to FEMA disaster response, and recovery efforts. The five-year agreement provides for a service corps which compliments and supports FEMA's current disaster workforce. While FEMA provides funding for the Education Awards for the FEMA Corps members, they are shown in tables 5 and 6 as part of our budgetary and obligation activity.

Table 5

**Corporation for National and Community Service
National Service Trust
Schedule of Budgetary Activity for the Period Ended September 30, 2017
(Dollars in Thousands)**

| | Recovery Act | Other | FEMA Corps | General Fund | Consolidated |
|----------------------------------|-----------------|-------------|----------------|-------------------|-------------------|
| Funds Available at October 1 | 1,882 | 4 | 506 | 146,043 | 148,435 |
| Budgetary Resources | | | | | |
| Fiscal Year Appropriation | 46 | - | 55 | 221,095 | 221,196 |
| Other Collections - Federal | - | - | 2,641 | | 2,641 |
| Apportioned-Subsequent (Reserve) | 3,500 | - | - | 46,697 | 50,197 |
| Collection of Audit Receivables | - | - | - | 211 | 211 |
| Total Budgetary Resources | <u>5,428</u> | <u>4</u> | <u>3,202</u> | <u>414,046</u> | <u>422,680</u> |
| Obligations | | | | | |
| Education Awards | (44) | - | (2,493) | (206,089) | (208,626) |
| Interest Forbearance | (2) | - | (104) | (9,296) | (9,402) |
| Total Obligations | <u>(46)</u> | <u>-</u> | <u>(2,597)</u> | <u>(215,385)</u> | <u>(218,028)</u> |
| Apportioned-Subsequent (Reserve) | (3,500) | - | - | (46,697) | (50,197) |
| Unapportioned | - | - | - | (453) | (453) |
| Funds Available for Obligation | <u>\$ 1,882</u> | <u>\$ 4</u> | <u>\$ 605</u> | <u>\$ 151,511</u> | <u>\$ 154,002</u> |

Table 6

**Corporation for National and Community Service
National Service Trust
Schedule of Trust Obligations as of September 30, 2017
(Dollars in Thousands)**

| Resources | Recovery Act | Other | FEMA Corps | General Fund | Consolidated |
|------------------------------------------|-----------------|-------------|-----------------|-------------------|-------------------|
| Fund Balance with Treasury | 80 | 56 | 140 | 9,646 | 9,922 |
| Investments, Net | 8,560 | - | 11,287 | 845,425 | 865,272 |
| Interest Receivable | 4 | - | 1 | 1,557 | 1,562 |
| Accounts Receivable | - | - | - | 152 | 152 |
| Subtotal | <u>8,644</u> | <u>56</u> | <u>11,428</u> | <u>856,780</u> | <u>876,908</u> |
| Less: | | | | | |
| Cumulative Trust Reserve | (3,500) | - | - | (46,697) | (50,197) |
| Receivables Not Available for Obligation | (21) | - | (28) | (3,126) | (3,175) |
| Unapportioned | - | - | - | (453) | (453) |
| Total Resources | <u>5,123</u> | <u>56</u> | <u>11,400</u> | <u>806,504</u> | <u>823,083</u> |
| Unliquidated Obligations | | | | | |
| Education Awards | (3,141) | (50) | (10,770) | (639,373) | (653,334) |
| Interest Forbearance | (100) | (2) | (25) | (15,620) | (15,747) |
| Total Unliquidated Obligations | <u>(3,241)</u> | <u>(52)</u> | <u>(10,795)</u> | <u>(654,993)</u> | <u>(669,081)</u> |
| Funds Available for Obligation | <u>\$ 1,882</u> | <u>\$ 4</u> | <u>\$ 605</u> | <u>\$ 151,511</u> | <u>\$ 154,002</u> |

Enrollment Activity

Table 7 presents cumulative data to date on Trust enrollments, education awards earned and used for Program Years 1994 through 2017 as well as Recovery Act positions.

| Program Year | Type | Members Enrolled | Members Earning or Not Exited | Earned an Award | Did Not Earn | Amount Earned | Amount Used |
|---------------------------|-------------------|------------------|-------------------------------|------------------|----------------|----------------------|----------------------|
| 1994 through 2008 | Full Time | 374,937 | 2 | 297,527 | 77,408 | 1,371,049,800 | 1,105,469,660 |
| | Part-time | 155,672 | 1 | 103,155 | 52,516 | 235,230,824 | 168,344,207 |
| | Reduced Part-time | 200,931 | 1 | 157,846 | 43,084 | 175,482,734 | 134,228,183 |
| Total | | 731,540 | 4 | 558,528 | 173,008 | 1,781,763,358 | 1,408,042,050 |
| 2009 | Full Time | 31,039 | 3 | 27,326 | 3,710 | 127,710,848 | 107,218,152 |
| 2009 | Part-time | 9,877 | 0 | 7,590 | 2,287 | 17,636,065 | 12,950,476 |
| 2009 | Reduced Part-time | 28,868 | 2 | 23,306 | 5,560 | 26,491,125 | 19,965,254 |
| Total | | 69,784 | 5 | 58,222 | 11,557 | 171,838,039 | 140,133,882 |
| Rec_Act | Full Time | 7,908 | 0 | 6,654 | 1,254 | 31,022,831 | 25,100,827 |
| Rec_Act | Part-time | 1,662 | 0 | 1,221 | 441 | 2,818,344 | 1,927,434 |
| Rec_Act | Reduced Part-time | 4,297 | 0 | 3,592 | 705 | 4,186,393 | 3,037,375 |
| Total | | 13,867 | 0 | 11,467 | 2,400 | 38,027,568 | 30,065,636 |
| 2010 | Full Time | 37,719 | 5 | 33,284 | 4,430 | 175,553,359 | 143,185,665 |
| 2010 | Part-time | 11,428 | 4 | 8,782 | 2,642 | 22,955,807 | 15,830,211 |
| 2010 | Reduced Part-time | 39,214 | 4 | 31,762 | 7,448 | 38,794,858 | 27,735,441 |
| Total | | 88,361 | 13 | 73,828 | 14,520 | 237,304,024 | 186,751,317 |
| 2011 | Full Time | 35,764 | 2 | 31,465 | 4,297 | 170,191,819 | 133,229,674 |
| 2011 | Part-time | 10,351 | 2 | 8,377 | 1,972 | 22,515,239 | 14,504,055 |
| 2011 | Reduced Part-time | 33,085 | 2 | 27,116 | 5,967 | 35,393,399 | 25,053,026 |
| Total | | 79,200 | 6 | 66,958 | 12,236 | 228,100,456 | 172,786,755 |
| 2012 | Full Time | 36,273 | 4 | 31,895 | 4,374 | 171,050,902 | 129,150,369 |
| 2012 | Part-time | 9,576 | 2 | 7,770 | 1,804 | 21,023,448 | 13,028,156 |
| 2012 | Reduced Part-time | 29,147 | 7 | 23,842 | 5,298 | 31,585,610 | 21,440,237 |
| Total | | 74,996 | 13 | 63,507 | 11,476 | 223,659,960 | 163,618,763 |
| 2013 | Full Time | 37,045 | 13 | 32,234 | 4,798 | 173,353,710 | 122,915,698 |
| 2013 | Part-time | 8,782 | 0 | 6,888 | 1,894 | 18,664,779 | 10,389,856 |
| 2013 | Reduced Part-time | 25,317 | 2 | 20,520 | 4,795 | 27,600,677 | 17,686,276 |
| Total | | 71,144 | 15 | 59,642 | 11,487 | 219,619,166 | 150,991,830 |
| 2014 | Full Time | 37,966 | 33 | 32,770 | 5,163 | 179,071,497 | 112,009,625 |
| 2014 | Part-time | 8,661 | 4 | 6,744 | 1,913 | 18,549,519 | 8,693,737 |
| 2014 | Reduced Part-time | 24,026 | 62 | 19,376 | 4,588 | 26,440,315 | 15,134,052 |
| Total | | 70,653 | 99 | 58,890 | 11,664 | 224,061,331 | 135,837,414 |
| 2015 | Full Time | 37,196 | 131 | 31,530 | 5,535 | 174,424,291 | 85,215,117 |
| 2015 | Part-time | 9,155 | 32 | 7,113 | 2,010 | 19,783,043 | 7,058,186 |
| 2015 | Reduced Part-time | 22,612 | 261 | 18,473 | 3,878 | 25,618,418 | 12,388,412 |
| Total | | 68,963 | 424 | 57,116 | 11,423 | 219,825,751 | 104,661,715 |
| 2016 | Full Time | 35,452 | 2,946 | 27,083 | 5,423 | 150,942,522 | 38,709,539 |
| 2016 | Part-time | 9,395 | 2,282 | 5,290 | 1,823 | 14,741,377 | 2,515,618 |
| 2016 | Reduced Part-time | 24,241 | 4,496 | 16,843 | 2,902 | 23,005,733 | 6,077,821 |
| 2016 | Affiliate | 579 | 0 | 548 | 31 | 178,100 | 14,404 |
| Total | | 69,667 | 9,724 | 49,764 | 10,179 | 188,867,732 | 47,317,381 |
| 2017 | Full Time | 27,200 | 25,594 | 626 | 980 | 3,431,507 | 475,013 |
| 2017 | Part-time | 2,644 | 2,612 | 0 | 32 | 0 | 0 |
| 2017 | Reduced Part-time | 5,050 | 2,941 | 1,997 | 112 | 2,461,393 | 540,110 |
| 2017 | Affiliate | 395 | 38 | 337 | 20 | 110,283 | 655 |
| Total | | 35,289 | 31,185 | 2,960 | 1,144 | 6,003,184 | 1,015,777 |
| Cumulative to Date | | 1,373,464 | 41,488 | 1,060,882 | 271,094 | 3,539,070,568 | 2,541,222,520 |

National Service Trust Fund Status Report

Part 2: Financial Statements and Footnotes

National Service Trust Statement of Financial Position

National Service Trust Statement of Operations and Changes in Net Position

National Service Trust Statement of Cash Flow

National Service Trust Statement of Budgetary Resources

Footnotes

* Please also see the “Independent Auditor's Report on the National Service Trust Fund Financial Statements” (OIG Report 18-02) in Section II Part 3 “Independent Auditor’s Report”

End of Trust Status Report

Civil Monetary Penalty Adjustment for Inflation

| Statutory Authority | Penalty | Year Enacted | Latest Year of adjustment | Current Penalty Level | Sub-Agency/Bureau Unit | Location of Penalty Update Details |
|------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|--------------|---------------------------|------------------------------------------------------------------------------------------------------------------|------------------------------------------------|------------------------------------|
| Pub. L. 101-121, Sec. 319, (31 U.S.C. 1352); Pub. L. 93-113; 42 U.S.C. 4951, et seq.; 42 U.S.C. 5060 | The penalty associated with Restrictions on Lobbying (45 CFR 1230.400) | 1990 | 2017 | The current range of civil monetary penalties related to Restrictions on Lobbying is from \$19,246 to \$192,459. | Corporation for National and Community Service | 82 Fed. Reg. 1606 (Jan. 6, 2017) |
| Pub. L. 99-509, Secs. 6101-6104, 100 Stat. 1874 (31 U.S.C. 3801-3812); 42 U.S.C. 12651c-12651d | The penalty associated with the Program Fraud Civil Remedies Act (45 CFR 2554.1) | 2006 | 2017 | The upper limit for civil monetary penalties for the Program Fraud Civil Remedies Act of 1986 is \$10,781 | Corporation for National and Community Service | 82 Fed. Reg. 1606 (Jan. 6, 2017) |

Improper Payments

Background

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), requires agencies to report information on improper payments (IP) to the President and Congress through agency financial reports.

Risk Assessment

Under IPERA, all agencies must assess the IP risk level for each program that is not already reporting an IP estimate at least once every three years. CNCS performed its risk assessments for its programs and activities not reporting IP estimates in FY 2015, and these programs and activities will undergo a new risk assessment in FY 2018. The results of the risk assessments will be provided in CNCS's FY 2018 Annual Management Report (AMR).

CNCS currently has four grant programs that are susceptible to significant improper payments including: AmeriCorps State and National (AmeriCorps), the Foster Grandparent Program (FGP), the Retired and Senior Volunteer Program (RSVP), and the Senior Companion Program (SCP). The information on payment integrity found in this report is high level. More detailed information on CNCS's and government-wide improper payments for FY 2017 and prior years can be found at <https://paymentaccuracy.gov/>.

Improper Payment Information

Improper Payment Testing Results

| Program | FY 2017 Outlays (\$M) | FY 2017 IP Amount (\$M) | FY 2017 IP Rate | FY 2017 Overpayments (\$M) | FY 2017 Proper Payments Amount (\$M) | FY 2017 Proper Payments Percentage |
|----------------|------------------------------|--------------------------------|------------------------|-----------------------------------|---------------------------------------------|-------------------------------------------|
| AmeriCorps | \$247.19 | \$26.78 | 10.8% | \$26.78 | \$220.41 | 89.2% |
| FGP | \$82.48 | \$14.07 | 17.1% | \$14.07 | \$68.4 | 82.9% |
| RSVP | \$41.05 | \$3.02 | 7.4% | \$3.02 | \$38.03 | 92.6% |
| SCP | \$33.81 | \$5.68 | 16.8% | \$5.68 | \$28.13 | 83.2% |

Source of Improper Payments

| Program | IP Made Directly by CNCS (\$M) | IP made by recipients of federal money (\$M) |
|----------------|---------------------------------------|-----------------------------------------------------|
| AmeriCorps | \$0 | \$26.78 |
| FGP | \$0 | \$14.07 |
| RSVP | \$0 | \$3.02 |
| SCP | \$0 | \$5.68 |

Root Cause Information

A majority of CNCS’s improper payments fall into the category “Insufficient Documentation to Determine,” which occurs when there is insufficient supporting documentation necessary to verify the accuracy of the payment. The payments in this section include those that have missing or inadequate administrative documents, such as timesheets, age eligibility forms, etc. This category also contains cases where grantees did not perform all of the required National Service Criminal History Check (NSCHC) components on national service participants prior to the date of the tested transaction or did not provide all supporting documentation for the required NSCHC components. The payments that fall into “Program Design or Structural Issues” are payments that were made to national service participants whose NSCHCs were properly initiated prior to start of service, but the date of the transaction occurred before results had been received.

| Program | Program Design or Structural Issues (\$M) | Insufficient Documentation to Determine (\$M) |
|----------------|--------------------------------------------------|------------------------------------------------------|
| AmeriCorps | \$0.35 | \$26.43 |
| FGP | \$0 | \$14.07 |
| RSVP | \$0.23 | \$2.78 |
| SCP | \$0 | \$5.68 |

Corrective Action Plans

Program Design or Structural Issues

The payments included in this category represent files that have criminal history checks that were properly initiated prior to start of service, but results were pending at the time of payment, so eligibility cannot be definitively established. Even though the NSCHC was conducted correctly, the missing paperwork needed to determine eligibility at time of payment requires CNCS to deem these payments improper. National service participants are allowed to begin service while checks are pending if they are accompanied by a cleared individual during that time period. This is allowable in order to ensure the waiting period for checks does not hinder CNCS’s mission and national service as a whole.

If the checks show the individual is eligible, CNCS would consider the file compliant and no financial loss to the government would result. All funds associated with the individual would be recovered if the individual was ineligible.

Given this is allowable by both CNCS policy and regulation, CNCS does not have a corrective action for the payments that fall into this category. However, the corrective actions in the next section could potentially affect these payments.

Insufficient Documentation to Determine

National Service Criminal History Check Related Findings

The majority of the IP payments in this category are related to non-compliant NSCHC. By law, NSCHCs are required for all national service participants and staff in covered positions. A national service participant is required to have a National Public Sex Offender Website (NSOPW) check, a state check, and/or an FBI fingerprint based check. If any part of the required check is not completed or is completed incorrectly by the time the payment is made, it is considered improper. Typically most improper payment files have completed some portion of the required checks, but not all. In the past, CNCS has focused on more training and technical assistance to combat the non-compliance identified in grantee NSCHC files. CNCS is now considering additional measures as outlined below.

Actions Taken in FY 2017:

- CNCS finalized the National Service Criminal History Check Enforcement Guide, which provides guidance to grant recipients and CNCS staff on when and how to establish debts for grant recipient non-compliance with NSCHC requirements (including sub-grant recipients).
- CNCS issued a new State-by-State guide to better assist grantees' in understanding their state's criminal history check requirement. This includes information on how to obtain name-based and fingerprint-based state checks, whether the state repository submits fingerprint checks to the FBI, and information on approved alternative state check sources in states where they are available.
- CNCS hired additional staff in the Office of the Chief Risk Officer to address NSCHC issues.
- CNCS updated its NSCHC trainings and has given 31 trainings since March 2017 and trained more than 1,200 CNCS grant recipients and CNCS staff.

Planned Corrective Actions:

- CNCS is contracting with a vendor to perform the National Sex Offender Public Website (NSOPW) check and state of residence and state of services checks for grantees.
- CNCS is reviewing its regulation to determine whether changes could streamline the implementation and documentation process for grantees.
- CNCS is considering increasing the disallowance costs associated with non-compliant NSCHC files. This will be completed in FY 2018.
- CNCS will continue to regularly offer trainings to grantee staff.

Non-Criminal History Check Related Findings

CNCS continues to see a minimal amount of non-criminal history check related findings during its IP testing. These findings, on average, are seen in approximately 5% of files. These types of findings typically stem from either non-compliant documentation or CNCS not receiving the correct documentation to determine the completeness of the file.

Actions Taken in FY 2017:

- CNCS offered grantees bi-weekly calls to have any questions addressed during the improper payments data collection process.
- CNCS added two staff resources in the Office of the Chief Risk Officer to the IP testing efforts.
- CNCS added language in all grant awards that grantees are required to respond to IPERIA requests – this language was added in FY 2016 and will remain.
- CNCS set up a separate email box for grantees to ask any IPERIA related questions. Staff increased communication with grantees to ensure proper follow up for requested documentation and established specific due dates and clear deadlines for submission.
- CNCS offered at least 13 different training opportunities (both webinars and in-person trainings at regional conferences) to continue to educate grantees on the importance of IPERIA compliance and related requirements.

Planned Corrective Actions:

- As part of its commitment to continuous improvement, CNCS will again review and revise all IP testing communications to ensure information is conveyed in a clear, concise manner. This will be completed by the end of the first quarter of FY 2018.
- CNCS is augmenting the FY 2018 IPERIA planning process with contract support to ensure all IP testing is completed timely to allow additional time for follow up and resolution.
- CNCS plans to create an outward facing internet page related to IPERIA efforts that will include best practices for record maintenance, reference documentation and checklists for how to support transactions, and training materials. This will be completed prior to the end of FY 2019.
- CNCS will continue to offer regular trainings to grantees and host calls for immediate responses to any questions grantees may have.

Reduction Target Information

| Program | FY 2018 Est. Outlays (\$M) | FY 2018 Est. IP Rate (%) | FY 2018 Est. IP \$ (\$M) |
|------------|----------------------------|--------------------------|--------------------------|
| AmeriCorps | \$247.19 | 10.3% | \$25.46 |
| FGP | \$82.48 | 16.6% | \$13.69 |
| RSVP | \$33.81 | 6.9% | \$2.83 |
| SCP | \$41.05 | 16.2% | \$ 5.48 |

Recapture of Improper Payments

OMB A-123, Appendix C requires agencies to conduct payment recapture audits for each program and activity that expends over \$1M annually, if cost effective. CNCS will perform cost effectiveness analysis for all programs and activities in FY 2018.

Barriers

As reported in prior years, CNCS continues to face one significant barrier to reducing its improper payments. CNCS's NSCHC law requires multiple components for a compliant check that are only available from selected sources. CNCS is currently working on a strategy to remediate this issue by continuing to make training available, implementing consistent enforcement of noncompliance, and identifying opportunities to streamline the process. Please see the corrective action plan section for more information.

Accountability

CNCS continues its commitment to reduce IP rates. In the past year, CNCS designated its Chief Risk Officer as the agency's accountable official over its IP program. The Chief Risk Officer has begun presenting the results of IP testing to the agency's risk governance bodies comprising the Risk Management Council (which includes all senior leadership) and the Risk Assessment Committee, (which includes program directors). Beginning in FY 2018, the Chief Risk Officer will issue a findings report for improper payments in the programs where improper payments were identified and require a follow up corrective action plan (CAP). The agency will recapture any applicable funds and report results as part of CAP resolution. The findings report will be completed and issued prior to the end of the first quarter of FY 2018. The Office of the Chief Risk Officer will assess the effectiveness of this strategy for the reduction of IP during the FY 2018 IP testing cycle and will make adjustments as necessary.

Agency Information Systems and Other Infrastructure

CNCS is required to address whether it has the necessary internal control systems, human capital, and information systems it needs to reduce IP levels to the reduction targets it sets. CNCS continues to have an on-going assessment of the systems needed to reduce its improper payment rates. If CNCS determines additional funding for agency infrastructure is needed in order to reduce IP, it will be reflected in CNCS's budget submissions to Congress.

Internal Control

The four programs CNCS deemed susceptible to significant improper payments are outward facing grant programs. CNCS does not have direct control over the individual payments made or the internal control systems needed to prevent IP on the grantee level. CNCS continues to work toward improving the detection of improper payments and strengthening grantee's internal control systems to ensure they're in place to reduce CNCS's IP rates. Actions that are ongoing include:

- Improving CNCS's annual grantee risk assessment to ensure risks associated with the grant are identified and addressed timely
- Continuing financial and programmatic training for both CNCS staff and grantee staff
- Conducting monitoring and site visits which serve as training and technical assistance opportunities for grantees.

Human Capital

In the past, CNCS struggled to complete its IP testing due to insufficient human capital. However, in FY 2017 CNCS added two additional staff to ensure testing levels are achieved as planned. The additional staff also assisted in assuring reduction targets are met by more aggressive follow up with grantees to ensure all available, relevant documentation is collected and no proper payments are erroneously reported as improper due to failure to collect all information.

Information Systems

CNCS is currently undergoing an IT Modernization effort that will provide a more comprehensive workflow and serve as a system of record for all pre and post award information. This will allow the agency more visibility on the challenges facing the grant portfolio, which could, in turn, assist in understanding how to better address root causes of improper payments made at the grantee level.

Sampling and Estimation

CNCS uses the same sampling methodology for all four susceptible grant programs. CNCS's grantees report the amount of their payments charged to grant funds every six months (with period ending dates of either March 31 and September 30 or June 30 and December 31) by completing Federal Financial Report (FFR) information in CNCS's online grants management system. However, due to the timing of the FFR submissions by grantees, the improper payment estimates produced by this approach will not be based on payments made within any given federal fiscal year. Instead, CNCS must utilize data reported during the second half of the previous fiscal year and the first half of each current fiscal year in order to provide a complete improper payment estimate.

In FY 2017 CNCS engaged KPMG who estimated the required sample sizes for four of the grantee programs assuming a precision target of 12.0 percent at the two-sided confidence level of 90.0 percent. CNCS's plan to use this precision level

was approved by OMB. At the request of the CNCS management, we selected 80.0 percent of the samples from the first half-year population data that is available as of February 2017. For FY 2017, a higher portion of samples were selected from the first half-year population in consideration of the significant time and levels of effort required for CNCS personnel to request and obtain sporting documentations from the selected grantees through multiple stages.

| Program | N (Universe)⁸ | Total FFR Amount⁹ | Sample Size (+/-12.0% Precision) |
|----------------|-------------------------------------|-----------------------------------------|-----------------------------------------|
| AmeriCorps | 378 | \$223,313,909.44 | 63 |
| FGP | 544 | \$86,906,934.70 | 83 |
| RSVP | 1,132 | \$43,510,245.86 | 54 |
| SCP | 298 | \$32,952,464.54 | 72 |
| | | | |

For the FY 2017 improper payments assessment, KPMG adopted a multi-stage sampling method for each grantee program that CNCS management determined to be susceptible to significant improper payments. In the first stage, KPMG selected a random sample of FFRs from each program. In particular, KPMG selected the first stage sample using a probability proportional to size (PPS) sampling methodology, specifically PPS with replacement. For each selected FFR, CNCS requested the grantee to provide general ledger entries (GLs) or other accounting system records which support the information submitted on the FFR. CNCS then selected a second stage sample of GL entries using a simple random sampling method. If the randomly selected GL entry was a payment to an individual or a vendor (excluding a vendor acting as a payment agent or service provider making payments on the behalf of the grantee), then no further sampling was required and this payment was evaluated. If the GL entry was an aggregate of multiple payments, then CNCS requested the supporting data for that entry and performed additional simple random sampling on the supporting data until an assessable payment was identified.

The PPS estimator will be used to extrapolate the 1st stage Non-Response Errors and Unmatched Reporting Errors (if all Unmatched Reporting Errors only occur at the 1st stage). The PPS estimate of the total error amount is as follows:

For Unmatched Reporting Errors (if there are Unmatched Reporting Errors discovered in the 2nd or later stages) and Improper Payments (including Improper Payment due to non-responses in the 2nd and later stages), as there are multiple stages involved, the Unmatched Reporting Errors and Improper Payment will first be extrapolated to all transactions within each sampled FFR using ratio estimators.

⁸ The population sizes for FY 2017 are estimated by multiplying the population sizes based on the first 6-month data by 2. In addition, grantees in the FY 2017 universe with zero fund outlay are excluded from the population.

⁹ The total FFR amounts for FY 2017 are estimated by multiplying the total FFR amount based on the first 6-month data by 2.

Then the projected errors in the sampled FFR will be extrapolated to all FFRs in the first stage population using the PPS estimator. KPMG will perform these extrapolations for each program separately.

In order to determine the point estimate, the lower and upper bounds, and relative precision of the Improper Payment for each program, KPMG will first extrapolate the Unmatched Reporting Errors to determine the corrected population total¹⁰ for each program. Then the corrected population total will be used for the Improper Payment projections as it will reflect the total program outlay that is corrected for Unmatched Reporting Errors, which presumably are related to the grantees' ability to properly aggregate and report costs to CNCS, rather than the grantees' ability or inability to properly make or allocate payments as charges to federal grant funds.

Fraud Reduction Report

On June 30, 2016 the President signed into law the Fraud Reduction and Data Analytics Act of 2015 (Public Law No.114-186). This legislation emphasizes the importance for federal agencies to identify, assess, and address fraud risks. Since the enactment of the law, CNCS has reinforced its anti-fraud efforts through the following activities.

Implementation of an Agency-wide Mandatory Fraud Awareness Training (FY2016 Q4)

The office of the General Counsel (OGC) has expanded its annual ethics training to include Fraud awareness. The new training was based on a curriculum jointly developed with the office of the inspector general (OIG) Investigations Unit. Prior to FY2016 Q4, the ethics training was required only for public and confidential filers. However, in Q4 of FY2016 the Office of the Chief Risk Officer (OCRO), as a result of its assessment of CNCS's entity level control, recommended that this training be made mandatory for all CNCS personnel and be combined with the fraud awareness training that was previously reserved to OIG personnel. This recommendation was implemented in Q4 of FY2016 and the first trainings were offered in FY2016 Q4 and FY2017 Q1.

Implementation of the GAO's Framework for Managing Fraud Risks In Federal Programs (FY2017)

To build upon the fraud reduction initiatives started in FY2016, in FY2017 OCRO initiated the implementation of the *GAO's Framework for Managing Fraud Risk in the Federal Government*.

Creation of a Fraud Risk Management Governance Body

In order to demonstrate its commitment to combating fraud, CNCS created a Fraud Risk Subcommittee composed of senior-level managers. The members of this body, a subset of the agency's Risk Assessment Committee, were selected

¹⁰ The corrected population total will be calculated by adjusting the population book value by the projected Unmatched Reporting Error.

to break down the silos that can inhibit the identification and assessment of fraud risk. The members of this fraud risk governance body include the Chief Financial Officer (CFO); Director of Procurement Services; Chief Human Capital Officer; Chief Information Officer; Deputy General Counsel; Chief Grants Management Officer; Chief Program Officer; and the Chief Risk Officer. The roles of this body include identifying and analyzing fraud risk, providing effective oversight for identifying and evaluating existing internal controls over fraud risks and recommending corrective actions. The Fraud Risk Subcommittee convenes quarterly.

Creation of the CNCS Fraud Risk Profile

Under the oversight of the Fraud Risk Subcommittee, OCRO has created CNCS's first fraud risk profile. In FY17, the members of the subcommittee have identified thirty five (35) inherent fraud risks that were assessed on a two-dimensional criteria: likelihood and impact. Those risks were both mission and mission-support related. The internal control program (ICP) has identified the counter measures (existing fraud prevention and detection controls) that were designed and implemented to address those risks and is currently assessing the operating effectiveness of those fraud risk responses in order to determine their residual risks.